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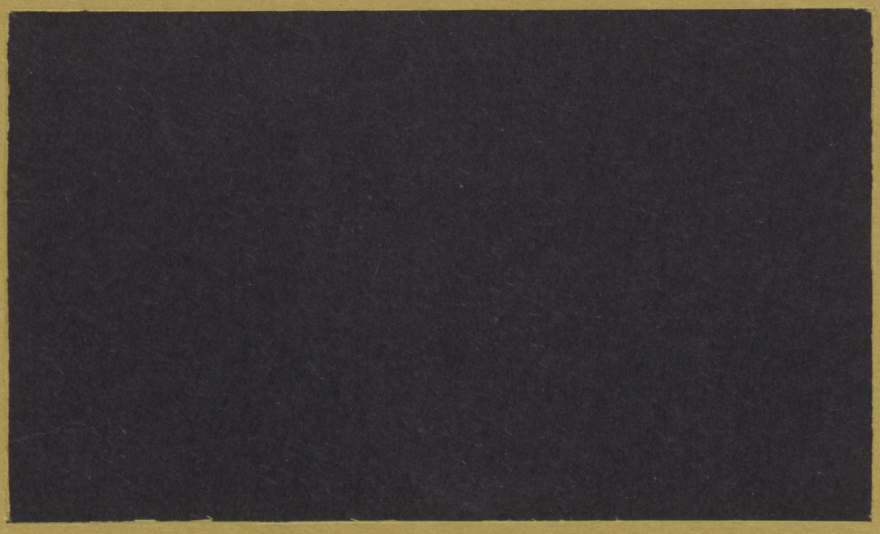

THE IMPACT OF MARKETING BOARDS ON AGRIBUSINESS: THE CASE OF THE ONTARIO BROILER INDUSTRY

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FOREWORD

This research bulletin reports the results of a survey of firms in the hatchery, feed, and processing sectors of the Ontario Broiler Industry. The purpose of the survey was to ascertain the extent to which the introduction of the Ontario Chicken Producers' Marketing Board influenced the operation and performance of these agribusiness organizations. This was accomplished through a series of personal interviews with executives from most of the important firms in the three sectors.

This bulletin is divided into four chapters. The first two chapters are relatively short and discuss the research objectives and design. In addition, Chapter 1 looks at the industry from an historical point of view in order to delineate some of the critical issues it faces at the present time. Chapter 3 is quite long and presents the detailed results of the survey. Many readers may find it preferable to read the summary in Chapter 4 before reading Chapter 3. This will allow them to find certain points of interest in Chapter 3 without reading the entire chapter.

The authors would like to acknowledge the financial support provided for this research by the Ontario Ministry of Agriculture and Food and by an extramural research grant from Agriculture Canada. Appreciation is also expressed to industry managers who participated in the survey and to E. L. Menzie and S. H. Lane for their helpful comments on an earlier draft of this bulletin.

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Chapter 1

INTRODUCTION

An agribusiness system includes "...all the participants involved in the production, processing, and marketing of a single farm product. Such a system includes farm suppliers, farmers, storage operators, processors, wholesalers, and retailers involved in a commodity flow from initial inputs to the final consumer. It also includes all the institutions which affect and coordinate the successive stages of a commodity flow such as the government, futures market, and trade associations."(1)

The purpose of viewing the production, processing, and marketing of a single farm product as a system is to underscore the importance of the inherent interdependencies which exist among the various stages in a commodity flow. Moreover, such a view puts into perspective the role and influence of the institutions which affect and coordinate the stages in the total system.

The purpose of the research reported in this bulletin is to analyze the role and influence of a particular type of institution on specific stages in an agribusiness system. The institution which is examined is a supply management marketing board, and the agribusiness system under consideration is the Ontario broiler industry.

1.1 HISTORICAL BACKGROUND

Marketing boards in Ontario and in Canada have characteristically been established as a response to both the instability of farm prices, and the imbalance of negotiating power existing between a large number of loosely organized producers and a much smaller group of farm commodity buyers.(2)

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(1) Goldberg, R.A., Agribusiness Coordination. Boston: Harvard University Press, 1968, p.1.

(2) for the purposes of this study, a marketing board is defined as: "...a compulsory horizontal marketing organization for primary processed natural products operating

The Great Depression spawned a Royal Commission on Price Spreads, which in 1934 concluded that farmers were being exploited by the concentrated buying power of a few food processors and distributors. In the same year, the Natural Products Marketing Act was passed by the federal government allowing the delegation to provincial marketing boards of certain powers such as physical control of the product for sale, and the levying of fees on producers and processor to finance promotion. When the Act was declared ultra vires by the Supreme Court of Canada in 1935 for the reason that the federal government did not have a constitutional right to exercise jurisdiction over intraprovincial trade, the Ontario government passed its own marketing board legislation to rescue the existing marketing plans. This became the Farm Products Marketing Act, the enabling legislation for some 22 marketing boards in existence in Ontario.

The Ontario chicken industry is an excellent case for the study of events which transpired prior to the implementation of a marketing plan.(3) The history is rich with interrelationships between the farm and other adjoining sectors. In fact, certain agribusiness sectors played a very significant role in establishing a chicken meat industry in Ontario. However, what began as a cooperative venture soon became an industry characterized by price instability and adversary relationships between producers, on the one hand, and agribusiness establishments on the other.

In the 1940's, the poultry meat industry in Ontario consisted mainly of turkeys, fowl, and roasting chicken. The poultry industry itself, however, was dominated by the egg sector. With the loss of a significant number of export

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under government delegated authority. The compulsory feature means that all farms producing a given product in a specified region are compelled by law to adhere to the regulations of a marketing plan. The horizontal aspect means that marketing boards control the output of all farms participating in the particular marketing scheme and that they aggregate the supply from all the farms up to a chosen or permitted level."

Hiscocks, G.A. Theory and Evolution of Agricultural Market Regulation in Canada. Canadian Farm Economics, VII (1972), p.20.

(3) For the purposes of this study, marketing plan will refer to the regulations passed under the Farm Products Marketing Act of Ontario which permit an entity, normally called a marketing board, to exercise certain delegated powers with respect to the marketing of an agricultural commodity.

markets in 1949, several egg laying barns left idle were converted to broiler chicken production. Aware of the already established broiler industry in the United States, and recognizing a potentially large market for their products, several feed manufacturers became involved in encouraging displaced table egg producers to switch to broiler production.

As a viable industry began to develop, more and more hatcheries began setting eggs for the broiler chicken market, and in 1953, Canada's first live processing plant was established in Aurora, Ontario, by two former feed company district supervisors.

Broiler production enjoyed continuous improvements in breeding, disease control, feed to meat conversion, and housing, and by 1964 over half of Canada's commercial poultry kill was in the form of broiler chicken.(4) However, the road to this success was not without its problems.

The nature of chicken production is such that supply may react very quickly to signals that demand has increased. Hatching eggs may be procured domestically if any excess capacity exists at the hatchery supply flock level, or they may be imported. Unless feed manufacturers are already operating at full capacity, this input may be obtained quickly as well.

The combination of responsiveness to market signals, and the attractiveness of the chicken industry in the 1950's, led to periods of severe income instability. For example, from June 1960 to October 1961, prices received at Toronto for live chicken fell from 24 to 12 cents per pound.(5)

Concurrent with the growth of broiler production were the phenomena of vertical integration and vertical coordination through ownership or co-operation between successive stages of the Ontario broiler economy. To guarantee markets for their product and to promote industry growth, several feed manufacturers had become involved in ownership of hatcheries and processing facilities, thereby offering the 'package deal' of chicks, feed, and a guaranteed market for the finished birds.

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(4)Canadian Department of Agriculture, Poultry Market Review, Ottawa, 1964.

(5)Canadian Department of Agriculture. Poultry Market Review, Ottawa, 1960 and 1964.

What worried many growers, however, was the movement by some integrators into ownership or control of broiler farms. While some integrators consciously attempted to exploit economies of scale, others became integrated less by choice than by circumstances. The price instability of the broiler industry had discouraged many financial institutions from providing credit to growers to carry them over the depressed stages of the cycle. This left many feed companies and hatcheries to assume outstanding accounts for the grower's input purchases until conditions improved. As a result of extended periods of depressed prices several growers also were forced to sell out or to surrender the mortgage, normally to a feed concern, when the repayment of existing debts appeared too uncertain for the input supplier to finance purchases for the next production cycle.

The corporate presence in the broiler production sector contributed to feelings of insecurity on the part of growers toward their livelihood. One grower, in a letter dated January 20, 1964, and addressed to the Ontario Broiler Growers Association, wrote:(6)

> "...because of information that has been assembled in the past few weeks that indicate a tremendous surge in expansion with the growing end of our industry, fostered by feed interests as well as financial interests, all leading to the eventual takeover of the entire growing field, and reducing our growing operations as we know them today to feed and processing control, where the grower will be simply an employee with no freedom left to make decisions except one, to quit entirely."

Live broiler prices continued their pattern of instability despite the introduction in 1962 of a joint producer-processor commmittee which met weekly to suggest a price for the following week based on chain store paying prices. In that same year, the Ontario Broiler Growers Association presented to the Ontario Farm Products Marketing Board, a proposal for the implementation of a marketing board which would determine production quotas and negotiate prices, thereby stabilizing prices and incomes and providing the financial security to protect the growers' interests in their farms.

Producers were not alone in their discontent with industry instability. Hatcheries, as well as feed concerns, were feeling the pinch of growers' inability to always cover payments for these essential inputs. Processors were often

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(6)Reprinted in Canadian Poultry Review, LXXXIX (Febuary 1965), p.42.

deluged with oversupplies of broilers which were difficult to sell and at the same time obtain a reasonable return in the face of competition. Despite their suspected interests in integration to the farm level, most of the integrators and independents came to recognize the interdependence between themselves and a healthy farm sector, and voiced their approval of a marketing plan to bring some order to the industry. At the 1965 annual meeting of the Growers Association, the poultry processors expressed support for the plan as fair to both large and small processors,(7) and in an Ontario Hatcheries Association newsletter,(8) it was recommended that:

> "As a means to future survival, hatcheries must be willing to work in co-operation with other segments of the industry..."

Under the authority of the Farm Products Marketing Board, a vote was held in March 1965 for the Broiler Chicken Marketing Plan. Of the 744 elgible voters, 84.9 percent indicated approval, comfortably exceeding the necessary two-thirds majority required. The powers delegated to the new Ontario Broiler Chicken Producers' Marketing Board included the rights to determine and allocate marketing quotas, and to negotiate the price for live chicken together with a committee comprising representatives from the hatchery, feed and processing sectors.

It was felt by many that this marketing plan, in terms of its benefactors, would be broader in scope than preceding marketing arrangements. The editor of the Canadian Poultry Review commended it as one that was(9)

> "up-to-date and promises well because all industry interests will not only have an opportunity to say their pieces, but influence decisions."

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(7) Canadian Poultry Review, LXXXIX (March 1965), p.19.

(8) Eby, R.K. "Ontario Hatcheries Association Newsletter." Canadian Poultry Review, LXXXIX (May 1965), p.31.

(9) Donavan, H.B. "Editorial." Canadian Poultry Review, LXXXIX (June 1965), p.9.

This view was reinforced by the Chairman of the new marketing board who said:(10)

> "We have come to realize that a regulation made for the benefit of one part of our industry must also benefit the remainder or it is of no lasting benefit to anyone."

The chicken meat industry in Canada continued to enjoy exceptional growth until 1970. As may be seen in Figure 1.1, domestic disappearance of chicken jumped from 22.2 pounds per capita in 1965 to 31.3 pounds in 1970, an average annual increase of 7.3 percent. In the same period, disappearance of beef and pork increased at an average annual rate of 0.2 percent and 4.5 percent respectively. As shown in Figure 1.2, chicken increased its share of total meat disappearance to 15.6 percent in 1970, a level which has been surpassed only once since then, in 1973.

As consumption of chicken grew, so did the agribusiness system involved in that commodity. As shown in Figure 1.3 the level of broiler placements which provincially based hatcheries and feed manufacturers could service increased at an average annual rate of 6.4 pecent from 1965 to 1970. Figure 1.4 shows that average annual growth in the poundage of broilers eviscerated in Ontario was 7.2 percent.

While these growth rates would be regarded as quite satisfactory by most meat industries, there was some dissatisfaction expressed that Ontario's industry had not kept pace with that of the nation. As shown in Figure 1.5, in 1965, Ontario's share of national broiler placements was 39.2 percent, but by 1970 this figure had slipped to 34.7 percent.

Some industry observers blamed the marketing board for failing to react to the growth of the Quebec broiler industry during the latter part of the 1960's. A rapid buildup of modern broiler facilities in that province helped push Quebec's share of national production past Ontario's in 1968, and on to 38.7 percent by 1970. An article by Professor J.R. Cavers in 1968 accused the Ontario chicken board of attempting to maintain prices at the imputed cost of production, and in so doing, allowing lower-priced Quebec broilers to come into Ontario.(11)

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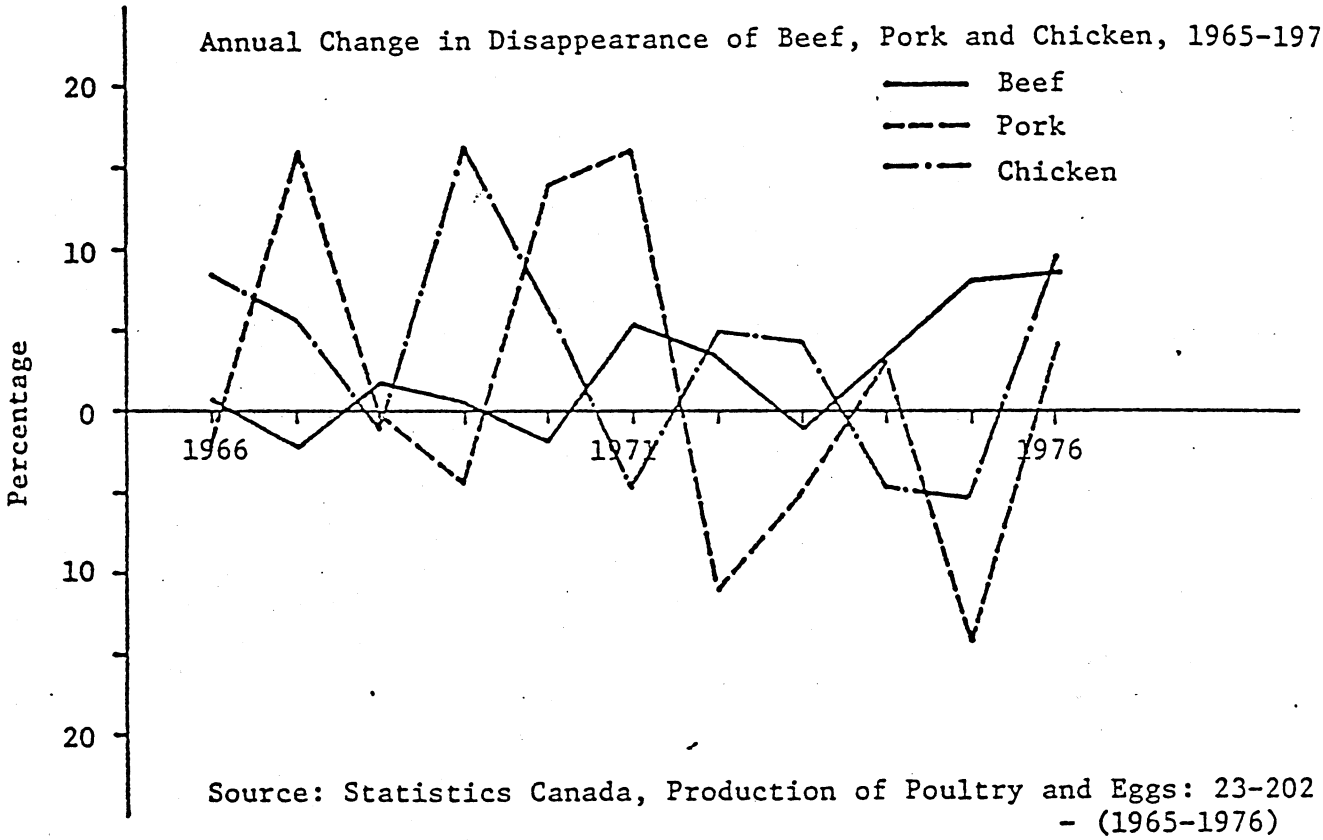
(10) Canadian Poultry Review, LXXXIX (June 1965), p.31.

(11) Cavers, J.R. "A Forward Look at the Poultry Meat Industry." Canadian Poultry Review, XCII (March 1968), p.21.

FIGURE 1.1

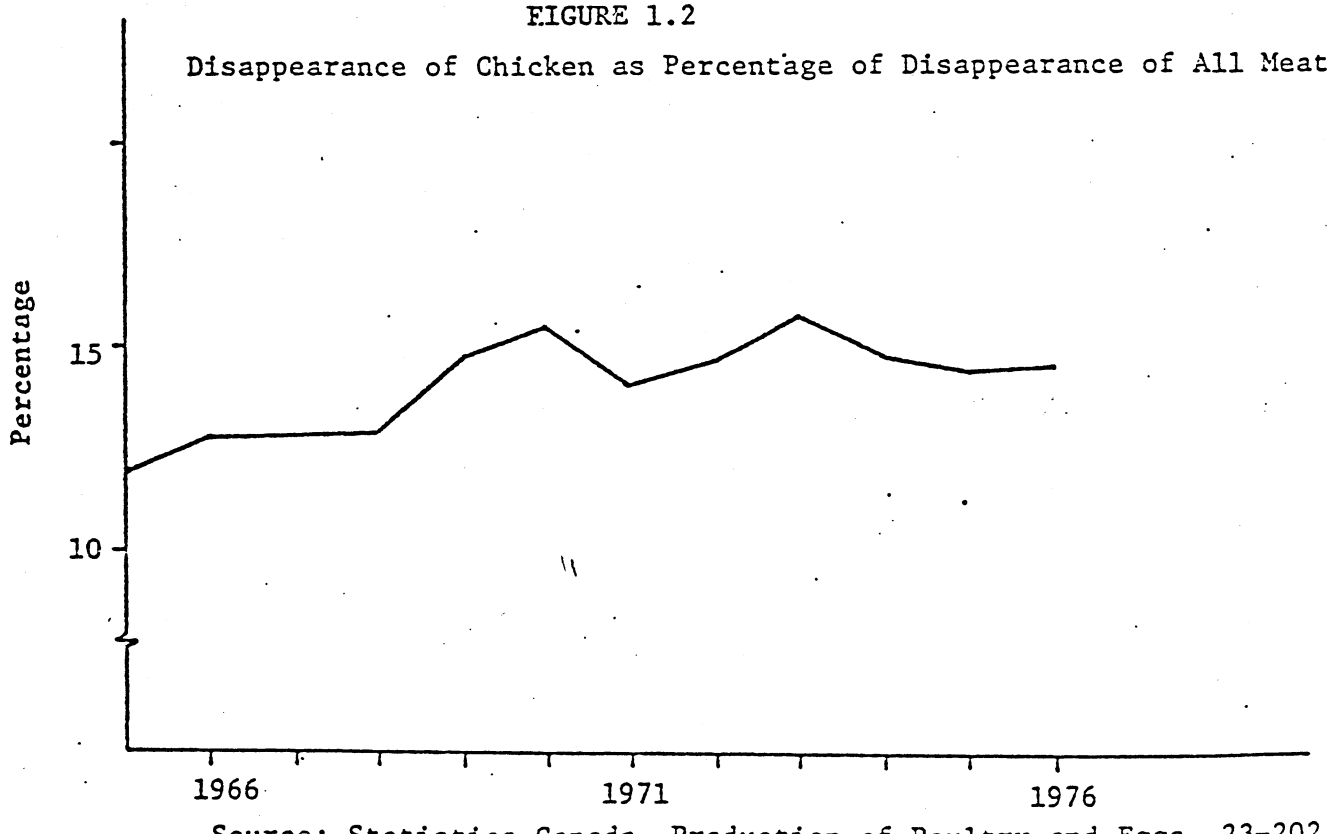
Annual Change in Disappearance of Beef, Pork and Chicken, 1965-1976.



