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Tyson Foods Says Consumers Shifting Away From Higher-Priced Beef

Higher chicken prices and demand for cheaper meat cuts help sales at processor

By Patrick Thomas Follow

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Tyson is revamping its chicken operations, where it has been struggling to meet demand and staff plants. PHOTO: ANDREW KELLY/REUTERS

Consumers are choosing to buy chicken and cheaper cuts of beef, Tyson TSN **-0.02%** ▼ Foods Inc. said on Monday, a sign shoppers are becoming more cost-conscious as food prices rise.

Rather than buying more expensive steaks and loins, consumers are spending more on less expensive chicken and other meats, company officials said. Tyson, the biggest U.S. meat processor by sales, said raising chicken prices helped its sales move higher in its most recent quarter even as its profit margins were hampered by higher costs and consumers pulling back from premium beef cuts.

Consumers are becoming more frugal as prices for essentials such as food and gasoline have become more expensive in recent months. Companies are paying close attention to shifts in demand as some retailers and consumer companies have issued profit warnings or projected falling sales in recent weeks as customers start to pull back on spending on certain items.

Tyson said the average sales price for beef was 1.2% lower over the three months ended July 2 as customers opted for cheaper cuts. The price of pork was 3.9% lower. Chicken prices, meanwhile, surged 20% and 14% in its prepared foods business, which includes brands such as Jimmy Dean and Ball Park.

"The demand for chicken is extremely strong," said Tyson Chief Executive Donnie King on a call with analysts.

The company's profit was flat from a year ago, however, as costs for worker wages, animal feed, utilities, packaging and transportation rose, the company said.

Shares of the company fell $7.35, or 8.4%, to $80.10. Some Wall Street analysts said they were disappointed with the company's falling pork margins and lower sales volumes in its prepared foods business. The company struggled with fulfilling customer orders for its prepared foods as it struggled with absent workers in its plants, said company officials on the call with analysts.

"We are focused on overcoming the supply chain challenges, running our plants full and reducing our costs," said Mr. King.

For the past two years, meatpacking companies, including Tyson, had boasted historically high profit margins from their beef businesses. Meatpackers have said that because many of their processing plants remain short-staffed, they can't process as many cattle, constraining meat supplies and pushing prices higher while demand has stayed steady.

The Arkansas-based company said operating income from its beef unit was cut in half for its fiscal third quarter to $533 million from $1.12 billion the prior year. Falling demand for more expensive meat cuts such as steak and an ample supply of cattle sent prices down for beef for the quarter, the company said.

Cattle are also becoming more expensive for Tyson to purchase from feedlots as ranchers reduce herd sizes. Drought conditions and excessive heat in certain parts of the U.S. are parching pastures, leading ranchers to spend more on supplemental feed for cattle and encouraging them to shrink the size of their herds, raising the price packers pay for cattle. Tyson said live cattle costs increased $480 million in the quarter from last year.

Operating income margins in Tyson's beef business fell to 10.7% in the most recent quarter, from nearly 23% in the same period a year ago. Sales volumes rose slightly in its beef business but were lower in chicken and pork.

Tyson's pork business was hurt domestically by higher retail prices and declining exports, the company said. Tyson lowered its pork margin forecast for the rest of the year.

Demand for chicken has remained high, from supermarkets to fast-food chains battling over crispy chicken sandwiches. Consumers often trade down to chicken from pricier meat options, including beef during times of high inflation. Tyson's chicken business, which produces roughly one-fifth of the U.S. supply, operating income improved to $277 million for the quarter, compared with a $279 million loss last year.

The company is in the midst of revamping its chicken operations, a business it has long dominated, where it has been struggling to meet demand and staff its plants.

Tyson's chicken challenges range from hatching enough chicks, to short-handed processing lines in the plants. The company has had to pay more for grain to feed its chickens and wages to keep plants staffed. To meet orders, Tyson has sometimes bought chicken from rival processors.

"I feel better about our chicken business than I have in a long time," Mr. King said on the call with analysts.

Staffing in Tyson's plants has improved in recent months and the company has had lower turnover and absenteeism rates, said company officials on the call with analysts. Tyson said it has invested in higher wages for its workers, free education programs and other workplace benefits, such as flexible schedules, child care and transportation.

Tyson said net income for its third quarter was flat at $750 million compared with $749 million a year earlier, as lower beef margins weighed on the company's overall third-quarter results. The company reported $13.50 billion in sales, compared with $12.48 billion a year earlier.

The company's sales results surpassed Wall Street analysts' expectations while its profit numbers fell short. The company posted an adjusted profit of $1.94 a share, lower than the $1.97 analysts polled by FactSet were expecting. Sales volumes of Tyson's prepared foods business fell nearly 9%, partly because of higher prices and the divestiture of its pet treats business a year ago.

—Dean Seal contributed to this article.

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