1965

**Contract Marketing of Poultry and Eggs**

Boyd J. Bonzer

Leonard Benning

Follow this and additional works at: https://openprairie.sdstate.edu/extension_fact

**Recommended Citation**


This Fact Sheet is brought to you for free and open access by the SDSU Extension at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in SDSU Extension Fact Sheets by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact michael.biondo@sdstate.edu.
Contract Marketing of Poultry and Eggs

Boyd J. Bonzer, Extension Poultryman, and
Leonard Benning, Extension Economist

Cooperative Extension Service
South Dakota State University
Brookings, South Dakota
Narrowing profit margins, fluctuating egg prices, expanded flock size, large enterprise investment and a desire for a stable income are all important reasons for producers of started pullets and eggs to consider contract production and marketing.

When offered a contract, a producer must make three major decisions:

1. What type of contract best fits his needs?
2. Will contract production increase income or reduce risk?
3. Are all aspects of the agreement covered in the contract?

The check list presented below will help you determine if the contract adequately covers all these questions.

**TYPES OF EGG PRODUCTION CONTRACTS**

Since there are several types of contracts in use, you will want to distinguish between a marketing contract, a producer contract, a credit contract, or a combination of these. Following are examples of the three types of contracts:

**Marketing Contract**

A marketing contract for table egg production typically requires that the producer provide all the facilities. He owns the layers, finances his production and provides necessary insurance. Eggs are produced and handled according to specific requirements set forth by the marketing firm. Most firms provide technical assistance and managerial guidance at the producers request.

The marketing firm agrees to market all eggs produced in accordance with its specifications. A designated market outlet is usually specified. The marketing firm also usually accepts responsibility for marketing the laying flock at the end of the laying period.

Returns to the producer for eggs under this type of contract are normally based on such factors as total volume, quality yield and seasonality of supplies. When incentive payments are made they usually reward large volume and uniformity of quantity and quality.

Market contracts are used more in the Northeast and Western regions than the Midwest and South.

**Producer Contract**

The producer contract requires that buildings, equipment, farm labor and flock insurance be provided by the producer. The contractor, who is usually also a market firm, owns the layers, provides the feed, medication, litter and other production supplies and often provides management assistance.

Returns to the producer may be based on a given sum per layer per week, a flat rate for each dozen eggs produced, or so much per dozen for each dozen of a size and quality of eggs produced. A producer may receive a certain percentage of the profits or be paid a stated wage. On the other hand, he may be liable for losses incurred.

Incentive payments may be based on feed conversion and/or layer livability. Generally, the contractor will assume all of the risk involved in marketing the eggs during the year and the layers at the end of the year.

The provisions offered in a contract are often influenced by the objectives of the contractor. One contractor may be solely interested in marketing eggs, another may be interested in selling feed, while still another may be interested in both marketing eggs and selling feed.

**Credit Contract**

Another type of contract, one which provides necessary operating capital, is known as a credit contract. A feed dealer and producer may enter into a contract where the dealer provides 20-week-old pullets, feed, fuel, litter, grit, electricity and management services. The producer provides the building, equipment, labor and insurance.

The producer is responsible for the sale of the eggs and layers but the contractor receives the checks, deducts the production charges and returns to the producer what is left. Losses, when incurred, are usually carried at 6% interest until the producer pays them off.

**WILL CONTRACT PRODUCTION HELP YOU?**

Only you can answer this question. One of the best ways to measure the value of a contract is to budget estimated expenses and income with the contract and without the contract. Figure all costs such as taxes, insurance, utilities, maintenance, depreciation and interest in addition to feed, chickens, buildings and equipment. Be realistic with goals such as rate of lay, mortality and feed required to produce a dozen eggs.

**CONTRACT PRODUCTION ADVANTAGES AND DISADVANTAGES**

Some advantages depending upon type of contract are:

- Reduced capital needs. A producer can increase
production with less capital outlay. He can have the use of a large amount of capital with a lower investment.

- Less individual risk. When more than one party is involved the risk is generally spread to both.
- Assurance of a market. Marketing contracts are generally offered because the one party has the market and needs the eggs. This assures the producer of a place to market them.
- A more stable and steady income. Contracts will usually pay a certain amount for a specific production or give assurance of some form of income for the producer.
- Contractor assists in management and provides technical information and assistance.
- Provides greater control over volume, timing, quality and processing for the contractor. This generally adds stability to egg production and provides a more balanced schedule in the marketing of eggs.
- May improve efficiency by the use of better equipment, feeds, and practices.