Source: Statistics Canada, Production of Poultry and Eggs: 23-202 - (1965-1976)
Agriculture Canada, Poultry Market Review - (1965-1976)

FIGURE 1.2

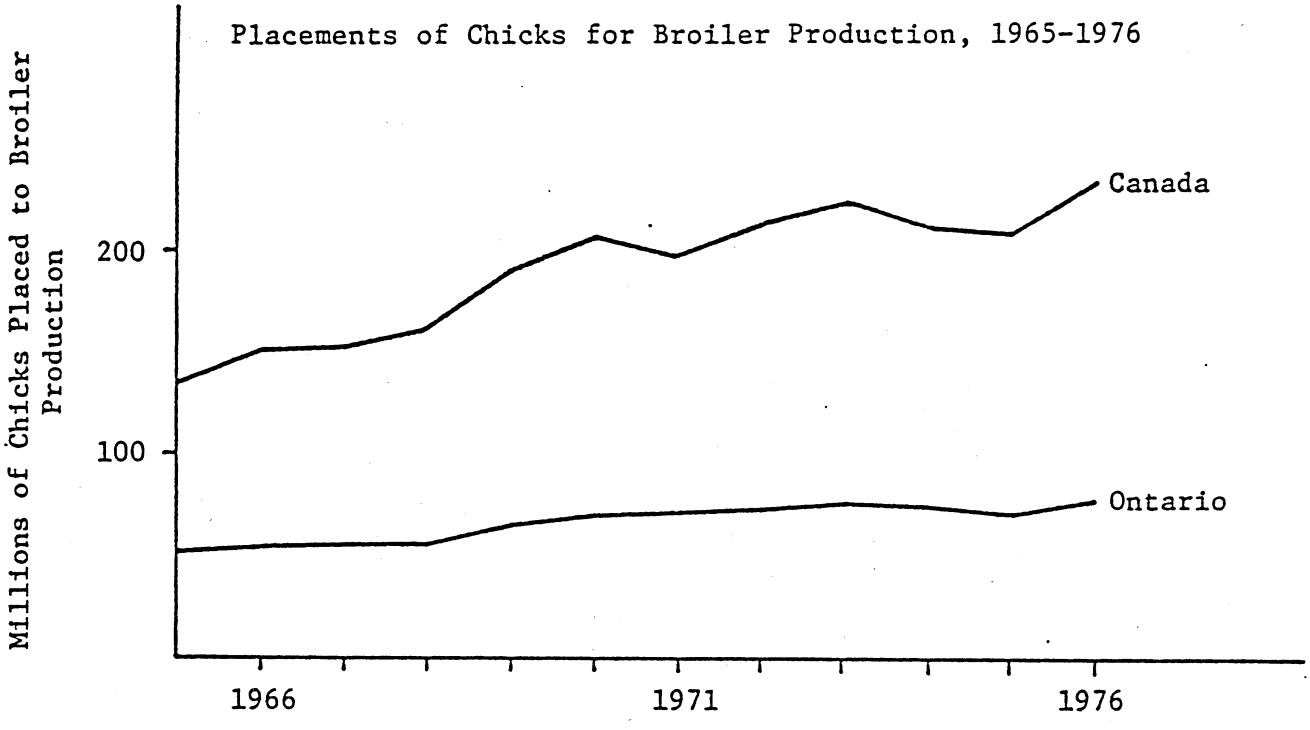
Disappearance of Chicken as Percentage of Disappearance of All Meats



Source: Statistics Canada, Production of Poultry and Eggs, 23-202 - (1965-1976)

FIGURE 1.3

Placements of Chicks for Broiler Production, 1965-1976

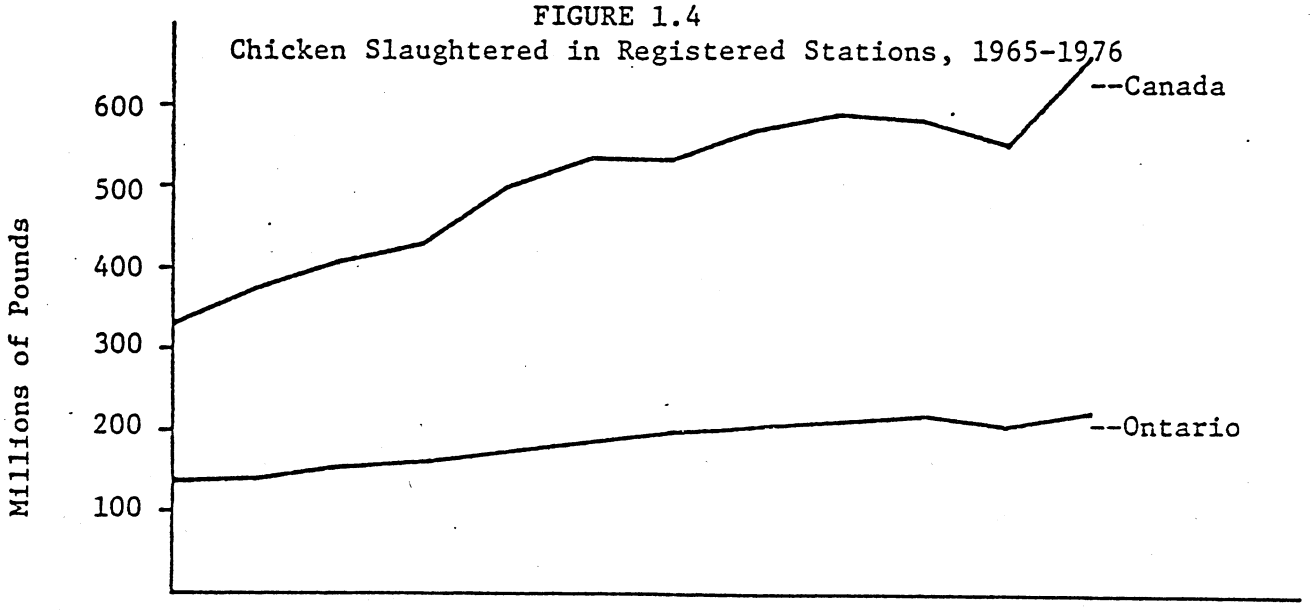


Average Annual Increase	Ontario	Canada
1965 - 1970	6.4%	8.5%
1970 - 1976	1.5%	3.2%
1965 - 1976	3.7%	4.9%

Source: Agriculture Canada, Poultry Market Review (1965-1976)

FIGURE 1.4

Chicken Slaughtered in Registered Stations, 1965-1976



Average Annual Increase	Ontario	Canada
1965 - 1970	7.2%	10.2%
1970 - 1976	2.9%	2.5%
1965 - 1976	4.8%	6.0%

Source: Agriculture Canada, Poultry Market Review, (1965-1976)

The enthusiasm exhibited in 1965 for the prospects of an all-industry approach to chicken production and pricing was appearing to wane by 1968. At the 1968 annual meeting of the chicken marketing board one observer noted that:(12)

> "government representatives had promised a 'joint effort' when the vote was taken in 1965. The broiler board had edged away from that concept until processors concluded that it no longer wanted their help in planning and pricing. It was proposed that both government and growers review what they said in 1965, and that all segments work toward re-establishing communications and regaining peak efficiency at all levels of the industry. Meanwhile, if you have the right to set the price, you have the responsibility to move the product."

The message quoted above was given in the same year that the Ontario chicken board began setting prices on its own, a power delegated to it by the Farm Products Marketing Board in 1967. The role of the processor in the production and pricing decisions of the board was then reduced to an advisory capacity through representation on the Chicken Industry Quota Advisory Committee.

The dramatic growth of chicken consumption in Canada which occurred in the 1950's and 1960's levelled off significantly after 1970. As may be seen in Figure 1.1, disappearance of beef experienced the most spectacular gains (a 4.6 percent average annual increase from 1970 to 1976), while chicken grew at an average of only 1.6 percent per year. The proportion of the disappearance of all meats attributable to chicken declined for the first time in 1971 when it dipped from 15.6 percent to 14.2 percent.

Figure 1.5 shows that the Ontario share of national broiler production rebounded in 1971 to 37.2 percent from 34.7 percent in 1970. However, this tended to slip somewhat again, and by 1976, it had reached a new low of 33.6 percent. The actual average annual increase in production from 1970 to 1976 was 1.5 percent, as compared to 6.4 percent from the 1965 to 1970 period. The growth in the poundage of chicken eviscerated in Ontario exhibited a similar decline, from an average growth rate of 7.2 percent from 1965 to 1970 to 2.9 percent in the period from 1970 to 1976.

Complaints were heard from various segments of the chicken industry regarding the concentration of price and output decisions in the hands of the marketing board:(13)

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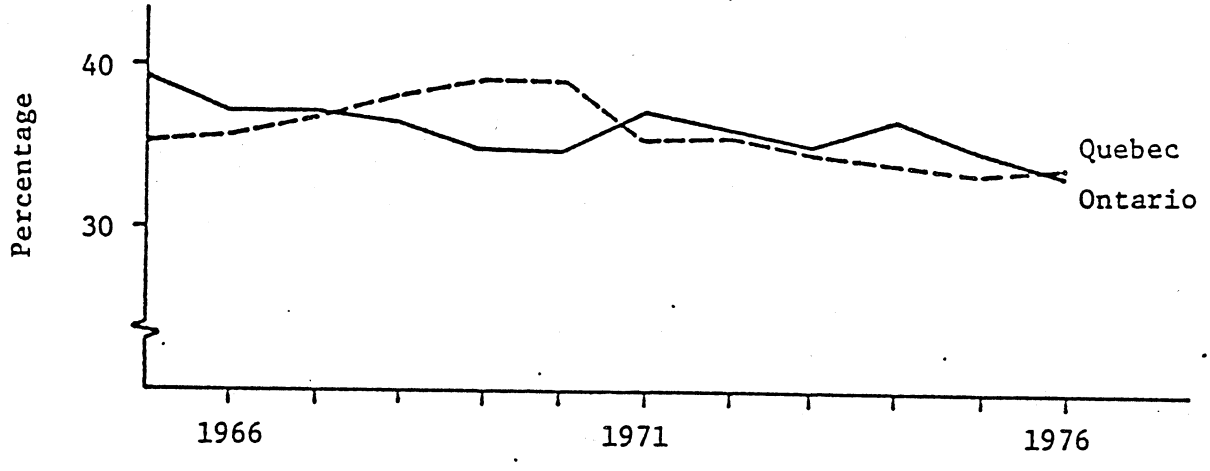
(12)Ontario Broiler Board. Canadian Poultry Review, XCII (April 1968), p.60.

FIGURE 1.5

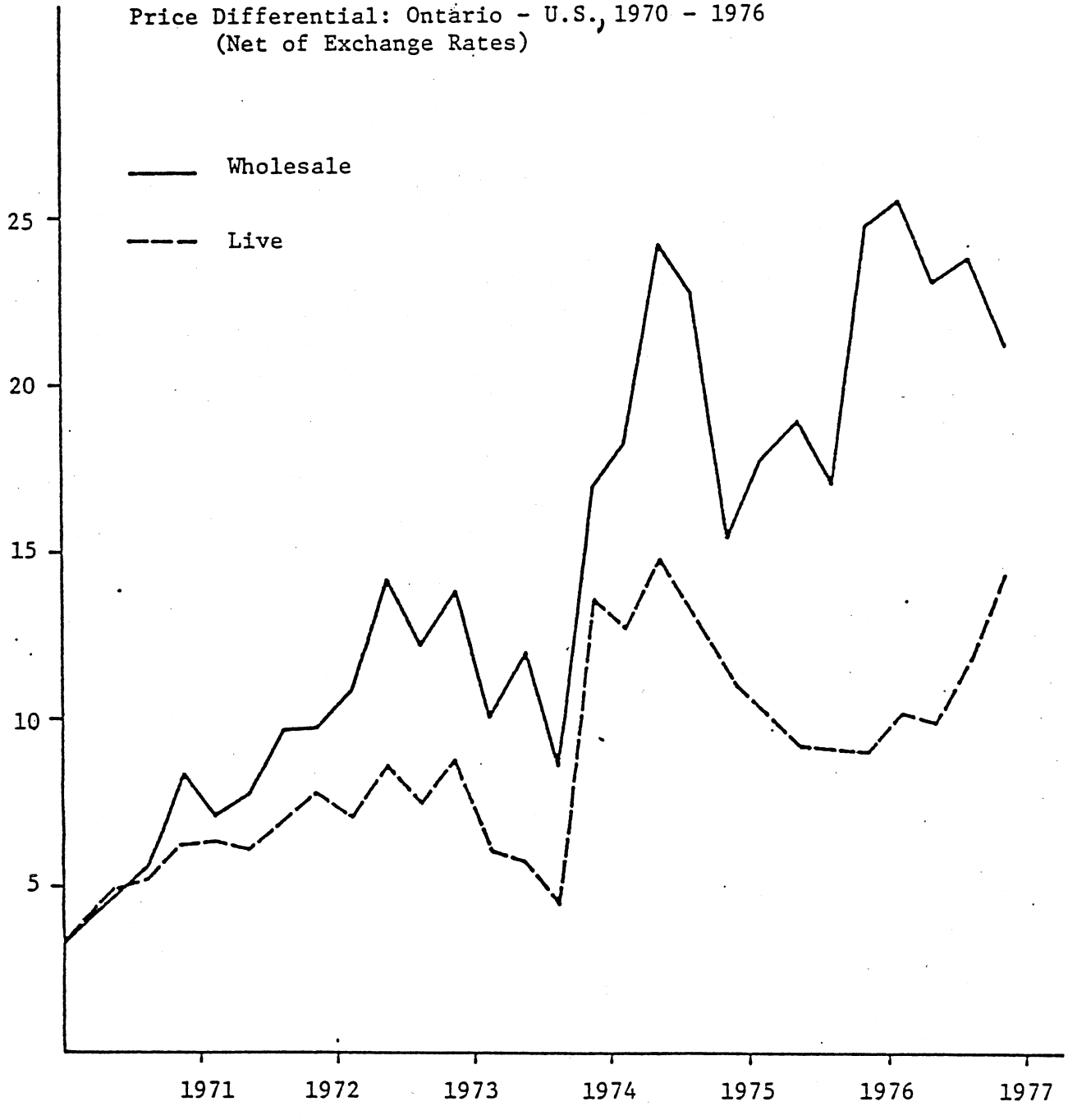
Share of National Broiler Production for Ontario and Quebec, 1965 - 1976



Source: Agriculture Canada, Poultry Market Review, (1965-1976)

FIGURE 1.6

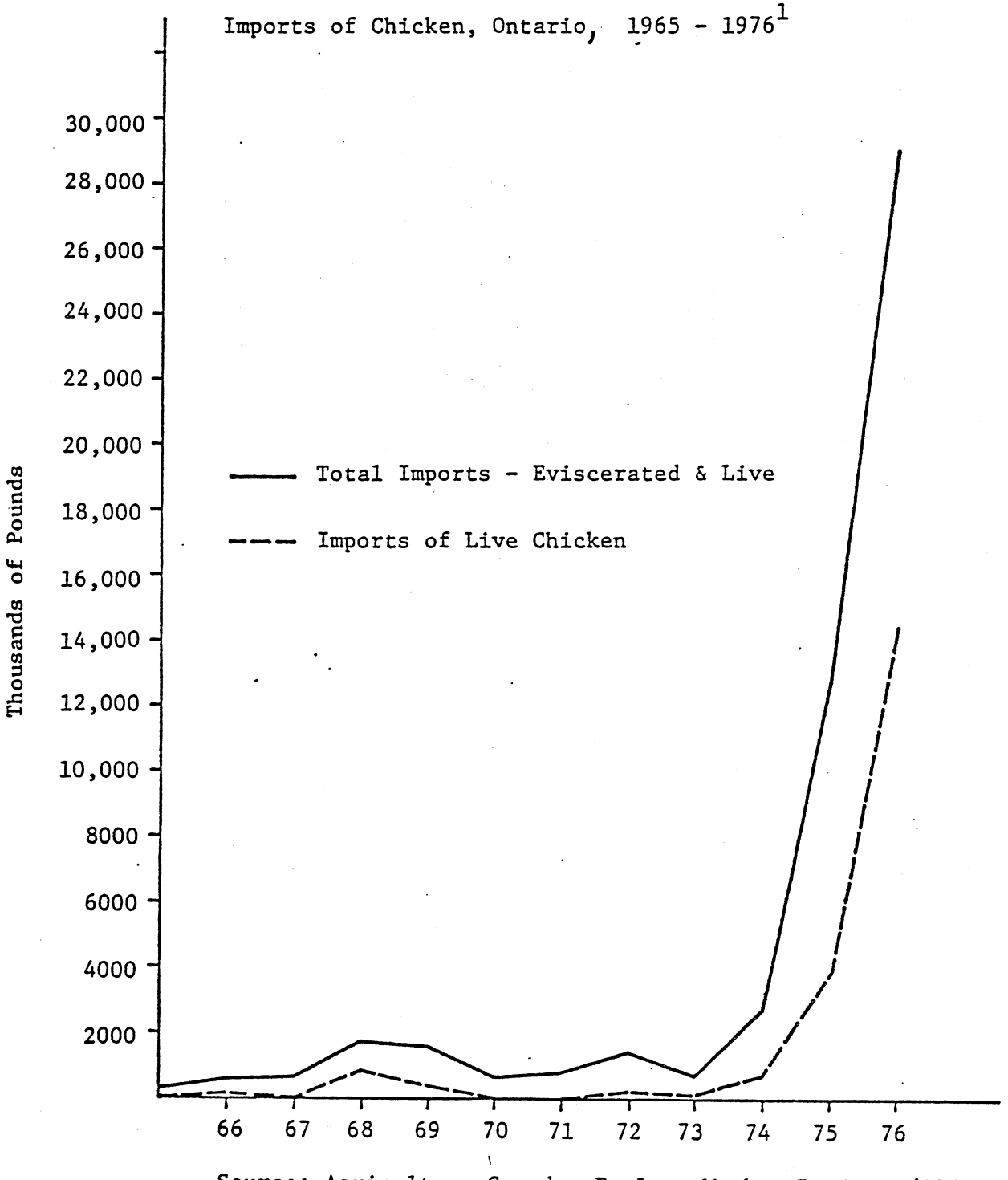
Price Differential: Ontario - U.S., 1970 - 1976
(Net of Exchange Rates)



Source: Agriculture Canada, Poultry Market Review and U.S.D.A., Poultry and Egg Situation.

FIGURE 1.7

Imports of Chicken, Ontario, 1965 - 1976[1]



Source: Agriculture Canada, Poultry Market Review, (1965-1976)

[1] All imports have been converted to an eviscerated weight equivalent on the basis of one pound live being equal to .73 pounds eviscerated.

> "The processor today merely represents a service between growers and retailers. Processor participation in planning and pricing practically ended when the growers voted themselves full pricing powers."

And in an address to the Canadian Hatchery Federation annual meeting in 1971, Drew Davey:(14)

> "...quoted Ted Hoover of Burlington, Ontario to the effect that availability of capital continued to represent a major problem for independent operations, who will be 'reluctant to invest their own capital in an industry over which they have little or no control of price of their product, volume of sales, or direction of trends within the industry'."

Perhaps the two most significant developments in the Ontario broiler industry during the 1970's have been the previously mentioned leveling off of growth in broiler production in Ontario, and the dramatic growth in imports of eviscerated and live chicken.

Figure 1.6 shows that the wholesale and live chicken price differentials between Ontario and the U.S. increased substantially late in 1973, and have consistently remained above visible import costs.(15) Imports of eviscerated chicken on a larger scale than was previously known were initiated by a retailer in Ontario in 1974, and as shown in Figure 1.7, eviscerated imports (the difference between total and live) increased dramatically to almost 15 million pounds in 1976 from less than one million in 1973.

Although the live price differential remained above visible import costs since 1970, imports of live broilers did not jump noticeably until 1975 when, as shown in Figure 1.6, the live price differential had already begun to narrow. A possible explanations for the delay may have been the

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(13) Ibid., p. 60.

(14) Canadian Poultry Review, XCV (December 1971), p.41.

(15) Visible import costs averaged 14 cents and 5 cents per pound for eviscerated and live chickens respectively over the period under consideration.

Agriculture Canada. Proposal for the Establishment of a Chicken Marketing Agency. News Release B-41, Ottawa, Ma 1977, p.7.

investment in the Ontario broiler industry by integrated interests and the use of "moral suasion" by the marketing board to encourage processors to handle only Ontario birds.(16) Nonetheless, in the face of increasing broiler imports which had already been processed in the U.S., several Ontario processors began to import live birds, and by 1976, the eviscerated equivalent of over 14 million pounds of live chicken were imported into Ontario.

This great influx of imported chicken has been a significant factor behind the current efforts, especially by producers, to introduce a national marketing plan for broilers under the Federal Bill C-176, the Farm Products Marketing Agencies Act. Similar to the existing Canadian Egg and Canadian Turkey Marketing Agencies, it would allocate national shares of production to provincial marketing boards, and control imports on the basis of some historical averages. A proposal for a national chicken plan has been suggested several times, beginning in 1969, and the latest proposal submitted by the Canadian Broiler Council was approved in principle by the federal cabinet in the spring of 1977.

1.2 RESEARCH OBJECTIVES

The above historical review shows that at the inception of the marketing board, a great deal of optimism was expressed by all participants that the entire chicken marketing system, rather than only one sector, would enjoy the benefits. Some evidence has been presented, however, to suggest that the initial spirit of co-operation has deteriorated, and that the fundamental changes in the agribusiness system for broilers brought about by the marketing board has resulted in unfavourable effects for some of the sectors of this system.

The general objective of this research is to investigate the nature and magnitude of effects the Ontario Chicken Producers' Marketing Board (OCPMB) has had on selected sectors in the Ontario agribusiness system for broilers. The specific objectives are:

1. to determine changes in the structure of the agribusiness system for broilers which can be attributed to the presence of a marketing board,

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(16) Holliday, D.C. An Analysis of Economic Relationships and Performance in the Canadian Broiler Industry. Unpublished M.Sc. Thesis, University of Guelph, 1976, p.32.

