Business Internal Assessment

Should Tipton Turf Expand its Business After Reaching Maximum Production?

Word Count: 1924

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Acknowledgement Letter

To whom it may concern:

I would like to thank , Tipton Turf's managing director, for his patience and assistance in completing this investigation. Also, for sharing detailed information about his company. I would to thank him for him allowing me to interview him and for him taking his time to do so.

Sincerely,

Executive Summary

Locally butchered beef is becoming increasingly popular in the southern United States. Tipton Turf, being a cattle business, wants to expand, however it must reach its maximum production before doing so. The managers first want to look at how exactly to raise production without it being too costly and profit harming. After production, the question arises of:

Should Tipton Turf expand its business after reaching maximum production?

Tipton Turf purchases cows from smaller local farms and then sells them to bigger corporation farms,such as Perdue Farms, or to the butchery. Currently, the business profits an average of $6,000 dollars per year and spends about $22,000 on other needed expenses. Expenses include necessities such as land fertilizers, vaccinations, hay, etc. The company would like to research the methods possible for expansion with further options to grow within the existing market. These are extracted from a SWOT and an Ansoff Matrix to conclude that:

Tipton Turf should merge with a local competitor and in the future locate their beef into a local restaurant in order to see maximum production, growth within the existing market, and ultimately improvement in the business as a whole.

Word Count: 196

Procedure

This investigation consisted solely of Primary Research through an interview with Ronnie Clowes, manager of Tipton Turf. The interview was done over the phone, seeing that the business is located in Memphis, and I am currently in Germany. It was initiated through a range of open ended questions concerning general and financial facts about the business. However, when visiting Memphis, I had the opportunity to meet with Ronnie and establish a further interview, where more detailed information was given. Three possible strategies will be analyzed to determine the best option for the expansion of Tipton Turf. Through the second interview, a list of internal and external factors affecting the business were discovered. These factors were proved relevant to the production of Tipton Turf, and were thoroughly looked at through a SWOT analysis were conducted. An Ansoff Matrix was illustrated for Tipton Turf in order to understand the ideal product and market growth strategy.

The secondary research acquired was basic research on the price of land per acre and also rice per cow, in the Memphis tri-state area. Also, definitions of, for instance, ansoff matrix, were acquired through the use of the web.

Introduction

Tipton Turf is a privately owned company located in Memphis, Tennessee. It is a locally scaled cattle business used for purchasing and selling cattle to larger farm corporations, such as Perdue Farms, or local butchers.

Locally butchered beef is becoming increasingly popular in the southern United States. Tipton Turf, being a cattle business, wants to expand, however it must reach its maximum production before doing so. The managers first want to look at how exactly to raise production without it being too costly and profit harming. After production, the question arises of:

Should Tipton Turf expand in size to be more competitive?

Tipton Turfs purchases cows from smaller local farms and then sells them to bigger corporation farms,such as Perdue Farms, or to the butchery. Currently, the business profits an average of $6,000 dollars per year and spends about $22,000 on other needed expenses (Ronnie). Expenses include necessities such as land fertilizers, vaccinations, hay, etc. Usually, the company purchases new-born calfs so they can nurture it to proper health before selling. The company keeps at least one bull within the herd for breeding, however switches every season to prevent inbreeding. Tipton Turf must also provide land, in acres, in order to harvest the cows. There should be, on average, two aces per cow, in which one acre costs around $3500 dollars. Currently, Tipton Turf owns more acres than cows, which is an existing dilemma. This is why they must improve production before expanding.

Competition is increasing for Tipton Turf as the idea of locally fed beef is becoming more popular. Therefore, expanding its business could be an advantage because it would not only increase its chance of avoiding harmful competition but it would also increase profit.

Results and Analysis

<u>Interview</u>

- Tipton Turf wants to expand, however they must reach maximum production before doing so.
- Money to buy more land is not available, and cattle can only be bought if land is purchased in advance.

SWOT Analysis

A SWOT analysis will recognize Tipton Turf's strengths and weaknesses as a business along with its opportunities and threats. This is an important aspect to analyze because it highlights the main possible solutions for a company.