Some disadvantages are:

- The profit opportunities are limited. A producer is limited to the agreement in the contract and cannot usually take advantage of unforeseen profit making opportunities that may arise.
- Long-run returns to the more efficient producers may be less. Contracts have to be written to include both the high and low efficiency units or geared to the average of the groups.
- Overall risk may not be reduced if the contractor is a poor businessman. The contract alone will not guarantee profits if the contractor cannot live up to his part of the agreement. He may have to drop out in the middle of a contract if the situation is such that he can't continue.
- Producer loses some freedom in management decisions. Generally a producer must give up some of his independent actions and decision-making to the contractor.
- Producer is obligated for the duration of the contract. A producer cannot take advantage of higher prices or lower costs outside his contract if such advantages should become available.
- The contract period may not be long enough to pay for the building and equipment. Usually production contracts are written for one year or a flock year of 13 to 15 months. Buildings and equipment payments should be spread over several years. You may find yourself without a renewal of the contract and several years of payments left.

**DOES CONTRACT COVER AGREEMENT?**

Suppose after weighing advantages and disadvantages you decide to enter a production contract. Your next step is to be as sure as possible that the contract covers all aspects of the agreement between you and the other party or parties. Certain things like income, who has title to layers, who pays the electric bill, who is going to do the work, etc., have probably been discussed and agreed upon verbally—but this is not enough. All of these things should be written into a contract or agreement that both parties can sign. The contract then becomes “The Guide” in the relationship between the two parties. Because it is a guide or book of rules it should be carefully written so that it answers the immediate questions as well as the unforeseen questions that might occur later.

**A CHECK LIST FOR CONTRACT***

Following is a list of suggested questions that should be spelled out in a contract. These will not cover all situations. Certain questions may not specifically apply in your case. Perhaps some other questions should be added. The questions are listed as food for thought when studying a contract.

Don't rely on your own legal knowledge. It is good practice to have your lawyer check a contract before you sign it.

Points to consider in production contracts:

**Identification of parties.** The different parties in a contract should be carefully and clearly listed and their addresses should be given so that the proper contacts can be readily made.
- Who can and shall represent the parties in the contract for a corporation or a partnership?
- Is the landlord, the tenant, or both, required to sign the contract?
- Is the husband, the wife, or both required to sign the contract?

**Contract Period.** The period to be covered by the contract should be definitely specified. Both the starting and termination dates should be clearly indicated.

**Renewal Provisions.** Provisions can be made for the automatic renewal of a contract—if there is not an advance written notice of cancellation. If there is an automatic renewal the contract will continue in force, as originally arranged.
- How much advance notice is required for cancellation?
- How much advance notice is required for renewal if renewal is not automatic?

**Cancellation Provisions.** All parties in a contract should understand the circumstances under which a cancellation of the contract may be made. The opportunity for cancellation should be equal between all parties to the contract.

● Is the contract cancellable by only some or by all of the parties?
● Can it be cancelled for noncompliance of the other party or parties?
● Can the contract be cancelled in case of unprofitable operations?
● What happens in the case of fire, wind, flood, or lightning?
● What happens in case of physical or mental illness or death of a party in the contract?

**Assignment of Interest.** In many contracts the parties are prevented from assigning their duties and/or benefits to another party without written consent of all parties involved. If any party expects that he may need to transfer his duties and his responsibilities during the contract period, he should make special provisions for this matter before the original contract is arranged and signed.

● Do any or all parties have the right to assign or sell the responsibilities and resources which they must assume or provide under the contract?
● What special conditions must be met for the assignment or sale of responsibilities and resources?

**Legal Relationships of Parties.** Because of the different types of arrangements, the legal relationships of the parties should be clearly stated in each of the different contracts.

● What are the relationships?
  - employer and employee?
  - independent contractors?
  - partnership?
  - landlord and tenant?
  - joint venture?
  - creditor and debtor?
● Do those who want to arrange a contract understand and know what the personal responsibilities and liabilities are in the different relationships?