2. to determine changes in the conduct and performance of individual firms within various sectors of the agribusiness system for broilers which can be attributed to the presence of a marketing board,

3. to determine the extent to which specific, delegated powers of the marketing board have influenced the structure of the broiler industry or the conduct and performance of individual firms within various sectors of this industry,

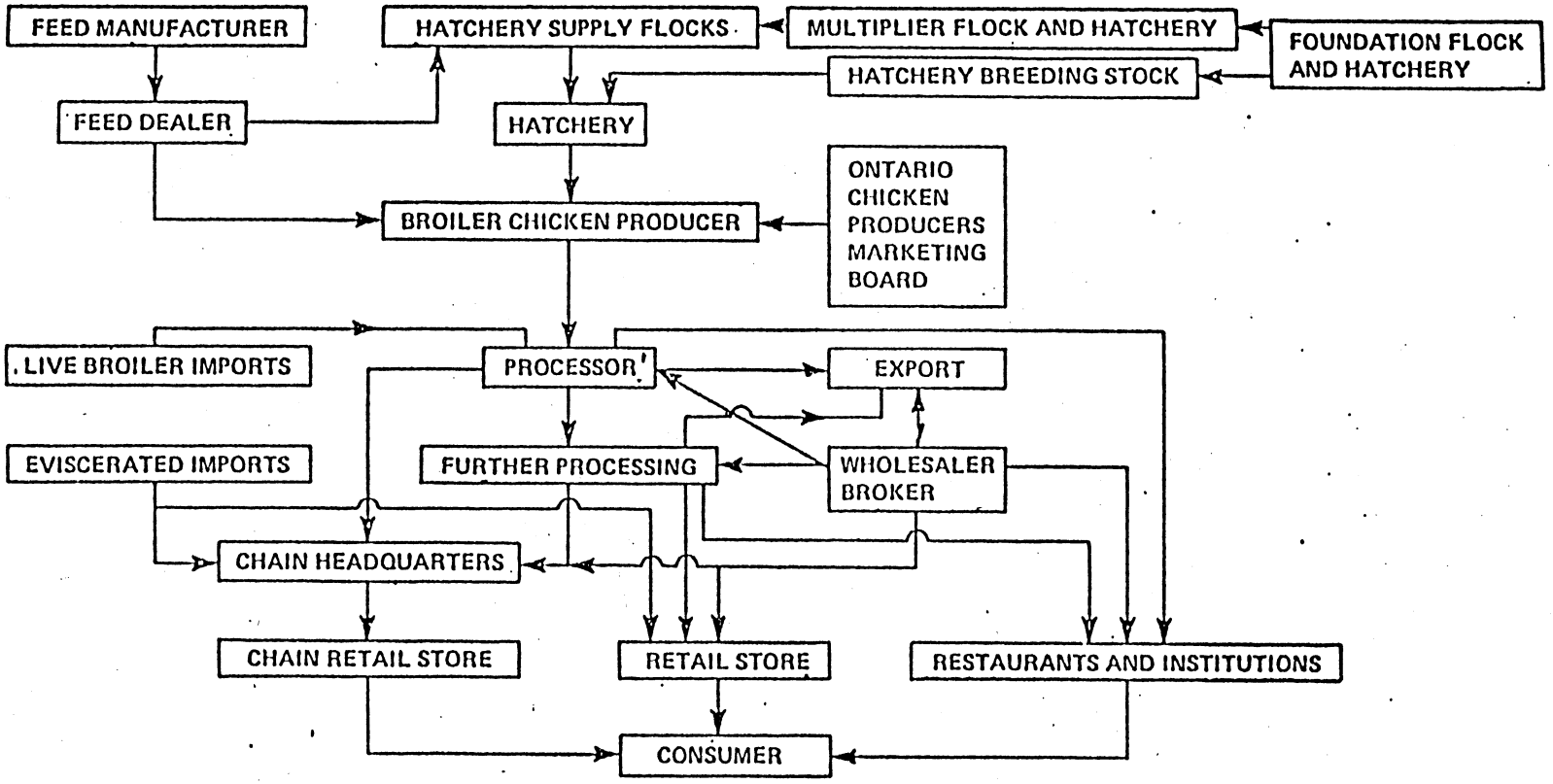
4. to explore the perceptions and attitudes of firms in various sectors of the broiler industry toward specific powers and procedures of the marketing board, and

5. to suggest changes or considerations which could be incorporated into present and/or future marketing plans to improve the performance and functioning of the total agribusiness system for broilers.

1.3 SCOPE OF THE RESEARCH

Figure 1.8 is a flow chart of the total agribusiness system for broilers in Ontario. Although the presence of the marketing board undoubtedly has had some effect on all sectors of this system, the mere size and complexity of the system suggests the need to reduce the scope of the research. Therefore it was decided to include only the hatchery, feed manufacturing, and processing sectors for detailed analysis because of their immediate contact and historical involvement with the broiler production sector of the system.

Foundation breeders, multiplier flock, and hatchery supply flock producers were not included because it was believed that the impacts on these groups would be experienced indirectly through hatcheries. Feed dealers, as a separate sector, were omitted because of the somewhat obscure distinction which exists between dealers and feed manufacturers. It was also thought that further processors and the fast-food trade would experience the impacts of a marketing board largely through their suppliers and, therefore, would not need to be considered separately. The retail sector had been considered until several conversations were held with industry observers who gave the unqualified opinion that the chicken marketing board has had very little impact on this sector. The justification for overlooking the consumer was based on the fact that the objectives of the research are oriented to aspects of business behaviour and performance.



INVOLVED IN ALL OR MOST STAGES:

GOVERNMENT:
- PROVINCIAL—FARM LEGISLATION AND RESEARCH
- FEDERAL—GRADING AND RESEARCH

TRANSPORTATION

FINANCE

EQUIPMENT DEALERS AND MANUFACTURERS

ASSOCIATIONS:
- CANADIAN FEED MANUFACTURERS ASSN.
- ONTARIO HATCHERIES ASSOCIATION
- ONTARIO GRAIN AND FEED DEALERS ASSN.
- ONTARIO POULTRY PROCESSORS ASSOCIATION
- RETAIL COUNCIL OF CANADA
- CONSUMERS ASSN. OF CANADA

FIGURE 1.8

Broiler Industry Flow Chart

1.4 BACKGROUND LITERATURE

The available literature pertaining to relationships between broiler marketing boards and other agribusiness sectors is disappointingly brief. In "Broiler Chicken Prices II", the Food Prices Review Board concludes that the broiler chicken marketing boards' policies in Canada position the processor between a fixed price for his input, the live chicken, and a downward flexible market determined price for the processed product, and that processors' fixed costs are spread over a smaller capacity utilization as a result of the constraint on chicken production through restrictive board quota policies.(17)

In addition, this report cited the ability of the broiler boards to pass on farm input price increases by raising selling prices as a means of encouraging processors to integrate with feed mills and, therefore, recoup some of the losses they may incur at the processing level by charging higher feed prices. This appears, however, to be speculation since little evidence is shown of any recent increase in backward integration by poultry processors to the feed sector.

In a 1970 study of the Alberta broiler industry,(18) the quota allocation practices of the marketing board were partly blamed for the existence of excess processing capacity. It was felt that industry capacity was built in anticipation of a higher growth rate of demand for broiler meat than the marketing board seemed willing to satisfy. Consequently, the processors had no alternative but to integrate backward to the farm level. However, some virtues of vertical linkages to the production sector seem to have clearly presented themselves to poultry processors before supply control marketing boards were implemented. This is evidenced by the fact that in the United States, where no supply control has been authorized, vertical co-ordination in the broiler industry began in the 1940's, and by 1966, 75 percent of the broiler chickens produced in the U.S. were contracted.(19)

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(17) Food Prices Review Board. Broiler Chicken Prices II. Ottawa, 1975, pp.38-46.

(18) Hurnanen, R.R., M.H. Hawkins and T.W. Manning. Vertical Integration and Concentration in the Alberta Broiler Industry. Agricultural Economics and Rural Sociology Bulletin No. 8, Edmonton: University of Alberta, 1970, p.15.

(19) Roy, E.P. Effective Competition and Changing Paterns in Marketing Broiler Chickens. Journal of Farm Economics,

A discussion paper from Agriculture Canada(2Ø) described the processors problem in particular as one in which:

> "...they (the processors) have to buy live birds in quantities and at prices determined by the Ontario Chicken Producers Marketing Board, and they have to sell poultry meat in a wholesale market that is facing downward pressure from low-priced imports from the United States."

In these brief treatments of the situation facing poultry processors, little mention is made of how these firms are adjusting their business strategies in relation to the cost-price squeeze other than searching for opportunities to integrate backward, whether sectors other than processors have been affected, and whether some firms in the same sector are performing better than others and why this may be so. These are some of the questions that are addressed in this research.

XLIX (1966), pp.190-191.

(2Ø)Agriculture Canada. Proposal for the Establishment of a Chicken Marketing Agency. News Release B-41, Ottawa: Agriculture Canada, May 1972, p.5.

Chapter 2

RESEARCH DESIGN

With the exception of the brief treatments mentioned in the previous section, no studies with the express objective of analyzing the effects of a marketing board on an agribusiness system have been undertaken. Given this situation, a research design was required that could identify those aspects of an agribusiness system which are sensitive to the presence of a marketing board, as well as explore certain specific effects on sectors of interest. As a result, a research design was required which would be flexible enough to provide information for generating new hypotheses on the one hand, while structured enough to provide information for testing a priori hypotheses on the other hand. The development of this type of research design is discussed in the remainder of this section.

2.1 CONCEPTUAL FRAMEWORK

A structure-conduct-performance model was adopted as the basic conceptual framework for this research. Developed by Bain, the structure-conduct- performance paradigm is still the most frequently employed method of depicting industrial behaviour. It consists of the following components:(21)

1. Market Structure. Refers to the organizational characteristics of a market, and for practical purposes to those characteristics which determine the relations of sellers in the market to each other, of buyers in the market to each other, of the sellers to the buyers, and of sellers established in the market to potential new firms which might enter it.

2. Market Conduct. Refers to the pattern of behaviour that enterprises follow in adapting or adjusting to the markets in which they sell (or buy).

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(21)Bain, J.A., Industrial Organization, New York; John Wiley and Sons, Inc., pp.7-10.

FIGURE 2.1

The Basic Structure, Conduct, and Performance Model

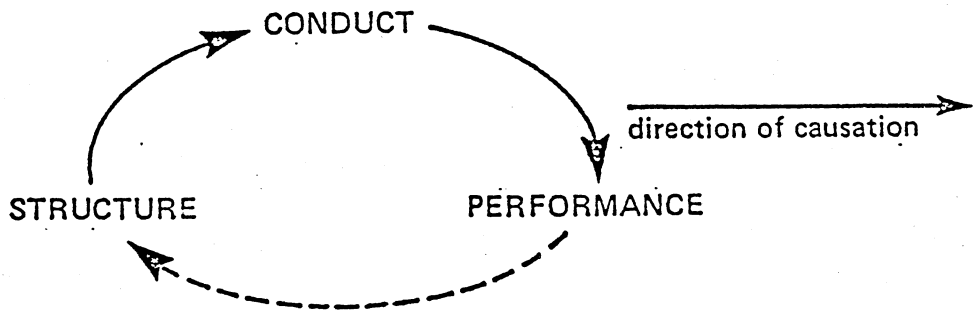
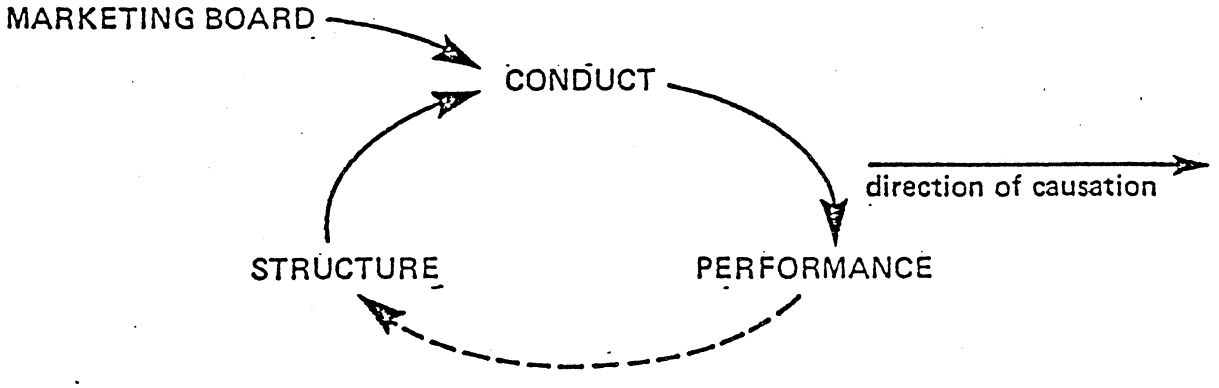


FIGURE 2.2

The Revised Structure, Conduct, and Performance Model



3. Market Performance. Refers to the composite of end results which firms in any market arrive at by pursuing whatever lines of conduct they espouse - end results in the dimensions of price, output, production costs, selling costs, product designs, and so forth.

The general held view of this model is that the structure of an industry determines patterns of conduct which in turn determine various levels and types of performance as shown in Figure 2.1. The underlying assumption of this research is that market conduct is the area which is initially sensitive to marketing board policies. If there are impacts on individual sectors, the firms will adjust their operating strategies (e.g., prices charged, new technology adopted, change in the level of advertising) in response to any pressures or opportunities provided by the board. Performance variables will likely reflect the modifications in conduct (e.g., changes in profit levels or in rates of industry capacity utilization), and if these deviations in performance are significant, there whould be adjustments in industry structure (e.g., entry or exit of some firms, altered levels of vertical integration). The resulting conceptual model is illustrated in Figure 2.2.

It was decided that the effects on which this research design would concentrate are primarily within the realm of market conduct in the hatchery, feed manufacturing and processing sectors of the Ontario chicken industry, and that these effects would constitute the dependent variables for the purposes of this study. Further justification for this approach lies in the fact that because of their involvement in the policy formulation and decision-making processes, the individuals who were to be interviewed would have a greater awareness of their conduct vis-a-vis the marketing board, than of changes in the industry structure and performance. Nevertheless, some straightforward questions relating to changes in structure and performance were included in the questionnaire.

An aspect of the market environment which is often omitted in industrial organization research is the existence and significance of market rules. These are defined by Shaffer as:

> "...the set of rights and obligations established by law, custom and convenant which define the relations among members of a community in respect to the exchange of goods and services."(22)

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(22) Shaffer, James D. A Working Paper Concerning Publicly Supported Economic Research in Agricultural Marketing.

The market rules are of special significance to this research in that the powers and operating procedures(23) constitute the definition of the marketing board, and will be considered the independent variables in this research design.

2.2 CHOICE OF BASIC METHODOLOGY

Three basic methodologies were considered for exploring the effects of the OCMPB on sectors within the agribusiness system for broilers. These were an econometric study, a simulation game, and a survey.

Using the econometric approach involves explaining changes in certain variables such as profitability or the level of concentration of firms involved in a particular sector in terms of such marketing board activities as price setting and quota allocation. This involves an a priori knowledge of which dependent variables are sensitive to marketing board policies. It may also be difficult to separate trends caused by the presence of a marketing board from those which are attributable to ongoing structural changes in the industry. In addition, this approach requires a comprehensive set of data relating to such industry variables as firm profitability concentration and technical change which are not readily available.

A simulation games asks participants (in this case, general managers of various agribusiness firms) to place themselves in a hypothetical market situation, and when presented wth certain market developments, to make decisions pertaning to various aspects of their simulated business. One market development which could be considered is the introduction of a marketing board in an industry whose prices and outputs were previously determined by market forces. If each participant is presented with identical market situations, important insights may be gained into the adjustments businessmen undertake in relation to the change in the institutional arrangements of a marketing system.

Washington, D.C.: Economic Research Service, U.S. Dept. of Agriculture, 1968, p.6.

(23) Operating procedures are defined as the terms and conditions of sale of live chickens as determined by the marketing board, plus activities within the marketing system in which the board is involved including research, promotion, provision of information, and the industry consultations which serve as inputs into the board's pricing and quota allocation decisions.

Problems associated with the simulation method include the provision of a realistic set of circumstances to which participants may relate, personal biases held toward marketing boards which may not be expressed but may play a role in the decisions made by the participants, and the development of a realistic model of the interrelationships between a marketing board and other sectors of an agribusiness system. To develop such a model would require the sort of information this research is designed to define and obtain.

The third approach, a survey of opinions held by individuals employed in the chosen sectors toward the marketing board, was finally adopted. While perhaps less rigorous than the previous two alternatives, it was felt that the survey could best satisfy the objectives of discovering aspects of some particular effects of the chicken marketing board on various sectors. This approach maximizes the degree of flexibility in that the survey instrument may be designed to allow for the inclusion of variables which were not considered prior to the survey.

2.3 CHOICE OF SURVEY INSTRUMENT

In deciding upon the choice of a survey instrument, three alternatives were considered: a mail questionnaire, a telephone inquiry, and a personal interview. Although it was felt that both structure and flexibility could be incorporated into each of these approaches, the third approach was adopted because it (1) allows for a relaxed environment in which each party (the interviewer and the interviewee) may elaborate on issues which arise spontaneously throughout the interview session; (2) permits the interviewer to detect, by noting answers received or actions exhibited, whether the respondent fully understands the questions; and (3) permits the interviewer to be present to secure co-operation and to administer and explain any portion of the questionnaire which needs to be filled out by the respondent. All of these characteristics were felt to be important in this research.

2.4 FORMULATION OF HYPOTHESES AND QUESTIONNAIRE DEVELOPMENT

Prior to developing the questionnaire, a detailed list of working hypotheses was formulated. The primary purpose of these hypotheses was to provide a linkage between the conceptual framework and the questionnaire.

To aid in formulating working hypotheses, a matrix was constructed with the independent variables, the powers and procedures of the board, along the vertical axis, and the dependent variables, aspects of market conduct, along the horizontal axis. The variables chosen are listed in Appendix A.

The powers and procedures of the marketing board were obtained directly from the chicken marketing plan, while the set of criteria of market conduct was collected from various references in the fields of industrial organization and business policy.(24) The reader may note that certain aspects included under conduct are normally associated with the area of industry structure. An example is vertical integration. The justification is that the decision to vertically integrate is internal to the firm, and therefore, an aspect of market conduct.

Hypotheses were entered within the cells of the matrix hypotheses were entered specifying that a relationship would exist between particular board powers and areas of firm conduct. An element of subjectivity was introduced at this point when certain combinations were omitted. For example, it was difficult to hypothesize that the power to appoint agents would seriously affect the firm's decision to alter its level of promotion, so this and similar combinations were excluded.

The resulting matrix was rather large so it was decided to attempt to aggregate certain rows of the matrix. The powers and procedures actively excerised by the OCPMB were therefore aggregated into four groups: (1) the power to determine prices paid for live chicken, (2) the power to determine and allocate marketing quotas, (3) procedures of the marketing board which involve it in the marketing system (e.g., promotion, information, research, and consultations), and (4) the various powers which enable the board to control the terms and conditions of agreements and to require licenses and information of persons engaged in processing chicken.(25)

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(24) Including Bain, op. cit., Drucker, Peter. F. The Practice of Management. New York: Harper and Row Publishers, 1954; and Sherer, F.M. Industrial Market Structure and Economic Performance. Chicago: Rand-McNally College Publishing Company, 1970.

(25) For a detailed description of the procedure ued and the resulting working hypothese and questionnaire see: Rice, M.T., The Impact of Marketing Boards or Agribusiness: The Case of the Ontario Broiler Industry. M.Sc. thesis, University of Guelph, 1978.

2.5 SELECTION OF THE SAMPLE

The process of identifying the populations of feed manufacturers and poultry processors in Ontario began with the list of firms participating in surveys of these two industries by Statistics Canada.(26) The lists included 226 Ontario establishments engaged in feed manufacturing and 33 in poultry processing. No distinctions are made in these publications for firms catering specifically to the chicken meat industry, and no such publication exists for the hatchery industry. Therefore, it was decided to consult broiler industry trade assocations to obtain lists of participating members.

The final list included twelve representatives of the hatchery industry, fourteen feed manufacturers, and fifteen processors, which together account for at least 75 percent of the broiler related sales from each sector.

2.6 PROCUREMENT OF PARTICIPATION AND THE INTERVIEWER SETTING

As was mentioned above, the total population consisted of only 41 firms. In the hope of obtaining complete participation, special attention was given to the method employed in soliciting the co-operation of these organizations.

It was decided, in the interest of a formal introduction to the research, that the initial communication to the organizations should be by mail. In an article concerning obtaining co-operation from businessmen, Forsythe wrote:

> "The first stage mailing...was the crucial step in obtaining co-operation from the sample firms - crucial because it was believed that co-operation at later stages would be relatively easy to obtain once endorsement of the survey had been obtained from the chief executives."(27)

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(26) Statistics Canada, Poultry Processors 32-227, 1975, and Feed Industry 32-214, 1975.

(27) Forsythe, John B. "Obtaining Co-operation in a Survey of Business Executives." Journal of Marketing Research, XIV (August 1977), p. 371.

(28) Zuckerman, Harriet. "Interviewing an Ultra-Elite." Public Opinion Quarterly XXVI (Summer 1972), pp.159-175.

Utilizing the advice of this and other articles,(28) a letter outlining the intent of the research and a request for co-operation was drafted and forwarded to the individual in charge of each firm. Where the name of the individual in charge was not known, the letter was addressed to "Chief Operating Officer". Accompanying the letter was a form to enter the names of the individual who would speak for the company, plus a stamped return envelope addressed to the researcher.

Within a week more than half of the requests had been returned. If a request was not answered within three weeks, a telephone call was made, politely reminding the individual that he had received the package and requesting that he reply. During this latter process, it was discovered that three requests had not reached their destination (at which point interview sessions were arranged), and two feed manufacturers and one hatchery had neglected to fill out the form because their poultry business consisted mainly of table egg layers and turkeys. It is interesting to note that no refusals were encountered in the request for an interview.

Interviews were then scheduled by telephone with the individuals whose names were returned. Most of the people to be interviewed were the same individuals to whom the original request was directed . During this process of interview scheduling, two additional feed manufacturers and one processor expressed surprise that the request for co-operation was directed to firms involved specifically in the broiler industry and declined to be interviewed due to their involvement in other commodity systems.

At the time of scheduling the interviews, it was also requested that, where possible, the interview be conducted with only one individual to avoid group debates which can be confusing to follow, and often yield little specific information.

Interviews were finally scheduled and administered to eleven hatchery, ten feed and fourteen processing firm managers. One feed questionnaire, however, was discarded because it was felt by the interviewer that the respondent was not sufficiently familiar with the feed sector to appreciate the intent of the questions. Therefore, the final sample consisted of eleven hatchery, nine feed, and fourteen processor representatives.

All interviews took place at the participants' location of employment. The session began with an explanation of the intent of the research and a reassurance of the confidentiality of the information which would be collected. The respondent was then asked to what degree his firm was inte-

grated with other sectors in the broiler industry and how long he had been in a management position in the sector in which he was presently employed . The questionnaire, as previously described, was then administered.

Chapter 3

RESULTS OF THE INTERVIEWS

This section presents the information obtained from the personal interviews conducted with industry managers. The data were analyzed in terms of the sector involved (hatchery, feed manufacturer, processor), the level of vertical integration (number of sectors in which the firm or parent firm has ownership interests), and the firm's size relative to other firms in its sector (standing of the firm with respect to sales).(29) Results are presented by sector for all questions, and by degree of vertical integration and/or relative size for those questions where it was felt that these might be important variables.