Strengths-

- Tipton Turf produces local organic beef, which is becoming increasingly popular. This means that demand for locally grown beef will rise, giving more opportunity for customers.
- The cattle have enough land, which is better for the production and leaves room for more cattle, hence working at maximum production is more possible.

Weaknesses-

- Tipton Turf is not working at maximum production, leaving the not being able to afford more cattle in order to do so.
- Tipton Turf rarely markets its beef, leading to very few customers or cattle sales. (possible strategies analyzed under *Ansoff Matrix,* pg. 7)

Opportunities-

- Tipton Turf has flexibility in regards to options for working at maximum profit: merging with a local competitor or taking out a bank loan. (analyzed on pg. 8)
- Tipton Turf also has many opportunities for marketing its beef in order to increase profit.
- Because locally grown organic beef is becoming more popular, this means Tipton Turf can develop stronger competition.

Threats-

- Because locally grown organic beef is becoming more popular, this means Tipton Turf can develop stronger competition. However, even though this is an opportunity it can also pose a threat.
- Many external factors can play a role on small local farms: other animal threats, escape risks, more prone to sickness.This can lead to profit loss.

From analyzing the strengths and weaknesses of the business, it can be concluded that a growth strategy and a marketing strategy must be considered. Of course the business must work at maximum production before being able to expand, which can be accomplished through establishing a market growth strategy.

Ansoff Matrix

An Ansoff matrix is illustrated for Tipton Turf in order to understand the ideal product and market growth strategy. This tool is particularly used for companies who want to increase production or revenue, while measuring the risk that the company has in doing so. The task is to pinpoint whether the company must increase market or product development, actually penetrate the market, or potentially consider releasing new products.

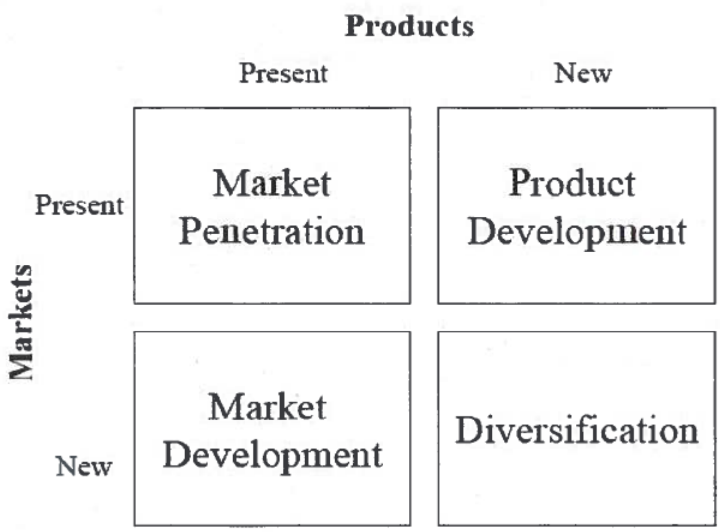

Figure 1

Because Tipton Turf is competing within a present market with present products, market penetration would be the ideal growth strategy for the company. This means that Tipton Turf must produce a strategy to penetrate the market even further. Therefore, there are a number of options the business can take in order to reach further market penetration.

1. **Contract with Local Markets-** Tipton Turf can contact the local markets where locally beef is sold. Through doing this, Tipton Turf can produce an offer to supply the specific

local market with only its beef. However, the market then could only feature Tipton Turf's beef. This could ensure the business steady income and a steady consumer, but the market must agree first followed by a contract.

2. **Supplier to Local Restaurants**- Instead of supplying a local market, Tipton Turf could supply the beef to local restaurants, specifically steak houses or burger chains, simply to ensure the meat is most useful. This lowers the risk of the meat going bad if not purchased in the supermarket soon enough. However, the restaurant must agree to using only Tipton Turf's beef. The restaurant could also agree to crediting Tipton Turf for the locally grass fed cows, in order to show the consumer where the meat was produced and that it is truly organic beef. Because organic food is becoming increasingly popular in America, this could pose as a big marketing opportunity as well.