**Supplies and Other Items and Services to be Furnished or Paid for by the Different Parties.** The production and other resource items to be furnished by each party in a contract should be clearly outlined. The contract should also be explicit regarding what is to be furnished when there is a variety within a certain resource item. A contract arrangement for business coordination should contain specific indication of who should pay for insurance on buildings, equipment, animals, birds, and feed supplies, and who should pay the taxes.

● Who is to furnish and own the fixed assets and facilities—the land, buildings, and necessary equipment?
● Who is to arrange for and furnish the operating supplies and service—the birds (what breed, strain, and age?), litter, feed, medicinals, veterinary services, electricity, and other miscellaneous operating supplies and services?
● Who is to arrange for and provide the labor and supervision service?
● Who is to arrange for and pay for the insurance?
● Who is to pay the taxes—real estate, personal property, income tax, or special use or sales tax?
● Who is to arrange for and supply the credit needed for any of the aforementioned items?

**Management Decisions.** In business coordination there should actually be joint management decisions. If for any reason the provisions in a contract are such that the integrator (a handler or processor) is to make the major management decisions, the producer (farmer) should fully acquaint himself with the integrator’s management program. If he disagrees with such a program and cannot make the necessary and satisfactory management decision adjustments, he should not sign the contract.

Many production management program questions should be raised, and satisfactory answers obtained.

● What is the indicated size of the flock (number of birds?)
● What type of housing is required?
● How much floor, feeder, and water space is required per bird?
● What are the feeding program requirements?
  - what feeding method shall be used?
  - may homegrown grains be used?
  - must only one brand of feed be fed?
  - what feed additives may be used, if any?
● Is a specific poultry house lighting program required?
● What is the sanitation program?
● What is the vaccination and medication program?
● Must all birds on the farm be of the same age?
● Must different lots of birds be separated?
● What are the replacement arrangements?
● Are there restrictions on having other poultry enterprises on the farm?
● How much field service is available for management assistance?
● Are special services such as debeaking, dewinging, etc., required? If so, when and how can they be obtained? At whose expense?
● Who must prepare and maintain the records?
  - are they sufficiently detailed and complete?
  - are they available to all of the parties in the contract?

**Marketing Program and Producer Payments.** In some contract arrangements for business coordination the producer is required to follow certain product handling and marketing procedures. The producer is then to receive a certain rate of payment per unit for his product or a price for his product which is so much above or below a certain market quotation at the time of marketing. In such an arrangement a specific quotation for a specific market
should be given and the specific grade on which the price is to be based should be stated. If a contract has provisions for bonus or incentive payments to the producer, the basis and the method of computing the amounts should be written in a clear and understandable way. The following handling and marketing questions require special attention:

- Are there special requirements for the method of handling the product at the farm?
- Who decides when to market the product?
- Is a specific market designated where the product must be sold?
- Are there limitations with regard to the use of the product for home consumption, or retail sales, or sales to competing firms?
- Is the product to be sold on a graded basis?
- What provisions are made for differences in price because of differences in quality?
- What happens in the case of unsaleable eggs and/or birds?
- Who shall decide whether there are cull birds and if it is decided that there are, who then salvages them?
- What are the provisions for paying the various marketing costs?
- How is the price and the payment to the producer determined?
- What is the rate of payment, or the basis of payment to the producer?
- When is it paid?
- Is it fully paid in cash, or what are the other provisions?

- Are there provisions for prior assignment of sales receipts?
- Is it a profit-sharing program? If so, how is it arranged and computed?
- Are bonuses paid for production efficiencies? If so how are they measured?
  - high production?
  - good feed conversion?
  - high quality?
  - other production efficiencies?

**Arbitration Provisions.** If the contract is well written and each party understands his duties and his rights, disputes will rarely arise. However, if there is nonconformance or for other reasons disputes should arise, the contract should contain provisions for settlement without long and costly court procedures. Such arbitration provisions (where enforceable under the state law) should be explained in detail in the contract.

- Can arbitration be called for by either party?
- When can arbitration be used?
- What constitutes nonconformance?
- What shall be the penalty for nonconformance?
- How many arbitrators shall there be?
- How are the arbitrators to be selected?
- Will the decisions and the report of the arbitrators be binding? If so, how and when?
- Who pays the cost of arbitration?