3.1 GENERAL SAMPLE INFORMATION

Each interview commenced with two general information questions regarding the length of time the respondent had been involved in a management position with the firm and the extent of vertical integration in which the firm or parent firm was involved.

As shown in Figure 3.1, the desired situation of having as many respondents as possible with management experience extending to preboard days was obtained. Only in the case of the processing sector was there a significant number of managers with limited experience. This was not felt to be a major problem because many of the individuals who became involved in management in the period subsequent to the implementation of the marketing board had been involved in the broiler industry in another capacity prior to the introduction of the board. Nonetheless, for this latter group,

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(29) Each sector was divided into two groups according to the position of each firm with respect to total sales. The processor sample divided evenly into two groups of seven, the hatchery into six large and five small, and the feed companies were divided into groups of five large and four small firms. These lists were referred to industry trade association representatives who stated that to their knowledge, the divisions reflected the general situation in terms of market shares.

Figure 3.1

When did you become involved in management in your broiler industry sub-sector?

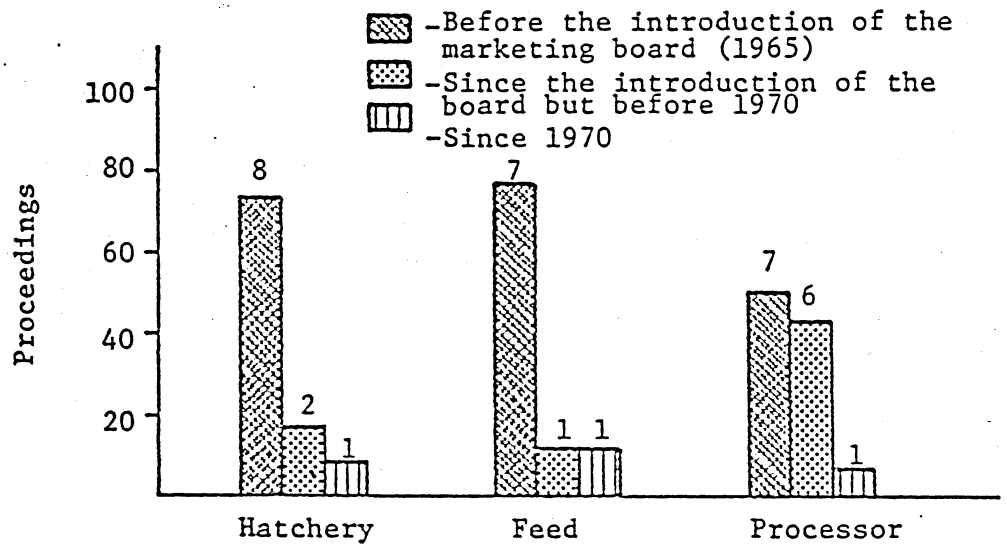
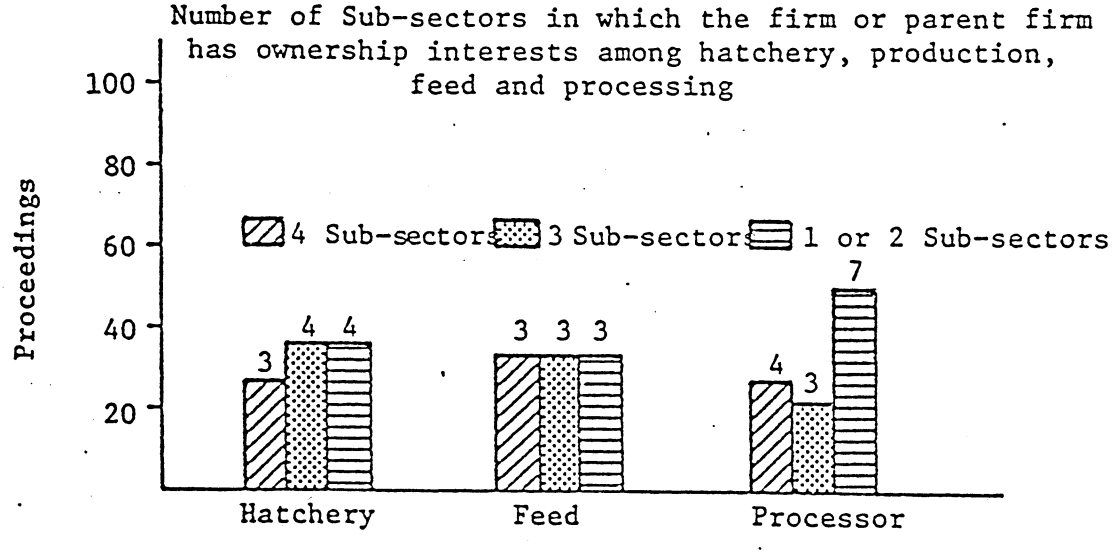


Figure 3.2

Number of Sub-sectors in which the firm or parent firm has ownership interests among hatchery, production, feed and processing



certain questions which required more intimate knowledge of the broiler industry than they were exposed to prior to 1965 were left unanswered.

The degree of vertical integration through ownership is presented in Figure 3.2. Firms with ownership interests in one or two sectors were amalgamated because the promise of confidentiality would have been violated for those firms involved in two different sectors. However, it may be said that all of the firms with ownership in two sectors had the farm (production) level as one of them. Processors as a group appear to be less involved in integration as only seven (50 percent) are integrated beyond the farm level. Seven of the eleven hatcheries (63.6 percent) and six of the nine feed companies (66.7 percent) are associated with at least two other sectors through direct ownership.

Table 3.1 classifies large and small establishments according to the degree of vertical integration. A higher degree of vertical integration is clearly associated with large feed companies. This finding is not surprising in view of the fact that historically large feed companies were the principal movers of vertical integration. The relationship between size and integration is somewhat less pronounced in the processing sector where there are two large independents. No relationship exists at all in the hatchery sector.

3.2 PRICES OF LIVE CHICKENS

Following the two general information questions, each respondent was asked a series of questions concerning the prices set by the marketing board for live chickens. It was assumed that the live price would be a common denominator of interest to all three sectors. Hatcheries and feed companies are concerned that the marketing board sets prices which provide for growth in chicken consumption, thereby increasing grower demand for their products, while processors are interested in a live price which maintains sufficient production volumes and adequate gross margins to provide a return on their investment.

3.2.1 Extent to Which Prices Reflect Demand

As may be seen in Figure 3.3, five of the thirty-two respondents beleived that live broiler prices are reflective of demand 'always' or 'most of the time'. A majority of respondents in each sector, however, felt that live prices set

Table 3.1

CROSS-CLASSIFICATION OF SIZE OF FIRM WITH DEGREE OF VERTICAL INTEGRATION

Sub-Sector and Size	Percentage and Number of Firms Involved In					
	4 Sectors		3 Sectors		Less Than 3 Sectors	
	No.	%	No.	%	No.	%
Hatchery	3	27.3	4	26.4	4	36.4
Large	2	33.3	2	33.3	2	33.3
Small	1	20.0	2	40.0	2	40.0
Feed	3	33.3	3	33.3	3	33.3
Large	3	60.0	2	40.0	-	--
Small	-	--	1	25.0	3	75.0
Processor	4	28.6	3	21.4	7	50.0
Large	4	57.1	1	14.3	2	28.6
Small	-	--	2	28.6	5	71.4

by the marketing board are either 'sometimes' or 'never' reflective of demand. These impressions were especially prominent among processors where all thirteen responding to the question gave one of these two answers. The feed group was the least critical in that three of the eight (37.5 percent) thought that prices were reflective of demand for chicken 'most of the time'.

3.2.2 Stability of Prices

When asked if they felt that live broiler prices were more stable than they were in the period before the marketing board was implemented (or over the period that they were witness to the broiler industry if they became involved after 1965), all 34 respondents answered that live prices have been more stable. However, as may be observed in Figure 3.4, of the 30 individuals anwering, 22 responded that they should be more flexible, six said live prices should maintain the present degree of stability, and only two answered that they would like prices to be more stable yet.

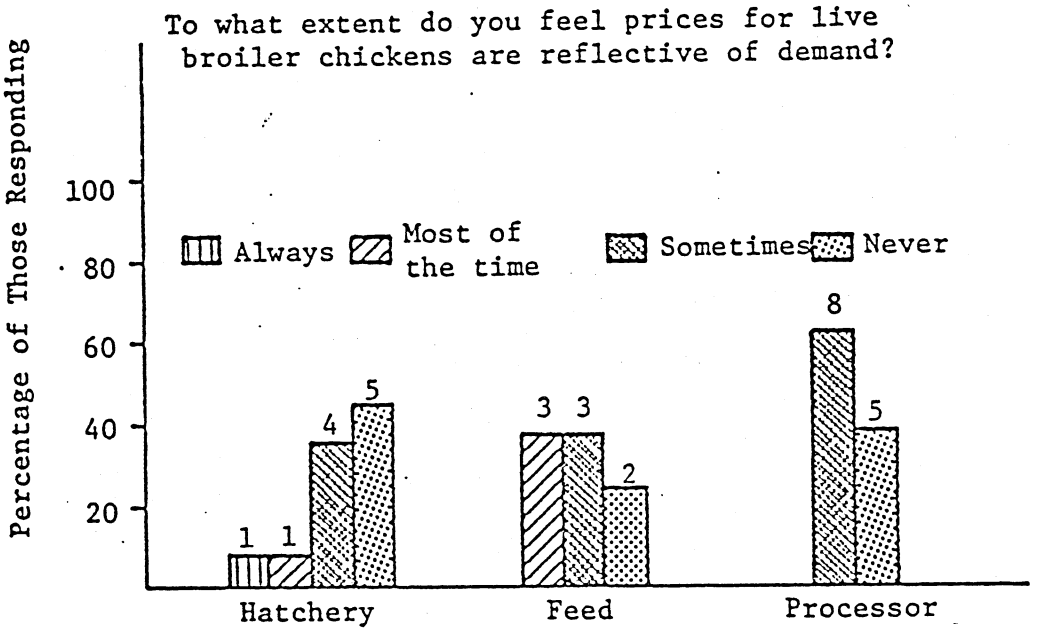
Of the twelve processors who responded to this question, eleven indicated that prices should be less stable. They maintained that a stable price at the farm level does not necessarily provide for stable retail prices. Although they recognized that retailers often adjust their mark-ups depending on how much chicken they wish to sell to the consumer, and that the marketing board has little influence over these practices, they argued that other factors affecting retail prices and demand for chicken are sensitive to marketing board actions and should be recognized as such by the board in its pricing decisions. Three factors which these processors mentioned were:

1. Chicken imported from outside Ontario supplements provincial supplies and applies downward pressure on demand for Ontario broilers;

2. Due to the competition of turkey meat at the Christmas and Thanksgiving holiday periods, and the strong demand for convenience and 'carry-out' foods such as Kentucky Fried Chicken during the summer months, there are some seasonal variations in demand for chicken meat; and

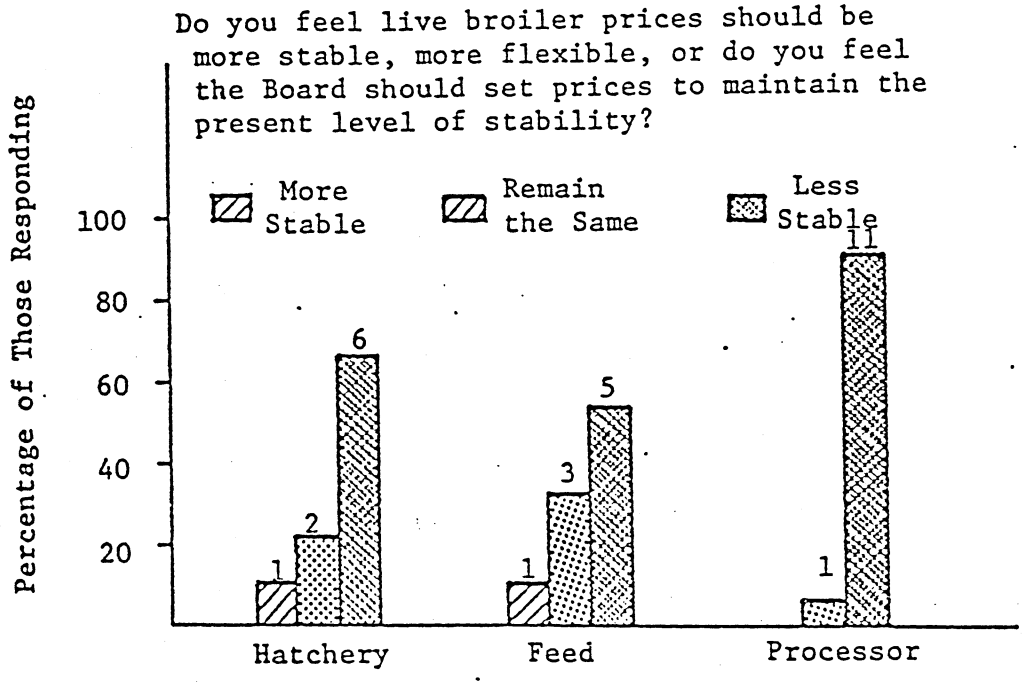
3. Price changes in competing meats such as pork, beef, and again, turkey, affect the demand and in turn, the market price for chicken relative to these substitutes.

Figure 3.3



Response Rate: Hatchery 11 of 11, Feed 8 of 9, Processor 13 of 14.

Figure 3.4



Response Rate: Hatchery 9 of 11, Feed 9 of 9, Processor 12 of 14.

Therefore, in the opinion of these processors, stable prices at the live broiler level can lead to instability of demand for Ontario broilers because the prices set by the board are not sufficiently flexible to account for price changes in competitive meats, the price of live or eviscerated imports, and the seasonal fluctuations in demand for chicken.

Six processors argued that the effects of instability of demand for Ontario broilers which results from 'too stable' live prices is being absorbed primarily at the processor level in that the processors are forced to buy Ontario grown birds at the price set by the marketing board and then sell the eviscerated chickens to retailers(30) at a much more flexible market determined wholesale price. When questioned further as to why they purchase the Ontario grown birds at a price which is presumably not reflective of current demand and supply conditions, they proceeded to explain the marketing board's quota allocation decision process and how processors have been locking themselves into purchasing Ontario grown broilers. The following is a brief description of this process as explained by the processors.

Every Ontario broiler grower owns a quota which entitles him to market so many pounds of chicken. The quota is based on square feet of space so that a grower who owns a basic quota of 40,000 is entitled to market at any time within a twelve-week quota period, one 4.5 pound chicken per square foot (or unit of quota) which equals 180,000 pounds live chicken, if the board decides that broiler production in that quota period will equal 100 percent of basic quota. However, if the board deems it appropriate, it may assign production levels at a percentage less than 100 percent, or it may issue 'secondary quota' which entitles each grower to produce a certain number of pounds above and beyond 100 percent of his basic quota.

About five months prior to the beginning of a quota period, the marketing board issues forms which list the various weight catgories of chickens which may be grown. These forms are normally sent to the processors, whose chicken procurement personnel, in turn, sign up growers to produce chicken for them in the desired weight categories. This form does not allow for specifying the number of pounds of

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(30) It was estimated by Don Murray, Poultry Division of Agriculture Canada, that approximately 25 percent of processed chicken is actually sold to the carry-out trade. It was learned elsewhere that production for this trade is normally through contracts which guarantee the processor a specified gross marketing margin, and that these contracts are held by several different processing establishments.

live chicken the processor requires, but only that he agrees to purchase the birds under that quota. When no form is signed, it is automatically assumed that the producer will grow chickens to be marketed at 4.5 pounds live weight. Both parties (producer and processor) sign the form and send it to the marketing board in time so that the board may assess the market requirements for various weight categories of chicken, and announce the percentage of basic quota (plus any secondary quota) at which growers may produce broilers.

It is important to note that before making a committment, the processor must anticipate (1) the price the board will set for live chickens the week they are to be picked up from the grower, (2) the price of eviscerated imports against which he will be competing, (3) the general outlook of demand for chicken four or five months in the future, and (4) the percentage of basic quota the board will decide to set for producers in that quota period. Thus the marketing board is free to decide on the poundage of live chickens to be produced after the processors have committed themselves to their suppliers. The processors said that the contractual obligation of both parties upon signing these forms was established in the Ontario Supreme Court in 1977. At that time a large processor, due to plant problems , was unable to pick up live chickens until they had grown above the weight category which had been signed in the form. When the court ordered the processor to pay the price per pound of the lighter chicken (which is higher than that for the heavier birds), the legal implications of the form were established, and both processors and producers now take the attitude that signing the form obligates the processor to purchase the grower's birds.

The processors were then asked why they continued to sign these forms with producers, and why they do not simply import chickens to satisfy all their needs. In response, they said they have been anticipating the introduction of a national marketing agency for broilers. This agency would allocate national shares of production and provide for control over the amount of imports which they believe will stabilize supplies. Therefore processors will continue to do business with their suppliers (producers) even if it means absorbing greater amounts of chicken than they originally desired, because they fear that competitors will pick up the available producers and these growers then would be lost as potential sources of supply when the national plan is implemented. In addition two processors said that the supply of U.S. or Quebec grown broilers is not infinite, and due to a shortage of hatching eggs in the U.S., imported supplies are becoming more scarce.

Through the course of the interviewing, it was learned that a procedure is available for processors to appeal the

marketing board's pricing and quota allocation decisions. The first step is to appeal to the chicken marketing board itself, although the processors claim that the board is naturally biased toward the decisions which are made.

If the results of this exercise do not satisfy the processor, they may then forward their appeal to the Farm Products Marketing Board. Some processors complained that because of a large producer representation (three of the six members are farmers), this agency also a natural tendency to favour the growers. However, it was learned that the appeal procedure did favour the processors on at least three occasions between 1975 and 1978, with quota percentages being reduced twice and prices rolled back once.

The data in Figure 3.4 shows that the hatchery and feed groups exhibited more variation in their views on the desirability of price stability than did the processors. Respondents were divided by the attractiveness of stable incomes of their customers on the one hand, and concern for the long-term competitiveness of the broiler industry on the other.

Regarding stability of producer incomes, four hatcheries (44.4 percent) and three feed manufacturers (33.3 percent) noted that writing off accounts receivable from broiler producers as uncollectable is virtually non-existent compared with pre-marketing board times. Two hatcheries (22.2 percent) and three feed concerns (33.3 percent) stated that it is easier to maintain their own prices for broiler production inputs when the producer's income is stable, and an additional three hatcherymen (33.3 percent) agreed that it is easier to make production and investment plans for the future given the knowledge that the producer is financially solvent. However, only one hatchery and one feed manufacturer indicated that prices should be more stable.

Six hatcheries (66.7 percent) and five feed companies (55.6 percent) who felt that live broiler prices should be more flexible, were concerned with the long-term prospects of the Ontario broiler industry. Respondents in these groups expressed some alarm at the growth of imports over the past three or four years. Because their own markets for chicks and feed were affected, they felt that the marketing board should be making some adjustments in the live prices it charges to meet this competition. Three feed manufacturers (33.3 percent) expressed dissatisfaction with the previously described situation of the processors absorbing the instability of demand for chicken. Two of these three feed manufacturers were vertically integrated with the processing sector.

3.2.3 Cyclical Nature of Live Prices

Although all 29 resondents agreed that a well defined cycle did exist before the marketing board was introduced, only one hatcheryman believed that live prices have become more cyclical since 1965; the other 28 indicated that prices are now less cyclical. In fact, 16 of these 28 (57.1 percent) added that there are no longer any cycles in live broiler prices since the marketing board obtained the power to determine prices late in 1967. Two hatchery and two feed representatives, however, complained that although the cycles in prices have been eliminated, there is still a great deal of instability in the amount of chicken that is produced within quota periods (i.e., producers may place their chicks any time during the twelve-week period).

3.2.4 Suggested Changes in the Board's Pricing Policy

As shown in Figure 3.5, the opinion that the marketing board's pricing policy should be changed to incorporate more considerations was shared by everyone except one hatcheryman. This was the same individual, who believed that live chicken prices are 'always' reflective of demand.

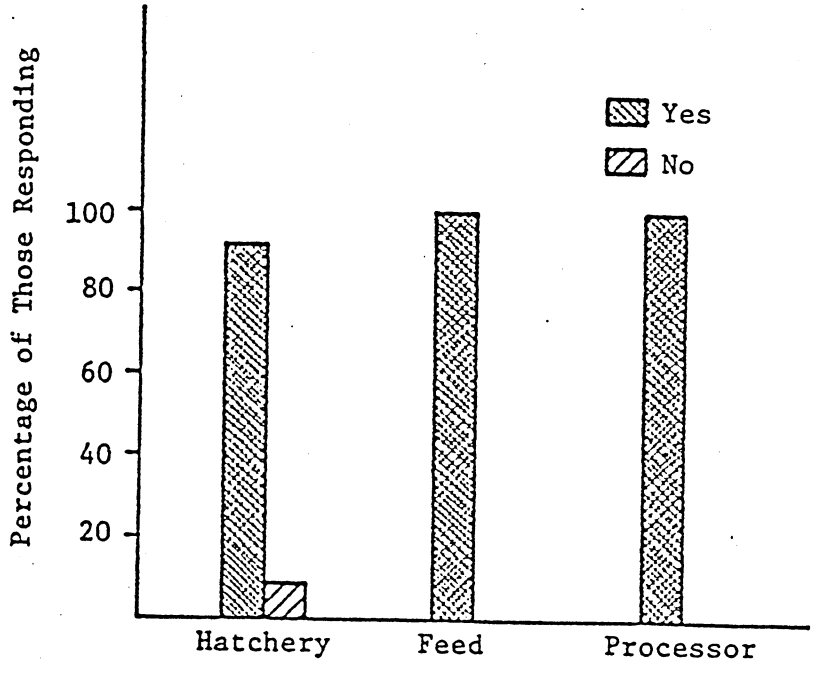
The considerations which the twenty-eight respondents felt should be incorporated into a revised pricing process are listed in Table 3.4. The feeling that the board should be giving greater consideration to current demand and total supply of broiler chicken was the most predominant and, in most cases, the first consideration mentioned by respondents. A frequent recommendation, especially by processors (80 percent), was the acceptance by the board of a more significant input into the pricing decision by other sectors of the broiler industry, including hatcheries, feed manufacturers and processors.