Even though these are market strategies to help increase profit and ultimately aid with expansion, Tipton Turf needs to work near or at maximum production to be able to supply enough beef for either a local market or restaurant. Therefore, a few options are analyzed below that could be responsible for allowing Tipton Turf to work at maximum production.

1. **Horizontal Merging with a Local Competitor**

Tipton Turf could merge with a local competitor. This would allow more land and more purchasing power of cattle. However, there are numerous advantages and disadvantages when it comes to merging with another business.

<u>Advantages</u>

- **Dissolves Existing Competition-** If two companies are known to be very competitive and happen to merge, it will dissolve the competition that was once present for each company. Of course there is always competition, but the biggest threat would be then gone. This could be the case for Tipton Turf even though it has no real threat. However, there is still competition and will be more in the future.

- **Reduced Costs-** Merging will allow more purchasing of land and cattle, as well as other added necessities. Therefore, possibly increasing profit.
- **Better Market Penetration**- Merging will automatically allow more access to customers.
- **Economies of Scale-** Another significant advantage is all of the potential economies of scale that can arise. In a horizontal merger,like in this case, it could be quite extensive, especially if there are high fixed costs in the market.
- **Skills and Knowledge-** Of course, two minds can come together and make up for the flaws in each individual company.

Disadvantages

- **Shared Assets-** Since the company is not individually owned anymore, the assets and monetary profit are therefore shared. This can always pose a risk.
- **Disagreement-** This means that there could be disagreements between each owner on how to organize the business. This could be financially, organizationally, or socially.

Another opportunity for expanding Tipton Turf would be to take out a **loan** in order to buy more land, possibly increasing production. A few advantages and disadvantages are discussed below:

Advantages

- Tipton Turf can quickly obtain the loan to quickly purchase land.
- Therefore, expanding could become possible quicker, which could also quickly raise production.
- It is a loan therefore can be paid back overtime and not all at once.

Disadvantages

- A loan includes interest.

- Taking out a loan poses much risk because if profit does not increase, it could become difficult to pay back the loan.

Therefore, Tipton Turf could acquire a bank loan to allow quick purchasing power. However, if the profit does not benefit from the expansion, the loan becomes difficult to pay back which poses much risk.

Conclusion

Tipton Turf has a problem of working at maximum production. Therefore, within the analysis market growth strategies and expansion methods are considered. A SWOT analysis was performed to list the strengths and weaknesses along with opportunities and threats in order to recognize the biggest problems with the business as well as the best possible opportunities to reach maximum production and expand its company.

What is the best option for Tipton Turf to reach its maximum production?

Two growth strategies were discussed in reference to the Ansoff Matrix that would possibly help Tipton Turf grow within the existing market (Pg. 7) The business could either locate its beef within supermarkets or restaurants. Of course, with agreement to contracts to ensure a reliable customer base. However, it was concluded that Tipton Turf was not able to supply enough beef in order to do so. Therefore, two expansion strategies were analyzed that could aid in working at maximum production.

1. Horizontal merging with a competitor would be the least expensive and most efficient expansion method for Tipton Turf. This is because even though it does require sharing of assets, it is the option that poses the lowest risk and possibly ensures more growth opportunity. Another benefit would be eliminating a present competitor.

2. Acquisition of a bank loan would not be ideal for the company. If Tipton Turf takes a loan and profit is not increased, then it could become a big problem paying it off as well as losing profit. Therefore, much risk is present.

Therefore, Tipton Turf could easily reach its maximum production by merging with one of its competitors. After reaching maximum production, a market growth strategy could be implemented to further achieve market growth and increase customer. The best solution would be to locate the company's beef into a, for instance, local burger chain or steakhouse. This ensures that the beef is being used frequently which keeps the profit margin high. If the beef were to sit in a market without purchase, it would not be in much use. Therefore this method lowers the risk.