The factors which the marketing board actually considers, according to their Secretary-Manager are:

> "the cost (of production) study which is done on a continuous basis...An effort is made to return to the producer return on overhead, wages and a reasonable return on investment. Our objective has been 10 percent...frozen inventories are considered as a guide with respect to product flow. Overproduction or a drop in demand usually is reflected in increased storage figures...Supply therefore becomes a major consideration in determining price.(31)

Figure 3.5

Should the Marketing Boards pricing process be changed?



Response Rate: Hatchery 11 of 11, Feed 8 of 9, Processor 10 of 14.

Table 3.2

CONSIDERATIONS TO BE INCORPORATED INTO THE PRICING DECISION[1]

Consideration	Respondents by Sub-Sector							
	Hatchery		Feed		Processor		Total	
	No.	%	No.	%	No.	%	No.	%
1. Demand and Supply including imports, prices of red meats, and seasonal variations in consumption.	9	90.0	8	100.0	10	100.0	27	96.4
2. Increased input from other sub-sectors of the broiler industry.	2	20.0	3	37.5	8	80.0	13	46.4
3. Realistic cost of production formula.	1	10.0	-	--	2	20.0	3	10.7
4. React more quickly to changes in demand and supply.	-	--	-	--	2	20.0	2	7.1

[1] Some respondents gave more than one answer.

3.3 GROSS MARKETING MARGINS

Respondents were asked if gross marketing margins, net of inflation had increased, decreased, or remained the same since the introduction of the marketing board. In answering the question, many individuals divided the time period into the years leading up to 1974 and 1975 when imports became significant in number, and the time since this development.

Of the eleven responding processors, eight (72.7 percent) said that gross margins had increased or at least remained stable until the influx of imports, but as may be observed in Figure 3.6, all eleven indicated decreased gross margins net of inflation since the introduction of the board. This opinion is supported somewhat in Figure 3.7, which shows the trend of the difference between wholesale and live prices for broiler chickens at Toronto, the best proxy for processors' gross margins per pound of eviscerated chicken available. The wholesale price index as listed in the Bank of Canada Review increased from 257.2 in 1965 to 525.7 in 1976, a 104 percent increase. Available processor margins, on the other hand, increased only 90.2 percent from 8.2 to 15.6 cents per pound during the same period.

Approximately 60 percent of the responding hatcheries and feed companies maintained that their operating margins had increased since 1965, despite several references to the pressure on margins resulting from the loss of potential production (and demand for their inputs) since imports have increased.

The participants were then asked what effects these changes in gross margins had on their operations. Table 3.3 summarizes these changes and shows two consistent trends: (1) lower profitability in the processor sector, and (2) a decrease in bad debts as reported by approximately 40 percent of the hatcheries and feed companies.(32)

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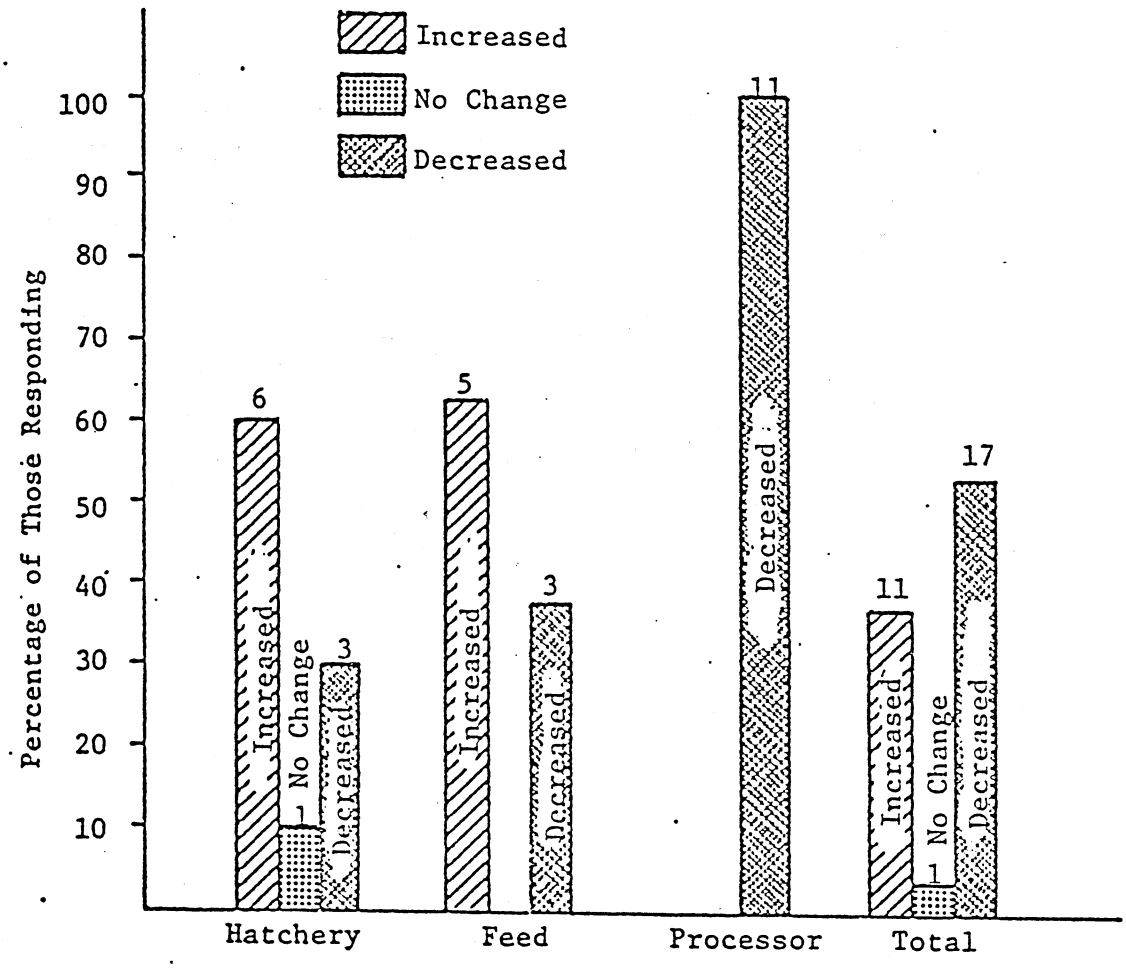
(31) Holiday, D.C. An Analysis of Economic Relationships and Performance in the Canadian Broiler Industry. Unpublished M.Sc. Thesis, University of Guelph, 1976, p.53.

(32) A 1977 research project, entitled "A Study to Determine Chicken Producer and Processor Costs in Ontrario and to Develop a Defensible Economic Pricing Formula for Live Chicken" was completed by P.S. Ross and partners. This study found that for the year ended December 31, 1976, the weighted average cost of processing chicken by nine plants accounting for 58 percent of Ontario processing volume, was 17.39 cents per eviscerated pound. This included (in cents per eviscerated pound):

Figure 3.6

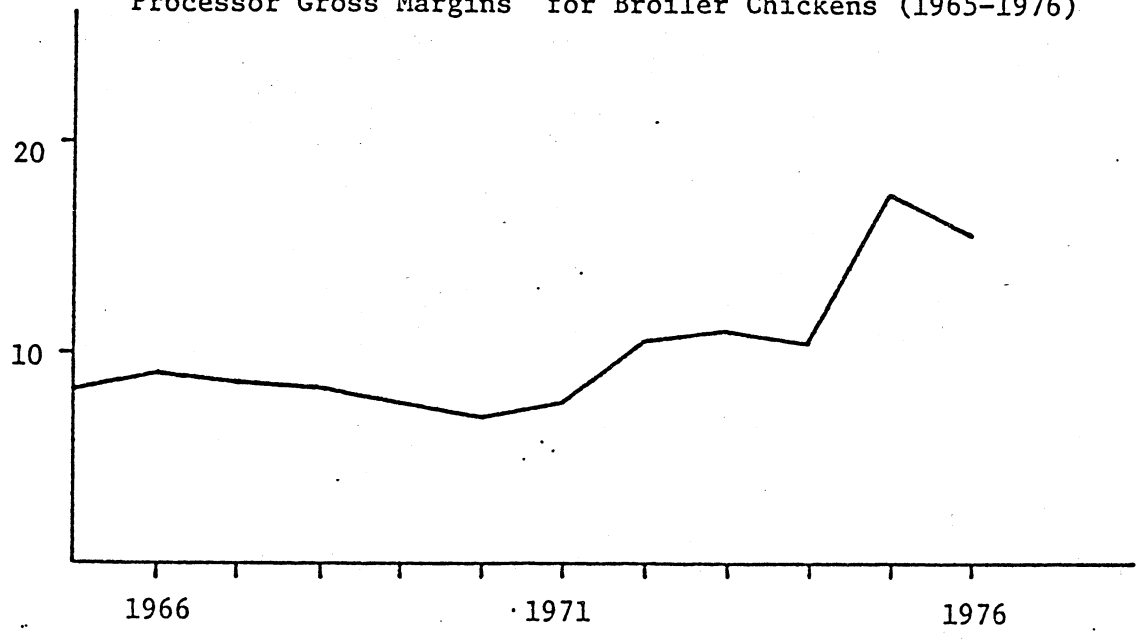
Have your gross marketing margins in general changed since the introduction of the Marketing Board?



Response Rate: Hatchery 10 of 11, Feed 8 of 9,
Processor 11 of 14.

Figure 3.7

Processor Gross Margins[1] for Broiler Chickens (1965-1976)



Source: Agriculture Canada, Poultry Market Review, (1965-1976)

[1] Determined by subtracting eviscerated equivalent of Live No.1 Price for Chickens under 5 pounds, from wholesale price for eviscerated chicken under 4 pounds - both at Toronto.

Less consistent results were observed with respect to services to customers where four processors, two feed manufacturers and three hatcheries reported an increase, and one hatchery, and three feed representatives indicated a decrease. The services most often mentioned were additional processing and special packaging for retail accounts by processors, and the furnishing of less technical information to producers by hatcheries and feed companies.

Finally, the respondents were asked which of these changes within gross margins were influenced by the pricing or any other powers of the marketing board. Two of the four hatcheries, two of the three feed companies, and all eleven processors reporting decreased profitability, attributed a large part of this problem to the marketing board's record of maintaining stable live prices at a level permitting an the influx of imported live and eviscerated chicken.

Decreases in bad debt expenses by the four hatchery and three feed representatives were attributed to the increased financial stability provided to producers by the board's price setting and quota allotment powers. Two hatcheries and one feed company reported that this development has enabled their profitability to increase above what it was before the marketing board was introduced.

The processors who indicated increases in services to customers attributed it strictly to the competition for retail and fast food trade accounts rather than to any influence of the marketing board. The majority of hatcheries and feed manufacturers who reported increased services described them as a means of procuring a greater share of the transactions with producers. They said that competition among themselves has become particularly keen due to a limited number of independent growers producing an amount of chicken constrained by the marketing board's quota policies, and the phenomenon of imports which have claimed a significant share of the Ontario demand for chicken.(33)

Live haul	1.46
Variable Processing and Plant	10.51
Fixed Processing and Plant	1.30
Sales, General And Administrative	2.08
Distribution	2.04
	17.39

The average gross processor margin available to cover these costs in 1976, as indicated by the difference between the eviscerated equivalent of the live price and the wholesale price at Toronto was 15.6 cents.

(33)Three hatcheries said that of the approximately 800

Table 3.4 classifies firms in the hatchery and feed sectors by size and changes since the introduction of the board. Processors were not included because all eleven indicated decreased gross margins. It appears that in both sectors, a greater proportion of large firms than of smaller ones have, on average, enjoyed increased gross margins. This might be partly explained by the fact that three of the four large feed companies and three of the four large hatcheries which reported increased gross margins are also integrated to the farm level, and may charge higher transfer prices for chicks and feed delivered to their own farms. On the other hand, because these firms are large, their volume of business is large and they may be able to procure raw materials at discounts (or in some cases, own their supplies of raw materials) which are not available to smaller establishments, thereby allowing for larger margins with which to cover their own production costs and overhead.

Processors were asked if their gross marketing margins had in general been more stable since the board acquired the power to set prices in 1967. As may be seen in Figure 3.8, ten of the eleven respondents believed that the average duration of ups and downs in gross processor margins was longer, and eight of the ten said that the average duration of periods of depressed processor margins has increased more than the duration of above-average gross margins. They also added that they currently were undergoing the longest period of depressed margins that they had ever experienced.

3.4 IMPORTING LIVE CHICKENS

Processors were asked if they had become involved in the importation of live chickens from outside Ontario. Figure 3.9 shows that eleven of the fourteen processors (78.6 percent) have, at times, imported live broilers.

The most commonly encountered reason for importing was, surprisingly, not a favourable price differential (four of the eleven cited this factor), but a shortage in supply of particular sizes of chicken (reported by 10 of 11 importers). They emphasized the heavier broilers (called roasters but which are actually broilers weighing more than 5.5 pounds) for which they claim the board does not encourage sufficient production.

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registered chicken producers in Ontario as of the end of 1976 (87 are reported in the 1976 annual report of the Ontario Chicken Producers Marketing Board), only about 300 are not owned by integrators or tied up in 'package deals'.

Table 3.3

WHERE HAVE CHANGES BEEN MADE TO ACCOUNT FOR CHANGES IN MARGINS?

Sub-sector	Changes Identified by Respondents[1]															
	Services				Quality		Promotion		Profit Margin				Bad Debts		Technical Efficiency	
	Increase		Decrease		Increase		Decrease		Increase		Decrease		Decrease		Increase	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Hatchery	3	30.0	1	10.0	1	10.0	-	--	2	20.0	4	40.0	4	40.0	2	20.0
Feed	2	25.0	3	37.5	1	12.5	-	--	1	12.5	3	37.5	3	37.5	-	--
Processor	4	36.4	-	--	-	--	1	9.1	-	--	11	100.0	-	--	-	--

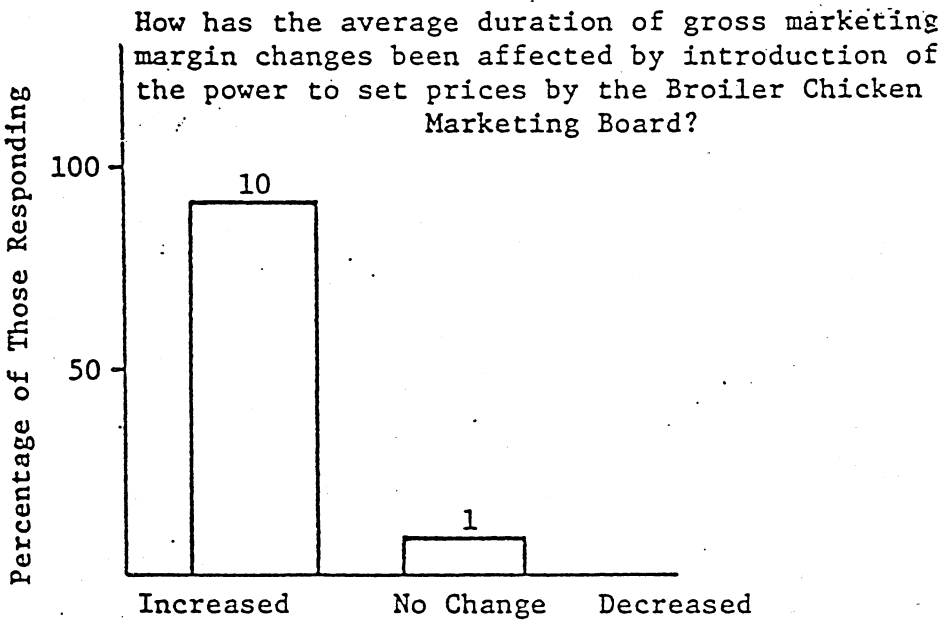
[1] Some respondents reported more than one change.

Table 3.4

CHANGES IN MARGINS FOR LARGE AND SMALL HATCHERIES AND FEED MANUFACTURERS

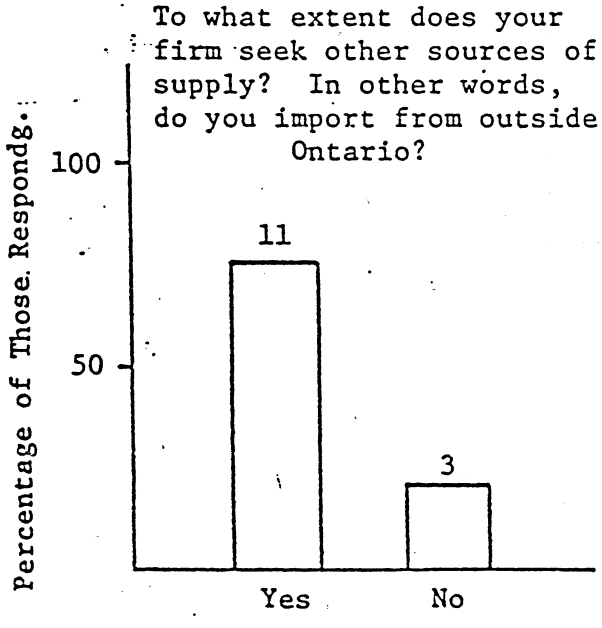
Sub-Sector by Size	Reported Change in Gross Margins					
	Increase		No Change		Decrease	
	No.	%	No.	%	No.	%
Hatchery	6	60.0	1	10.0	3	30.0
Large	4	80.0	-	--	1	20.0
Small	2	40.0	1	20.0	2	40.0
Feed	5	63.0	--	--	3	37.0
Large	4	100.0	-	--	-	--
Small	1	25.0	-	--	3	75.0

Figure 3.8



Response Rate: Processors 11 of 14.

Figure 3.9



Response Rate: Processors 14 of 14.

Two of the importing processors reported that they are doing this to keep an option open in the event of a national chicken marketing agency. They anticipate that the import controls, which they feel would subsequently be applied, would bestow on those persons who had imported in the past, the rights to continue importing in the future. Similar to the quota which Ontario growers must own to produce chicken, these rights could assume a market value if a demand for imports continued after controls were imposed.

Of the three processors who said that they do not import, one said that it is actually more expensive to procure live American broilers because of the tariff, brokerage and transportation charges. Another said that his company has too great an investment in the hatchery, feed, and processing sectors in Ontario and feels support must be given to domestic producers. This feeling is likely shared by several other processors who import very little.

A substantial proportion of the importation of live chickens has been carried out mainly by one large independent processor, and to a lesser extent, another smaller independent. It is believed that the consistent importation by only one or two processors would indicate that the maintenance of a record of importing in order to obtain import quota in the event of a national agency may very well be as important a factor for imports as any favourable live price differentials or the unavailability of certain sized chickens.

3.5 INTER-SECTOR RELATIONSHIPS

The next part of the questionnaire examined the ways in which the introduction of the marketing board may have influenced the mechanisms employed by hatcheries, feed manufacturers, and processors in conducting business with broiler growers. These mechanisms include integration with the farm or other sectors, contracting and/or providing financial assistance for the grower's production, and personal selling unaccompanied by contractual obligations. The first part of this section looks at the mechanisms between the respondent's firm and the farm level, while the second part is oriented to the vertical relationships between the respondent's company and other sectors considered in this research.

3.5.1 Arrangements with the Farm Sector

Table 3.5 shows that the arrangements between each sector and the farm level have been altered in more cases in the feed industry than in the hatchery or processing segments. As compared with seven hatcheries and eight processors, only two feed representatives reported that they had not changed the arrangements which they employ to transact business with broiler growers since the marketing board was introduced. Although three hatcheries, four feed companies, and three processors reported increased integration with the farm level, there were actually only five corporate entities involved when firms represented in more than one sector were accounted for. Two completely integrated firms were included in each of the three sector samples and one other company was represented in two sectors. For three of these integrators, increases in farm ownership were a continuation of trends which began before the introduction of the marketing board. All three responded that they would have continued to increase ownership interests at the farm level if the marketing board had not applied a prohibition to increasing ownership of broiler quota above 75,000 basic units, a figure exceeded by each of these companies at the time the board's rule was applied.(34) One other feed representative said that his company bought into broiler farms in order to guarantee a market for feed. The fifth firm, which reported an increased level of integration into the farm sector obtained its quota through corporate reorganization. After accounting for an integrated company with representation in each sector, five firms reported that an increased proportion of their business arrangements with the farm sector is in the form of open market transactions. This compares with the three firms which indicated a decreased significance of personal selling since the introduction of the marketing board.

Both contracting and financing of broiler production have decreased markedly according to the representatives of seven separate companies. Three of these companies compensated for the decrease in contracting and financing with increased ownership in broiler farms, and the other four through an increase in the proportion of open market transactions. The

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(34) The maximum basic quota which may be accumulated for one farm or premise is 35,000 units, or at one 4.5 pound chicken per square foot, 157,500 pounds of chicken. One representative of an integrated company with broiler farms, stated that their smallest farm is attached to a basic quota of slightly more than 35,000 units, and that this farm is their least efficient in that there is not enough work to maintain the services of one man full-time.

Table 3.5

CHANGES IN METHODS OF PROCUREMENT OF MARKETS OR IN THE ACQUISITION OF SUPPLIES

Change in Method	Respondents by Sub-Sector							
	Hatchery		Feed		Processor		Total	
	No.	%	No.	%	No.	%	No.	%
No Change	7	63.6	2	22.2	8	57.2	17	50.0
Change	4	36.4	7	77.8	6	42.9	17	50.0
More Open Market Transactions More Personal Selling	1	9.1	3	33.3	3	21.4	7	20.6
Less Open Market Transactions Less Personal Selling	1	9.1	2	22.2	3	21.4	6	17.6
More Contracting	-	--	-	--	1	7.1	1	2.9
Less Contracting	3	27.3	4	44.4	3	21.4	10	29.4
More Vertical Integration with the Farm Level	3	27.3	4	44.4	3	21.4	10	29.4
Less Vertical Integration with the Farm Level	1	9.1	2	22.2	1	7.1	4	11.8
Less Financing	3	27.3	4	44.4	-	--	7	20.6
Total Number Reporting	11		9		14		34	

[1] Respondents often indicated more than one change.

respondents explained the decrease in financing by the increased stability and adequacy of incomes provided to producers through the marketing board's pricing and quota allocation powers. This financial stability has encouraged some growers to become independent of the production contracts that were so common before the marketing board was introduced.(35)

On the processor side, one firm reported an increase in the number of contracts it undertakes with growers and another stated that as few as 25 percent of the presently operating broiler growers are either independent of contracts or ownership by integrators, or sufficiently motivated to shop around for the best deal on chicks, feed, and processing. Therefore, a contract guaranteeing a market for their birds saves a lot of worry for them and is still an important instrument for many hatchery, feed, and processing firms.

As the interviewing progressed, it was discovered that a type of arrangement which exists between producers and independent (non-integrated) firms within the other three sectors considered in this study was not accounted for in the design of the questionnaire. Under this type of arrangement, an independent processor may recommend to the producer that he purchase feed and/or chicks from other independent hatcheries and feed companies with which the processor has working agreements. This phenomenon may be called vertical co-ordination rather than integration between sectors, and while the increase or decrease of this arrangement was not measured by this study, it is felt that it is presently a very significant means of transactions in the Ontario broiler industry.

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(35) It is important that the distinction be made between what most respondents refer to as contracts, and the previously mentioned forms which producers sign with processors before each quota period. Although the courts have established the contractual obligation of the forms, most respondents do not identify them as the equivalent of a contract which states that the grower will produce a specified number of pounds of live chicken, and which may also include the provision that the grower purchase feed and/or chicks from the hatchery and feed operations of the company, or the associated firms with which working agreements exist.

Table 3.6

HAVE THE ADVANTAGES OR DISADVANTAGES OF INTEGRATION WITH OTHER SUB-SECTORS (BESIDES THE FARM LEVEL) CHANGED SINCE THE INTRODUCTION OF THE BROILER MARKETING BOARD

Advantages and Disadvantages	Respondents by Sub-Sector							
	Hatchery		Feed		Processor		Total	
	No.	%	No.	%	No.	%	No.	%
Still Advantages								
1. Package deals of feed, chicks and processing are attractive to some growers and promote business for and permit maximum utilization of facilities in the three sub-sectors.	8	72.7	2	22.2	7	50.0	17	50.0
2. Less selling expenses	-	--	1	11.1	-	--	1	2.9
3. In times of surplus chicken is hard for independent to promote business without the package deal which quarantees a market for birds	1	9.1	1	11.1	2	14.3	4	11.8
Still Disadvantages								
1. Don't want to get locked into buying any particular growers birds - want to be able to buy any one's	-	--	-	--	1	7.1	1	2.9
2. No advantages to integration	-	--	1	11.1	1	7.1	2	5.9

Table 3.6 (Continued)

Advantages and Disadvantages	Respondents by Sub-Sector							
	Hatchery		Feed		Processor		Total	
	No.	%	No.	%	No.	%	No.	%
Now Disadvantages								
1. Many growers and the board favour independents	2	18.2	-	--	2	14.3	4	11.8
2. Less opportunity for innovative package deals - can't introduce anyone to broiler industry anymore because growing sector is now so tightly controlled	-	--	2	22.2	-	--	2	5.9
3. Is no good unless you can control farms - board has put limit on ownership of quota - can't put in chicks and take out finished birds when you want any more	1	9.1	1	11.1	2	14.3	4	11.8
4. Processing is a burden - loses money often	2	18.2	4	44.4	-	--	6	17.6
5. Hard to justify the investment in any sector besides farm level	-	--	1	11.1	1	7.1	2	5.9
6. Processor is more independent of feed and hatchery operations now	-	--	-	--	1	7.1	1	2.9

[1] Some respondents gave more than one explanation.

3.5.2 Arrangements with Other Sectors

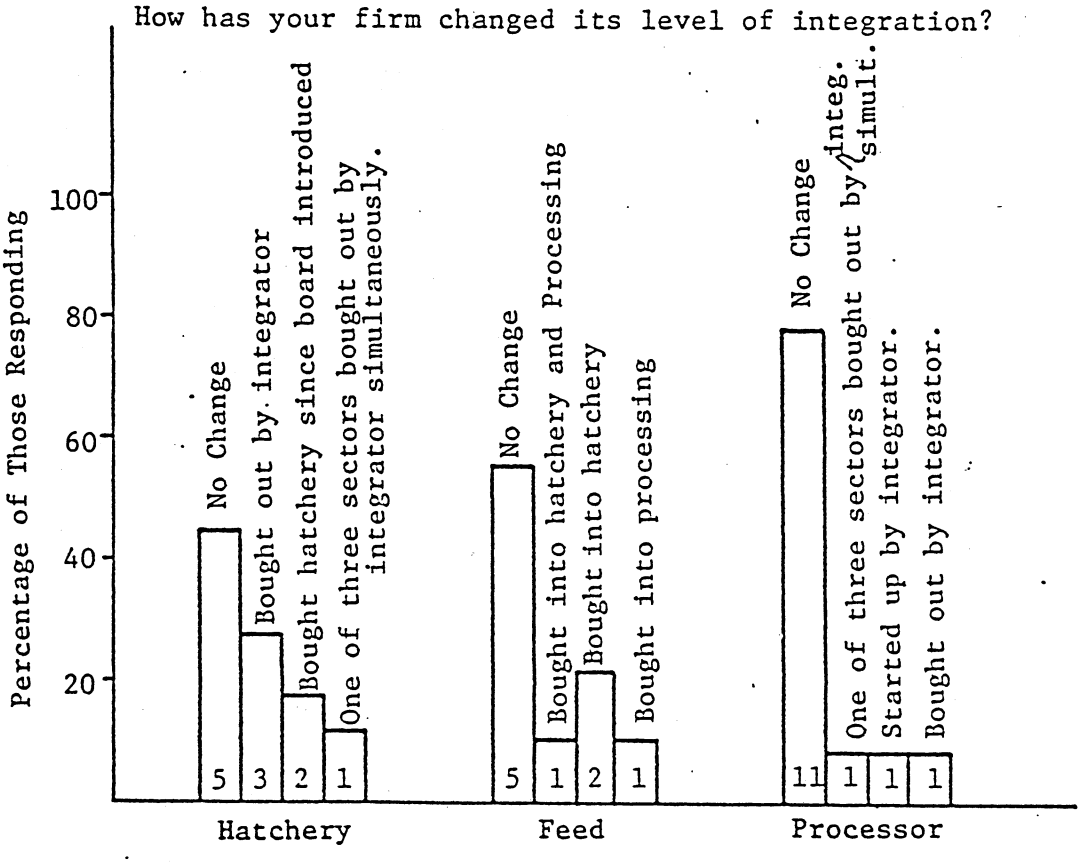
Respondents from each sector were asked if the advantages and disadvantages of integration with the other two sectors (excluding the farm sector) had changed with the introduction of the broiler marketing board. The answers to this question are summarized in Table 3.6.

According to the hatcheries (72.7 percent) and processors (50 percent), the 'package deal' of offering chicks, feed, and a market for the finished birds continued to be an attractive feature of integration with the other two sectors. Feed manufacturers specified decreased selling expenses, and opportunities for innovative package arrangements where new growers can be introduced to the industry as advantages of vertical integration, but included investment in the processing sector as a disadvantage.

Four independent company representatives said integration is perceived as being beneficial when a surplus of broilers exists. At this time integrators attempt to encourage growers to deal only with their inputs and processing to ensure a market for their birds. On the other hand, two hatcheries and two feed manufacturers maintained that many growers prefer to conduct business with independents, who like themselves (the growers), are specialized in only one activity. The growers assume, therefore, that they will receive the best in service so that the independent may retain their account. These firms also said that in the past the marketing board has openly encouraged producers to deal wth independents, but did not specify the avenues which the board used to express this encouragement.

The actual changes in integration through ownership with sectors other than the farm level are reported in Figure 3.10. The least active industry segment in terms of changes in integration was the processor group where eleven representatives (78.6 percent) reported no changes since the implementation of the marketing board. No processor or hatchery initiated any purchase or started up a plant in another sector. This activity was carried out only at the feed level where one feed manufacturer started up a processing plant, another purchased a hatchery and processing plant from a different company, and two others purchased existing hatcheries. One of these latter two feed manufacturers had purchased processing facilities before the marketing board was introduced, and the other stated that for a number of years his company had sought an opportunity to become involved in chicken processing but for a variety of reasons was never able to realize this goal. He added that they are pleased today that the oppportunity never materialized because of the lack of profitability which the respondent perceived as existing in the processing sector.

Figure 3.10


How has your firm changed its level of integration?
Percentage of Those Responding
100
80
60
40
20
No Change
Bought out by integrator
Bought hatchery since board introduced
One of three sectors bought out by integrator simultaneously.
5
3
2
1
No Change
Bought into hatchery and Processing
Bought into hatchery
Bought into processing
5
1
2
1
No Change
One of three sectors bought out by integ. simult.
Started up by integrator.
Bought out by integrator.
11
1
1
1
Hatchery
Feed
Processor

3.6 MARKETING STRATEGY

The term 'marketing strategy' is employed here to include all those activities a firm uses to create and satisfy the demands of its customers. Included are the price and promotional strategies used by the firm in demand creation, and the features and services associated with its products to satisfy this demand. Marketing strategy also includes the search for and development of new markets for existing products, development of new products, inventory policy, and diversification into other products and markets. This section reports the results obtained from those questions which explored the implications of the presence of the marketing board on the area of marketing strategy.

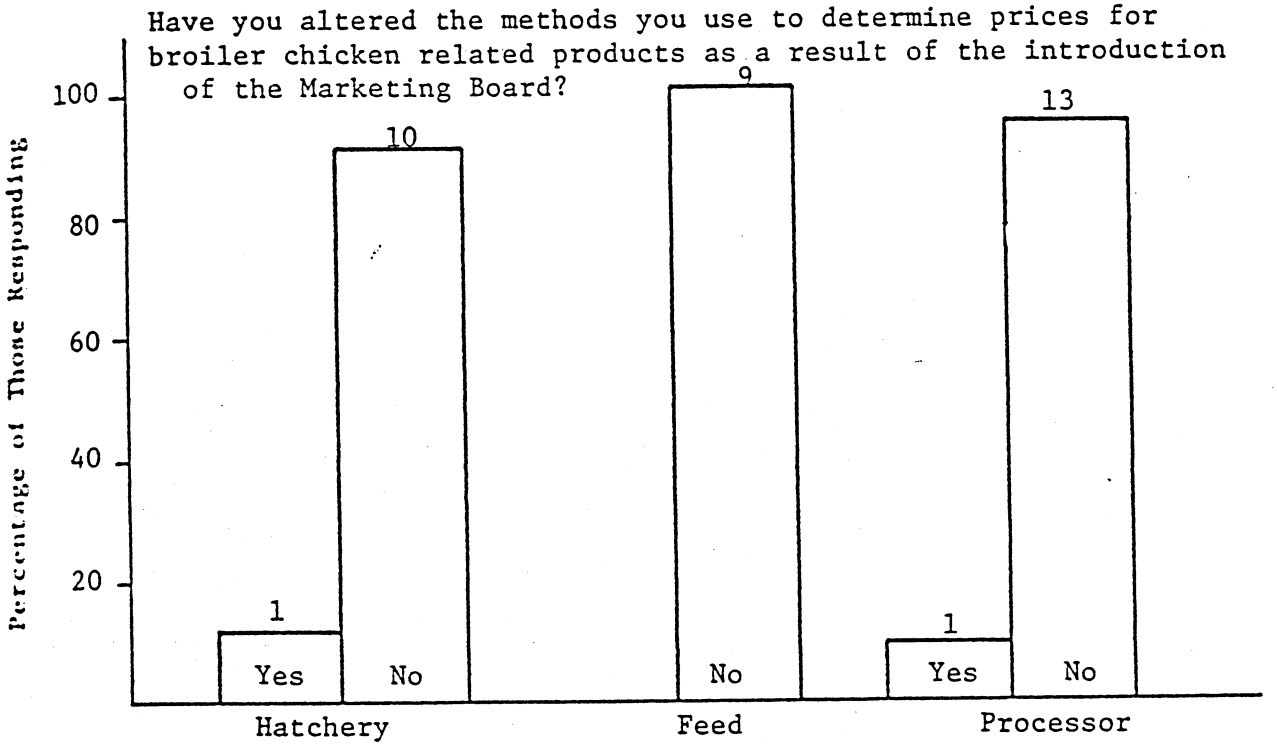
3.6.1 Pricing Policy

As may be observed in Figure 3.11, only one hatchery and one processor indicated that the introduction of the board has in any way affected the method they employ to determine their prices. Six hatchery, two feed, and nine processor representatives maintained that competition, and not the marketing board, sets prices for their products. The one processor answering the question affirmatively said the marketing board has affected his pricing process indirectly by allowing imported live and eviscerated chicken to compete with Ontario products and apply downward pressure on his prices in order to maintain a share of an already reduced market for Ontario grown and processed broilers.

The hatchery man who gave an affirmative answer attributed the change to the fact that his hatchery now produces chicks almost exclusively for the growing operations of its integrated owner, and that they enjoy a certain degree of isolation from industry competition.

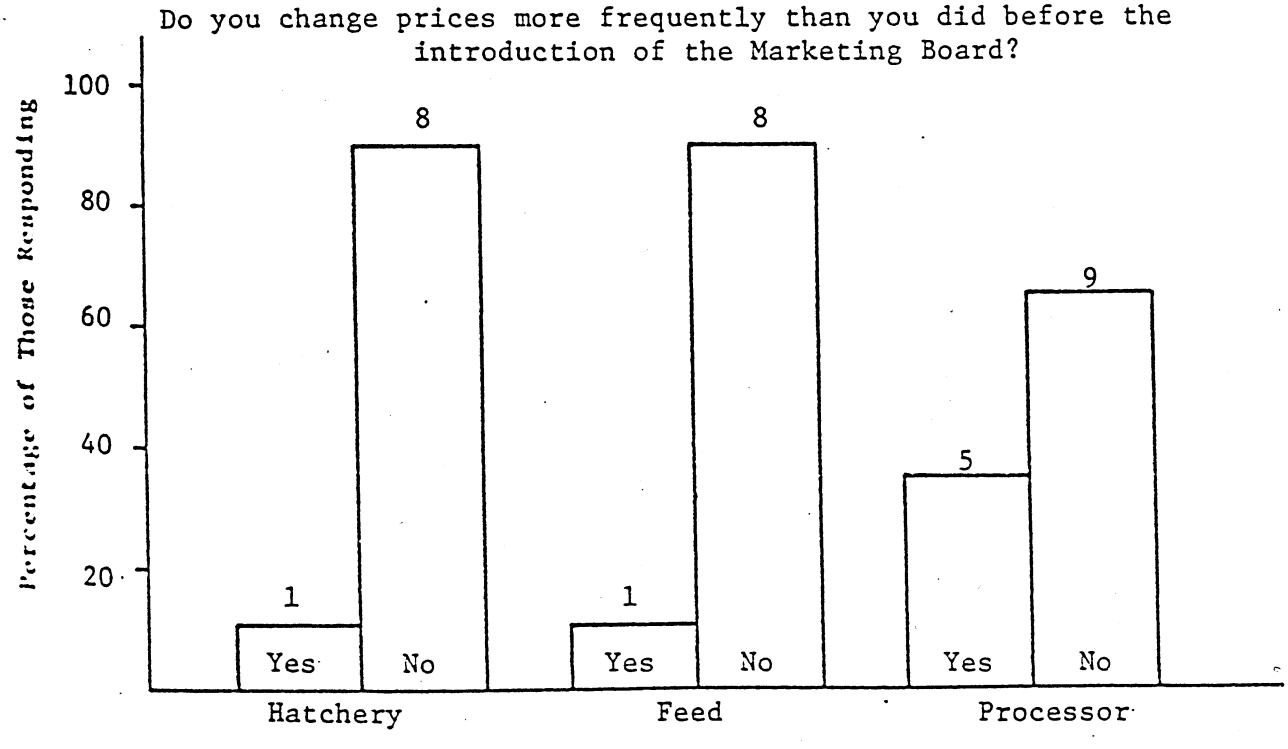
The interviewees were asked whether they changed their prices more or less frequently than before the marketing board was introduced. As may be observed in Figure 3.12, only one hatchery and one feed manufacturer reported changing prices more frequently, and both attributed this phenomenon to the increased competition to supply production inputs for a constrained number of broiler growers. Another five hatcheries said, however, that it is this same competition which has kept prices very stable. They reported that they had not been able to increase their prices for three years despite significant increases in their own fuel and labour costs. They attributed this phenomenon to the presence of competitors who, like themselves, do not see the Ontario broiler industry growing in terms of output or number of growers; and being afraid of losing a customer to another hatchery, they are reluctant to raise prices.

Figure 3.11



Response Rate: Hatchery 11 of 11, Feed 9 of 9, Processor 14 of 14.

Figure 3.12



Response Rate: Hatchery 9 of 11, Feed 9 of 9, Processor 14 of 14.

Most feed companies reported that movements in feed prices are explained more by price movements for broiler feed components such as corn and soybeans than by other factors. Four feed representatives added that prices among feed companies have been more closely matched than they were in premarketing board years, or even until 1970, after which the growth in broiler production levelled off. They said that before 1970, growth in broiler feed sales was attributable primarily to growth in broiler production but that to increase sales now requires stealing existing growers from competitors. The other four responding feed representatives, however, answered that the marketing board simply was not a factor in their pricing decisions.

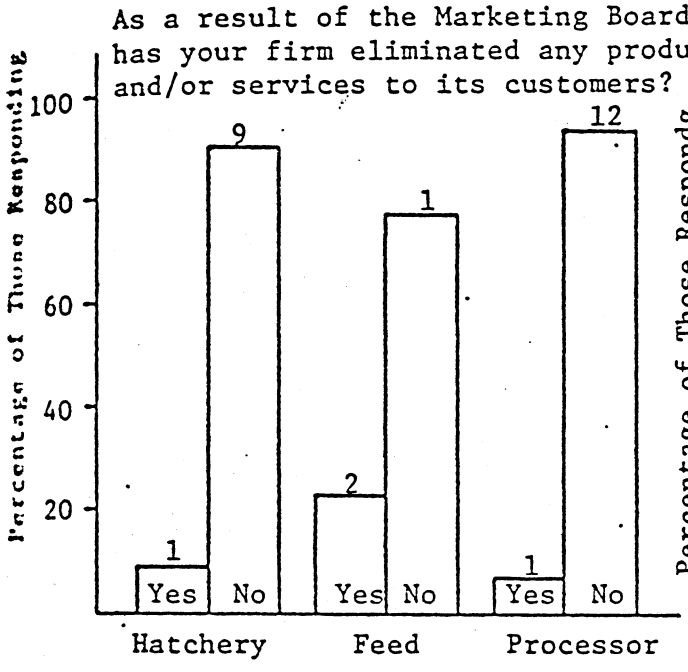
Of the five processors who reported changing prices more frequently, two said that this was because of competition with imported eviscerated chickens, and the other three attributed it to competition in general.

3.6.2 Product Policy

When asked if the introduction of the marketing board had been a factor in any decisions to introduce, eliminate, or alter any of their products, the answers in most cases were negative. As may been seen in Figures 3.13.1, 3.13.2, and 3.13.3, very few product or service changes have been attributable to the presence of the board. The one hatchery and two feed respondents represented in Figure 3.13.1 as answering affirmatively said that services have decreased because the financial stability the board has provided growers has precluded the need for the provision of credit and technical assistance which often were furnished to protect investments and accounts receivable held with the growers. On the other hand, two hatcherymen who are represented as answering affirmatively in Figure 3.13.3, said that grower independence has forced them to increase the level of services in order to retain certain grower accounts.

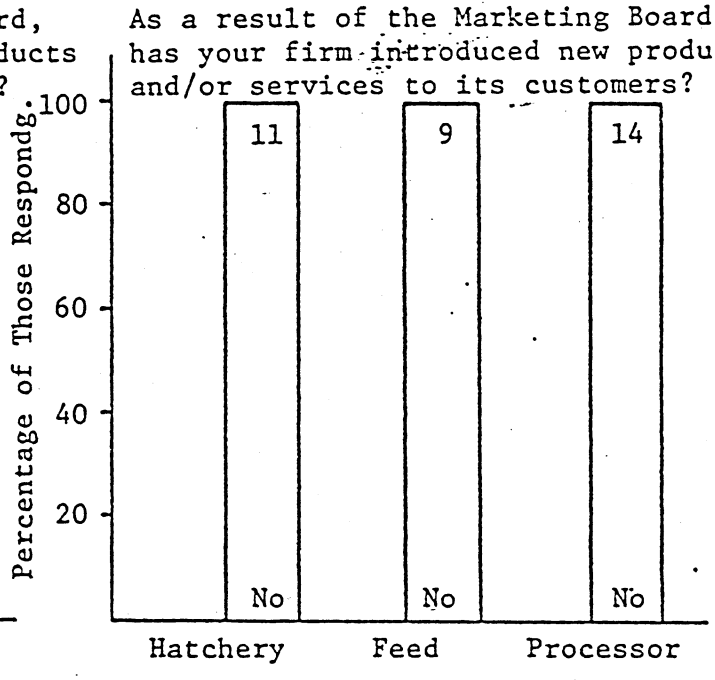
The processors were asked whether they had observed any change in the quality of live broilers or their own products since the marketing board was instituted. All fourteen processor representatives addressed this question, and eleven reported no change. The other three said live broiler quality had deteriorated because of the greater number of undergrades received. Eleven respondents emphatically stated that there should be a grading system. They said that the present arrangement provides no incentive for growers to supply a higher quality product because everyone receives the same price per pound for a particular weight category, regardless of the grade at which the chicken will "dress out".