Tipton Turf should merge with a local competitor ~~and in~~ the future locate their beef into a local restaurant in order to see maximum production, growth within the existing market, and ultimately improvement in the business as a whole.

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*All additional Information extracted from Interview with Ronnie Clowes and Ginger Clowes, owners of Tipton Turf.

Phone Interview: October 9th, 2015

In-person Interview: November 25th, 2015

(See Appendix)

Appendix

Interview One (October 9th, 2015) with , owner of Tipton Turf

: What exactly is the root problem in Tipton Turf?

: Tipton Turf is suffering with obtaining profit because production is so low. Therefore, we must increase production. However, that is also a problem for us. We are not financially stable to be able to increase production.

BH: Tell me a little bit about the business works.

RC: You have to own land or rent in order to provide for the cows.

- Rent= 20-30 $ per acre
- Buying= about 3500 $

We have about 200 acres of bought land, and 50 acres of rented land. We usually purchase calves from lower farms. Cows are selling for around $2.50 per pound.
Many expenses weigh down our profit as well, such as other needed expenses and hay for the winter. However, we make our own hay, which we sell for $45 per roll. In general terms, for every dollar spent we make about 17-20 cents. For example, If we were to make 10000$ a year they would profit about 1700-2000 dollars. We profit approx. $6000 per year and spend around $22000 on the expenses. However, this year it was $4000 due to the droughts and harsh winter.

BH: Thank you very much. That is very useful financial information. Can you tell me what the perfect land to cow ratio is? In terms of having a good rate of production?

RC: 1.5 acre per cow. You need less cows per acre because you need to invest in less acre and invest in more production. You should also fertilize the ground bc you want to have to have the maximum out of the production.

BH: Would more land be worth it?

RC: Try to raise production first. Only need to buy more land if you buy more cows. So essentially you would buy more land once your production is working at its max.

BH: How should you cut expenses to help the profit?

RC: Sell calves at 350-450 pounds. re-purchase bred heifers, so that you'll have more calves quicker. If you keep own calves, it would be 2.5 years before turn profit.

BH: What affects profit loss or gain?

RC: A loss would be nutrition, clean water, vitamins, shots, fly spray. (healthier they are, less need for treatments) fly control; Example, one cow who does not have fly control weighs less than one that has it. Also the environment can have a massive impact. As I mentioned before, our profit decreased this year because of the droughts in the east. This is where we purchase our feed from, therefore if their production is down, ours will be too. One thing always affects another.

BH: Would land expansion help?

RC: Yes. Increase in demand; start renting pastures to settle more cows. We must build the herd up (aka production), then maybe we can have enough money to buy the land we're renting.

BH: What causes an increase in demand?

RC: The want for local beef.

BH: Thank you very much, I think this is enough information for me. Thank you so much for taking the time to engage in this phone call with me.

RC: No problem. You are very welcome.

Interview Number Two (November 25th, 2015)

BH: Thank you Mr.Clowes for meeting me here today.

RC: No problem. I will tell you whatever you want to know.

BH: Thank you. So, last time we spoke about a few basics regarding the business along with some financial information. Can we speak about a few options for expanding and marketing?

RC: Yes,sure.

BH: What options are you looking at for expansion?

RC: Either merging with another company or taking out a loan. There are many risks with each option, however.

BH: Which option would result in the most profit? Meanwhile with little risk.

RC: Merging would definitely have the least risk. However, money is money and we don't want to share (laughs). Taking out a loan would be risky because there is no guarantee for increased production.

BH: Once reaching your max production, how will you market your beef?

RC: My idea would be to provide my beef to one whole-supplier. For instance, a market or a restaurant because this ensures that the beef will be most useful.

BH: Any restaurant?

RC: Well, obviously a meat dominant restaurant. We don't want the meat to go to waste.

BH: Which would be better, a market or a restaurant?

RC: It depends. How much purchasing power is within the area, etc.

BH: Thank you. That is all I need for my analysis.

RC: You are very welcome. Any more questions you can always contact me.

(End of Interviews)

*All interviews were recorded and then paraphrased.