Figure 3.13.1



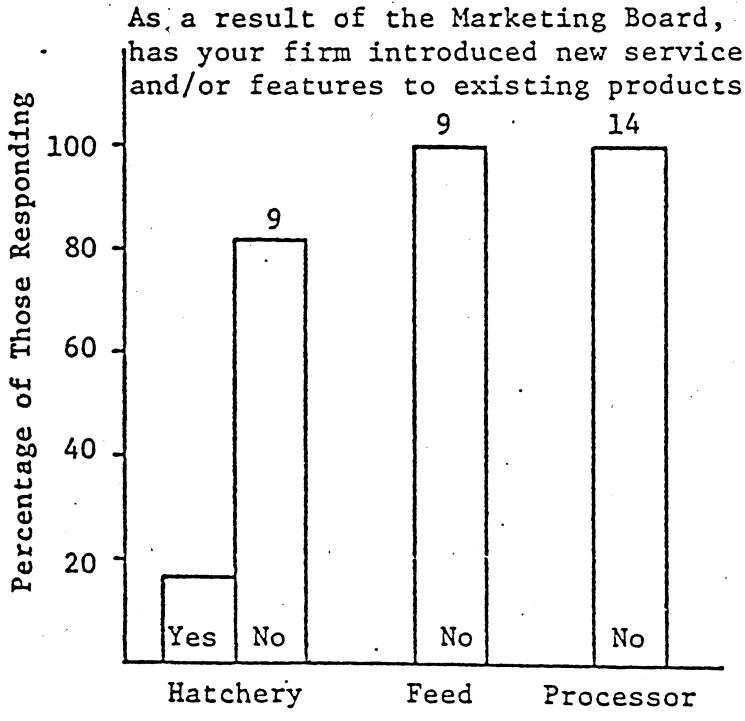
Response Rate: Hatchery 10 of 11
Feed 9 of 9
Processor 13 of 14

Figure 3.13.2



Response Rate: Hatchery 11 of 11
Feed 9 of 9
Processor 14 of 14

Figure 3.13.3



Response Rates: Hatchery 11 of 11
Feed 9 of 9
Processors 14 of 14

When asked if the quality of their chicks or feed had changed as a result of the marketing board, two feed manufacturers reported that the financial stability and profitability growers now enjoy enable them to demand a higher quality feed. Another feed manufacturer said that there is "no Cadillac of feeds anymore" and that price now has to sell the feed because of the lack of real differences in quality. No hatcheryman indicated any changes in quality which could be attributed to the presence of a marketing board, and six hatchery representatives said that the quality of chicks is determined by the primary breeders, the majority of whom operate outside of Canada and away from the influence of marketing boards.

3.6.3 Research

All respondents were asked if their firm was engaged in any research activities, and if so, whether these activities were affected by the institution of a marketing board. Two hatcheries (18.2 percent), four feed manufacturers (44.4 percent) and four processors (28.6 percent) reported that they or their parent firm were engaged in broiler chicken related research, but only one respondent, a processor, indicated that their research activities had increased as a result of the board. This interviewee said that the gross margin squeeze that the board had applied to them by setting unrealistically high prices had encouraged them to look for more end uses and by-products to maximize the revenues derived from the processed bird.

As indicated in Figure 3.14, all three sectors were divided in their opinion of whether the marketing board should increase its present level of involvement in research activities. Of those that substantiated their answer of 'no', the three feed manufacturers and five processors said the marketing board was not sufficiently exposed to the actual marketing of their commodity to ascertain marketing research priorities. Four of the six hatcheries which answered negatively, said that the breeders do all the necessary research into broilers.

Five hachery, six feed, and five processor representaives recommended that the board become more involved in marketing research, including investigation of the attitudes the attitudes and purchasing behaviour of consumers. One hatchery, one feed, and three processor respondents urged that the board finance more research into improved broiler production methods. Finally, one feed representative maintained that any research is good for everyone involved in the industry.

3.6.4 Promotion

The respondents were initially asked if their firm is or has been involved in promotion and, as may be seen in Figure 3.15.1, at least 50 percent and up to 87.5 percent of the firms in each sector have or have had promotional programs. As Figure 3.15.2 shows, only one processor representative reported that the marketing board has had any effect on these programs. This respondent said that some of his firm's promotional dollars were replaced by the marketing board's promotional activities, and did not specifically promote chicks or processed broilers; however, they were included as firms engaged in promotion. Four of the processors claimed that chicken is a commodity and, therfore, consumers do not identify with any partiular brand names of fresh or cut-up chicken at the retail store. As a result, promotion of anyone's brand of fresh chicken would be superfluous. They added that retail stores enjoy this situation because it allows them the flexibility to handle any processor's broilers without denying the consumer any of his favourite brand names.

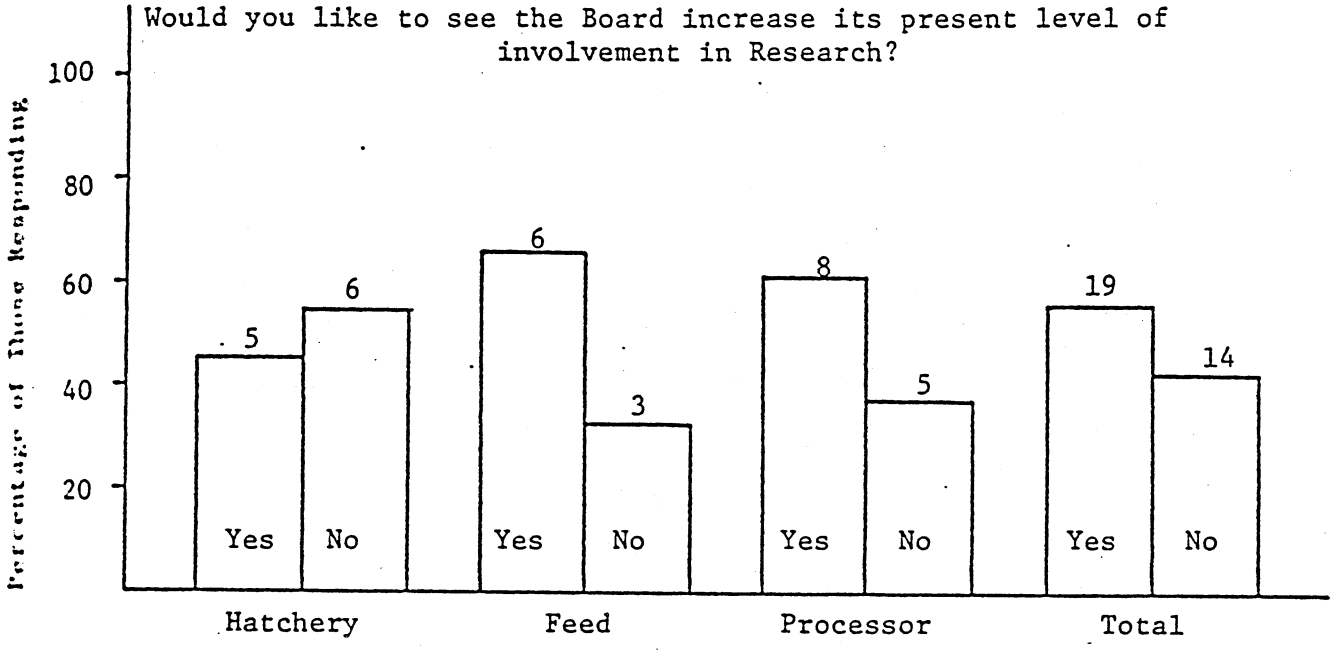
When asked if they benefitted from any of the marketing board's promotional activities, the answer from all nine responding hatcheries, five of the six feed manufacturers, and ten of the eleven processors was 'no'. The same processor who previously stated that some of his promotional dollars have been replaced by the board's campaign, reiterated this point. The feed representatives who answered affirmatively said that "any promotion is good for the industry as a whole". Two feed and four processor representatives questioned whether the marketing board even undertakes any promotion.

As may be seen in Figure 3.16, only a few hatchery or processor representatives were in favour of more co-operative promotion between themselves and the marketing board, while responding feed managers were equally divided on this issue. The seven processors whose response was negative felt that the poor relations between the marketing board and the processors are not conducive to such co-operative ventures. Three of the five hatcheries and the three feed representatives who did not favour co-operative promotion felt that they were too far removed from the consumer to justify any investment in the promotion of chicken.

3.6.5 Market Development

When processors were asked if they were seeking new markets for broiler chicken products as a result of the introduction or presence of the marketing board, all fourteen

Figure 3.14



Response Rate: Hatchery 11 of 11, Feed 9 of 9, Processor 13 of 14.

Figure 3.15.1

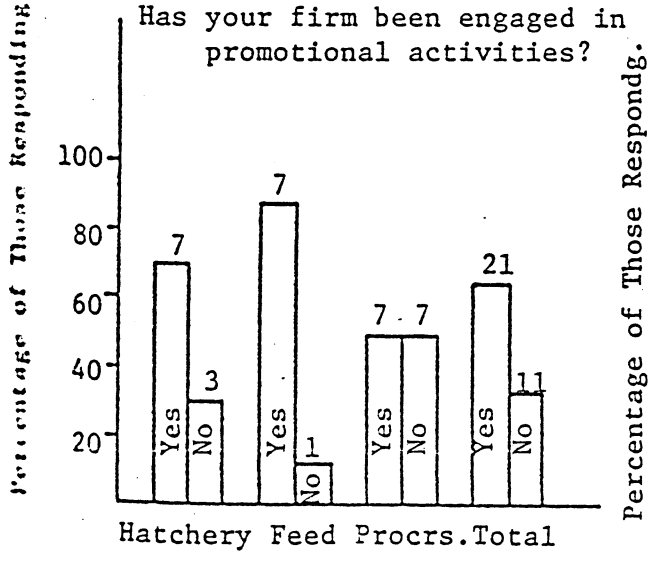
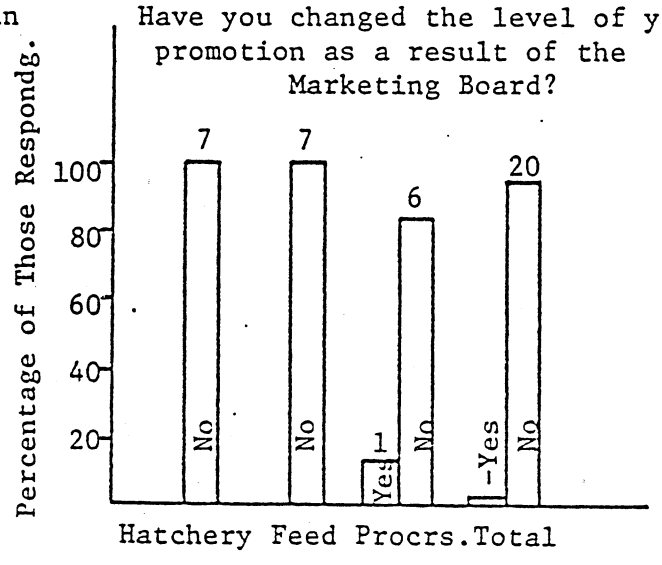


Figure 3.15.2



Response Rate: Hatchery 10 of 11
Feed 8 of 9
Processors 14 of 14.

processors replied that they were not. Seven of them said that Ontario chicken is not competitive with respect to price anywhere outside of Canada.

The processors were also asked whether they knew of any actions of the board to search for new markets, either inside or outside of Canada. Of the twelve individuals who answered the question, eleven said they knew of no board activity in searching for new markets and the other said that if the board heard of anything, it would pass this information along to the processors. Six respondents replied that the personnel working within the marketing board are not sufficiently familiar with the retail and consumer levels of the marketing system to become involved in the area of new market development.

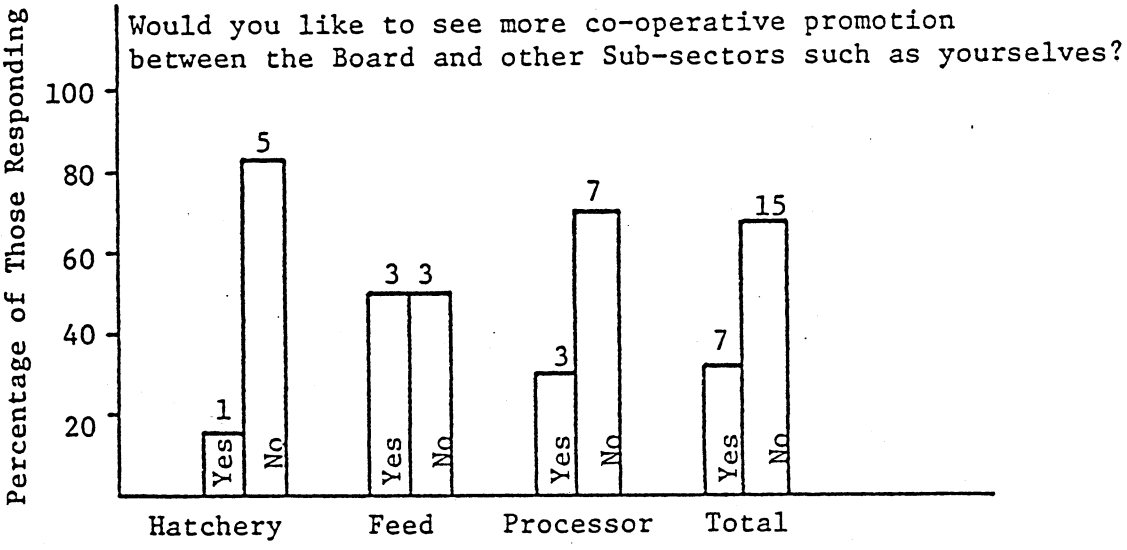
A surprising number of individuals responded to the questions with what ostensibly was an industry credo: "The marketing board should be called a production board, not a marketing board. They have nothing to do with marketing." They elaborated on this statement by explaining that the board sets production levels and live prices which have significant impacts on the availability and retail price of the final product. These processor representatives felt that the board should take more responsibility for the final disposition of broiler chicken if they continue to determine the live price and the amount of broiler chicken to be produced.

3.6.6 Inventory Policy

Originally, all three sectors were asked if their inventory levels had been affected by the presence of the marketing board. However, it was learned early in the interviewing process that hatcheries do not carry inventories, and that they order and set eggs to be hatched only when the producer has an order for these chicks. Feed manufacturers have the raw materials in inventory to process feed for several different purposes, but apparently the inventories of finished broiler feeds are not normally substantial enough to be affected by marketing board decisions. The inventory question was therefore directed only to the processor group.

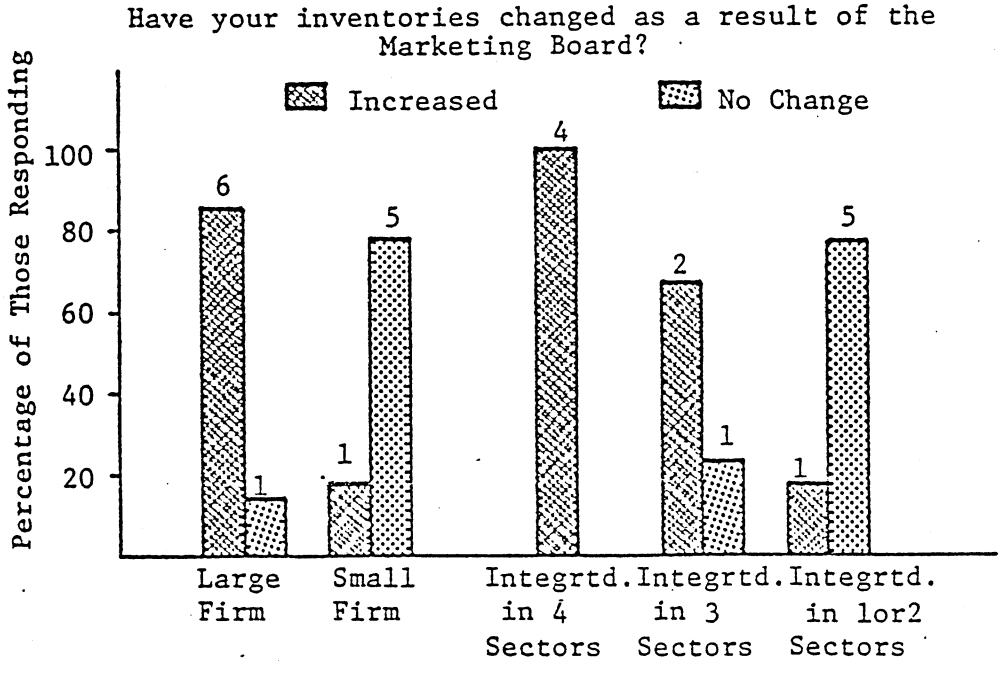
The researcher was told that any inventories of frozen chicken are a mistake on the part of the processor's policy because frozen stocks are extremely difficult to sell at a profit. Three processors stated that 75 to 80 percent of the Ontario final demand for chicken is in fresh form, and that unlike Europe or even Western Canada, Ontario consumer tastes are such that they discount frozen chicken. Thus, frozen chicken must be sold at a lower price than fresh

Figure 3.16



Response Rate: Hatchery 6 of 11, Feed 6 of 9,
Processor 10 of 14.

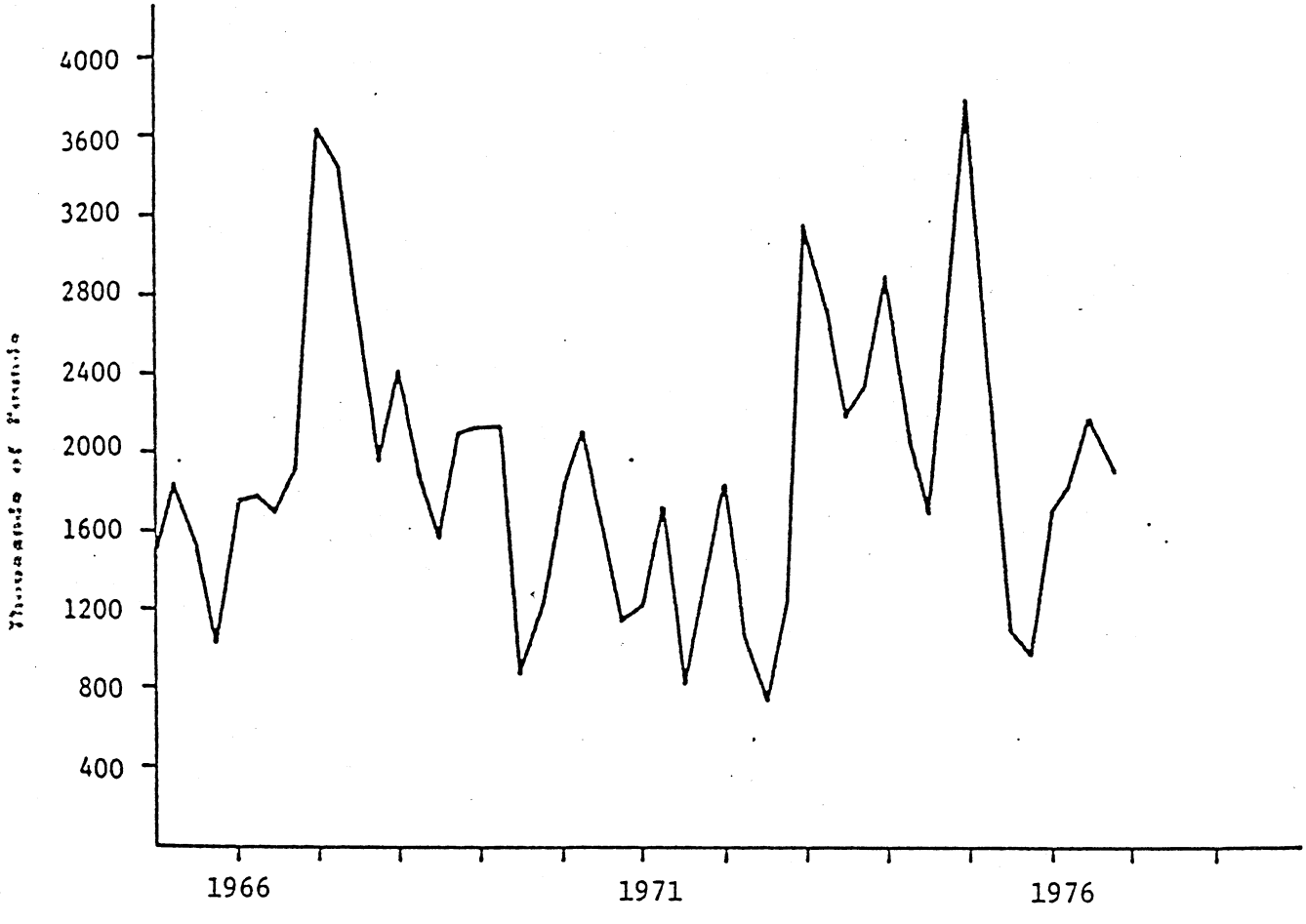
Figure 3.17



Response Rate: Large Processors 7 of 7, Small 6 of 7.
Integrated in 4 sectors 4 of 4
Integrated in 3 sectors 3 of 3
Integrated in 1 or 2 sectors, 6 of 7.

Figure 3.18

Average Quarterly Stocks of Frozen Broilers[1] (1965-1976)



Source: Agriculture Canada, Poultry Market Review (1965-1976)

[1] Eviscerated Chickens Weighing Less Than 4 Pounds

chicken despite the fact that additional processing and packaging to freeze the bird plus the costs of storage make a frozen broiler more expensive to supply than the fresh equivalent. However, of the thirteen processors responding to the question, seven reported increased inventories of frozen chicken stocks as a result of what they called the board's unrealistically high prices, and the lack of proper incentives set by the board for growers to produce the weight categories which are in greatest demand.

Four processors who replied that their inventories have not been affected by the marketing board stated that company policy prohibits any freezing and that to avoid this they will sell fresh chicken at a loss if necessary. One of these individuals added that the retailers are quite aware of frozen stocks existing throughout the processing sector, and this makes it more difficult for the processor to bargain for a better wholesale price for his fresh chicken.

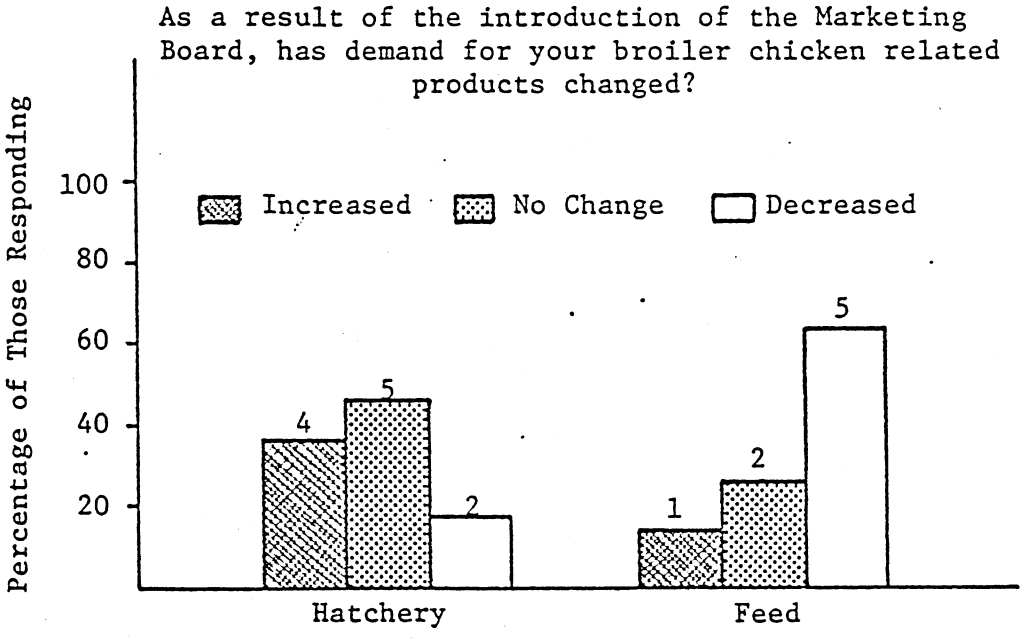
It was found that both the large and the highly integrated processors were absorbing greater stocks of frozen chicken than other processors. As shown in Figure 3.17, six of the seven large, and only one of the seven small processors reported increases in inventories. All four responding processors who were involved in four sectors, and two participating in three sectors, reported an increase in the accumulation of stocks of frozen chicken.

The trend of the average quarterly stocks of frozen chicken in Ontario since the introduction of the chicken marketing board is presented in Figure 3.18. The average annual level of frozen stocks has increased from approximately 1.5 million pounds in 1965 to slightly less than 1.9 million in 1976, an increase of about 27 percent. During the same period, the amount of chicken processed in Ontario increased by 44.4 percent, from approximately 140 million pounds in 1965 to 222 million pounds in 1976 (see Figure 1.4).

3.7 DEMAND AND DIVERSIFICATION

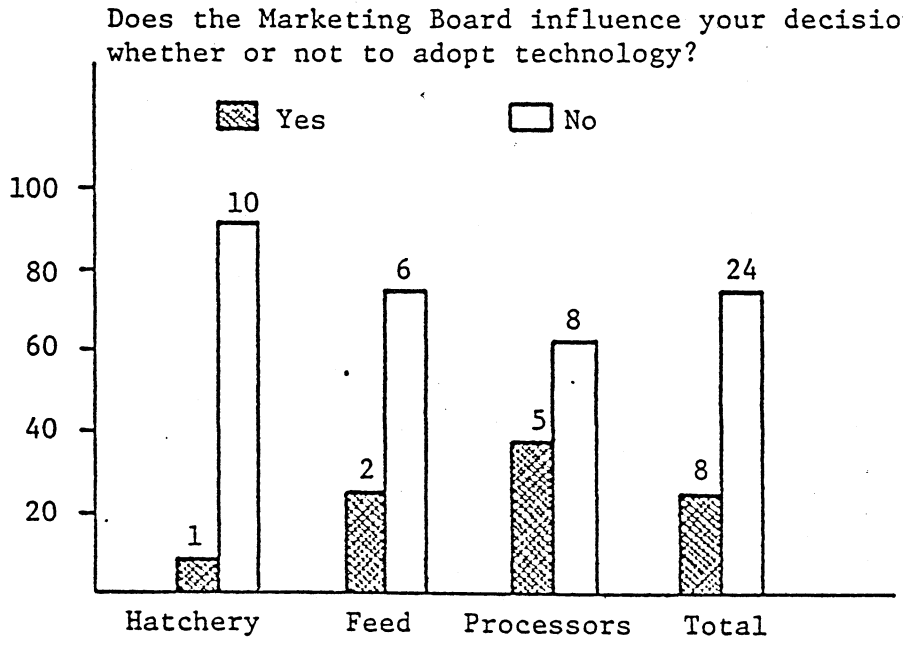
The feed and hatchery groups were asked whether demand for feed and chicks had increased, remained unchanged, or decreased as a result of the implementation of a broiler marketing plan. As shown in Figure 3.19, four of the eleven hatcheries (36.4 percent), and one of the eight responding feed manufacturers answered that their sales have increased. Three of these hatcheries and the one feed company are independent of any other sector with respect to ownership. They claimed that if the marketing board had not been introduced, the trend towards total integration of all phases of the

Figure 3.19



Response Rate: Hatchery 11 of 11, Feed 8 of 9.

Figure 3.20



Response Rate: Hatchery 11 of 11, Feed 8 of 9, Processors 13 of 14.

broiler industry would have continued, and they would have been bought up by an integrator or forced out of business because there would not have been any independent producers remaining with which to conduct business. Thus they felt that the presence of the marketing board was essential to their remaining in business.

A majority of the feed manufacturers (62.5 percent) and two hatcheries (18.2 percent) believed that demand for broiler feed and chicks has decreased in the sense that production of broilers would be much greater than it is now had it not been for the output restriction applied through the marketing board's quota policies or the introduction of less expensive live and eviscerated imports.

At least two hatcheries and three feed manufacturers said that they favoured supply control over the uncontrolled growth and the accompanying price and producer income instability which existed before the introduction of the board. They did not, however, favour imports because demand for their own products was being replaced.

Some inconsistent results were encountered with respect to four of the five hatcheries who answered that demand for their products had not changed as a result of the marketing board, but who also attributed part of the blame for the influx of imports to the inflexible prices set by the board. It could only be concluded that either imports have replaced Ontario grown chickens which they could not have serviced, or they interpreted the question as meaning "Has the board actively helped or hindered you in your attempt to increase sales?"

When subsequently asked if there was a trend for broiler producers to grow and mix their own broiler feeds, the eight feed manufacturers who answered said "no". Seven respondents said that broiler feeds need to be pelletized to maximize the rate of conversion of feed to meat, and the capital requirements for this equipment preclude an individual grower from adapting this technique to satisfy solely his own needs. The other individual replied that growers are specialized in broiler production, not in the manufacture of feeds.

Representatives from each sector were asked if their firm had diversified into other lines of business outside of the poultry industry for any reason which they attributed to the introduction or presence of a marketing board. One of ten responding hatcheries, and five of the nine feed manufacturers reported that they had become involved in turkeys or egg layers where they felt future growth was more promising. On the other hand, one hatcheryman said that he left the turkey industry in favour of the more stable and profitable broiler sector. Nine hatcheries, four feed, and eleven processor

respondents indicated no diversification to other lines of poultry business.

Of the nine hatcheries, eight fed companies, and ten processors responding, only two feed representatives attributed any part of the decision to diversify into other lines of business outside of the poultry industry to the presence of the marketing board. Both of these had intensified sales efforts in the hog industry, again to take advantage of what they perceived as an industry offering more promising growth prospects than the broiler industry.

3.8 TECHNOLOGY, CAPACITY, AND COSTS

In this section of the questionnaire, respondents were asked to comment on how the introduction or presence of the broiler marketing board has affected such aspects of their business as the level of technology, the rate of capacity utilization, the scale of operation, and the costs of doing business.

3.8.1 Adoption of Technology

As may be observed in Figure 3.2Ø, the majority of respondents from each sector asserted that the marketing board does not influence their decisions with respect to the adoption of technology, whether it be production, storage, procurement, marketing or any other area of a technological dimension. The hatchery group came closest to being unanimous (1Ø of 11 or 9Ø.9 percent) while the processors were the furthest from any consensus (8 of 13 or 61.5 percent). Of the eight respondents (overall) who replied that the presence of the board affects their decisions regarding technology, one hatchery and two feed representatives explained that this was because of the lack of growth permitted by the board to the producing sector of the industry. The five processors cited the inadequate gross margins allowed by the board's prices as the factor eliminating consideration of the capital outlay for the adoption of new technology.

Results of this question were, in some cases, inconsistent with answers given to others by the same respondent. For example, at least three processors who answered that the board does not affect their technological decisions, also said that they were in need of some "more advanced" processing equipment and that the margins which they were able to obtain were insufficient to allow for this expenditure. This can be interpreted as an indirect effect of the board.

The respondent may have interpreted the question as asking whether the board was directly involved in the technological decisions, to which the answer is "no". If this is the case, then the impact of the marketing board on the adoption of technology in the processing sector is more significant than reported earlier.

3.8.2 Capacity Utilization

Participants from each sector were asked to indicate whether a discrepancy existed between their desired and actual rates of capacity utilization. A desired level of capacity utilization was assumed to be that rate for which the plant was ideally suited rather than the maximum throughput which, if continued indefinitely, would preclude normal maintenance.

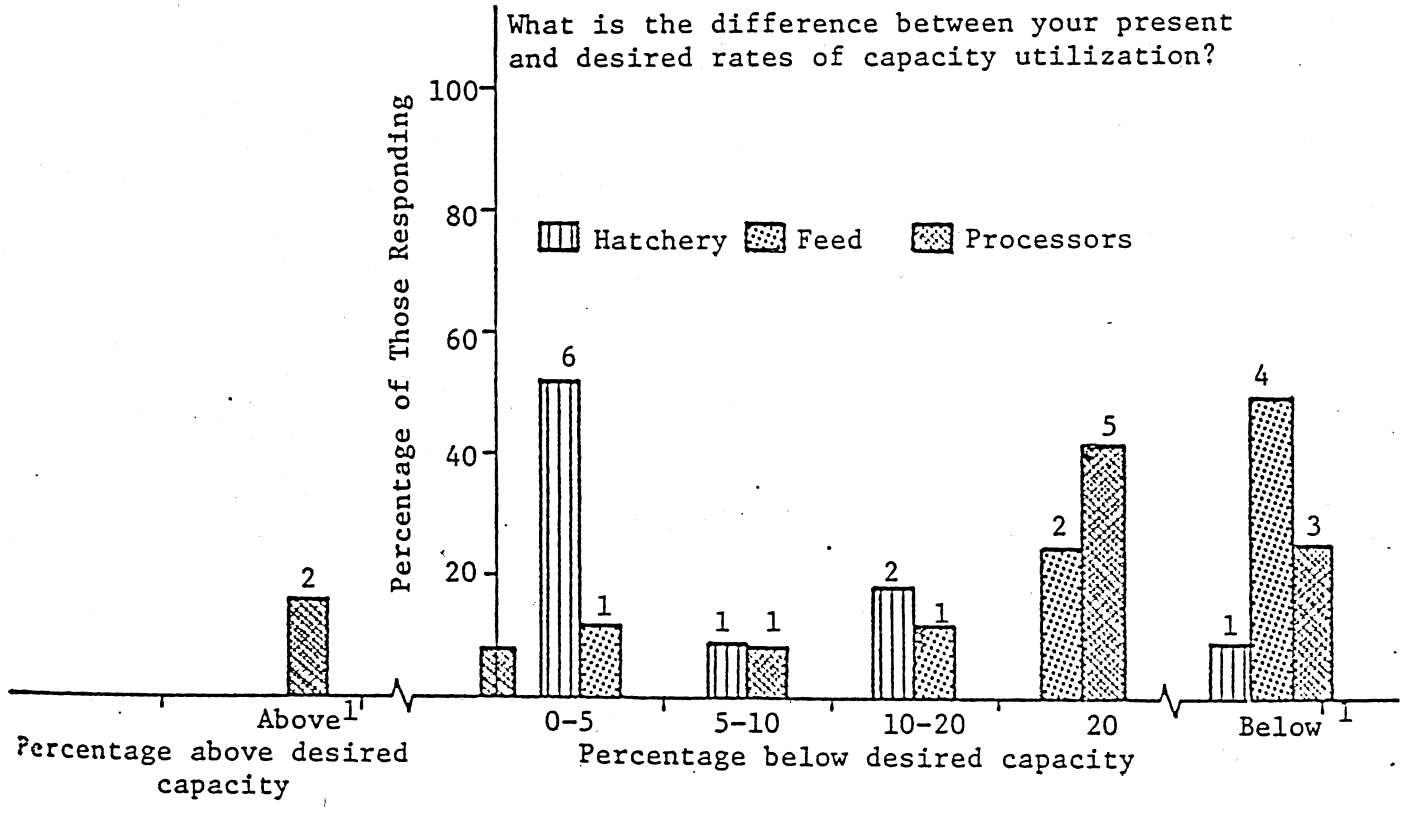
As may be seen in Figure 3.21, there existed a wide range of capacity shortfalls, with only three processors reporting operating at or above their desired capacity. The least variation was exhibited in the hachery group where seven of the responding hatcheries (70 percent) were experiencing shortfalls of less than 10 percent, two were 10 to 20 percent below, and the other was operating at "below desired capacity". One additional hatcheryman stated that he had no desired rate of capacity utilization.

One processor said that with existing facilities, they could be processing 40 percent more chicken. A feed representative added that his company could double output of broiler feeds within six months with existing capacity.

When asked if the marketing board played any role in the existence of excess capacity, two hatchery, one processing, and six feed representatives cited the constraint on industry growth exerted by the board through marketing quotas, as the major factor. Two processors accused the marketing board of charging unrealistic prices for live chicken and thus allowing eviscerated imports to undercut Ontario prices, and replace Ontario produced chicken.

Four processors said that they were trying to minimize the number of birds they processed because they were losing too much money on a per bird basis. On the other hand, two other processors running at "above" capacity said that they were attempting to maximize throughout in order to "minimize total losses". Of the former group, three were small processors while both of the latter two firms were classified as large.

Figure 3.21



Response Rate: Hatchery 10 of 11, Feed 8 of 9, Processors 12 of 14.

[1] These respondents were unable to specify the difference between desired and actual level of capacity utilization.

Eight (80 percent) of the responding hatcheries claimed that it was competition and not the marketing board which could explain the problems of maintaining capacity utilization at desired levels, while one processor and two feed representatives cited overly optimistic expansion decisions by one or two companies within their respective sectors as the primary determinant of excess capacity.

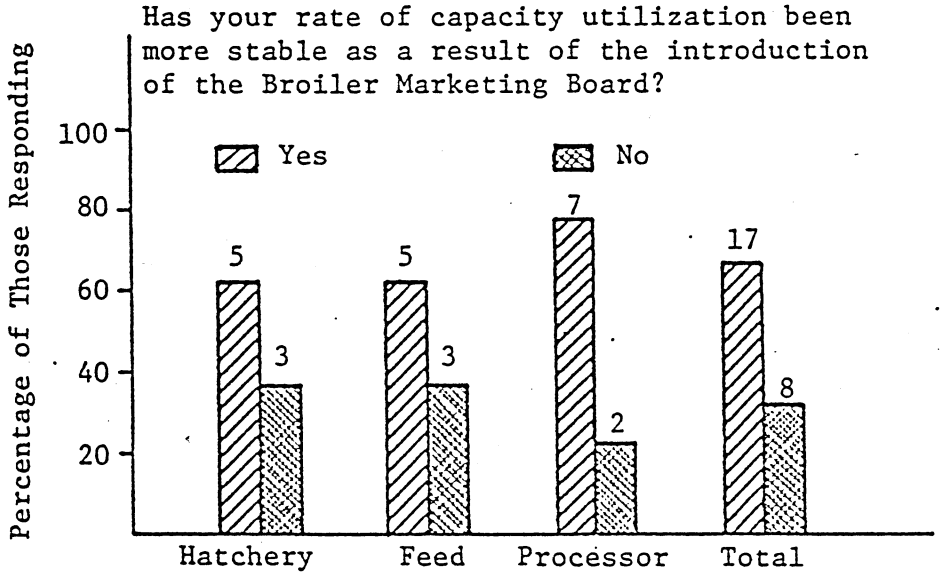
When asked if rates of capacity utilization have been more stable since the introduction of the marketing board, Figure 3.22 shows a majority of respondents from each sector answered affirmatively. Two feed manufacturers and two processors added that broiler production is more organized and provides for more stability in their operations.

Two of the three hatcheries and two of the three feed companies which answered "no" said that there is still a lack of stability of demand and therefore, capacity utilization throughout the quota period since producers are free to place their chicks any time within the twelve-week quota period.

3.8.3 Scheduling

The processors were asked if the marketing board's quota policies had enabled them to schedule for a more desirable rate of processing activity. Six of the thirteen respondents answered affirmatively. One said that the greater stability at the grower level which the board has helped to create has, in turn, facilitated better scheduling at the processing level. Another four said that the announcement of the quota allocation three to five months before the twelve-week quota period informs them of the total amount of Ontario- grown chicken which will be available to process, and hence improves scheduling. Three other processors complained that production scheduling is not improved because broiler marketings are concentrated in particular weeks which may be concentrated in weeks for which demand is slow, such as Christmas or Thanksgiving. When the hatcheries and feed manufacturers were asked whether knowldge of the board's quota plans aided them in marketing chicks and feed to growers, eight of the nine responding hatcheries and the six participating feed representatives replied that it did not. Two of the eight hatcheries and one feed manager again cited the problem of uneven distribution of placements and marketings within the quota period. They said that this negated any potential benefits which could be obtained for scheduling purposes from advance knowledge of broiler production. One feed manufacturer claimed that to take advantage of the board's quota allocation announcements, one needs to control the farm level as well, because placement

Figure 3.22



Response Rate: Hatchery 8 of 11
Feed 8 of 9
Processors 9 of 14.

of chicks, delivery of feed, and marketing of the finished birds to the processor may then be scheduled efficiently.

Four hatcherymen complained that the board's quota allocation decision comes too late for them to make any real adjustment in their capability to supply a greater number of broiler chicks should the board decide to increase production. The constraint apparently arises from the approximately six months time it takes to raise the supply of flock chicks to the point where they begin laying the additional hatching eggs with which to supply the increased demand for broiler chicks. Hatching eggs may also be imported, but these may be in short supply if an increase in broiler production is taking place in the United States as well. Thus, the hatchery requires a minimum lead time of six months to adjust to an increase in production while the marketing board announces quota allocations only three to five months in advance. Two of these four hatcherymen also added that uncertainty exists as to whether quota allocations in subsequent periods will justify expansion of the hatchery supply flock.

3.8.4 Changes in Plant Capacity

The changes in broiler plant capacity which were mentioned by the respondents are exhibited as Figure 3.23. A majority of firms in the hatchery and feed sectors (63.6 percent and 87.5 percent, respectively, of those responding) reported increased capacities since the introduction of the marketing board. Six of the fourteen processors (41.9 percent) responded that they had increased their capacity, while two other processors and one hatchery (12.5 percent) said that their total capacities have decreased.

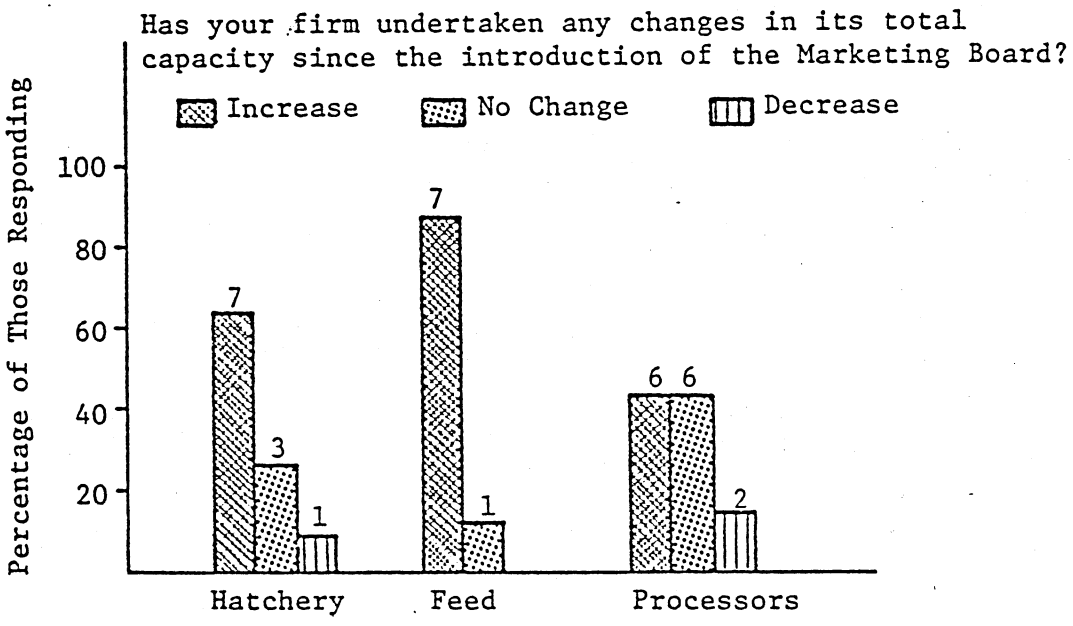
The most commonly reported means of increasing capacity was by expansion of existing plants as indicated by five of the seven hatcheries (71.4 percent), six of the seven feed concerns (85.7 percent), and three of the six processors (50 percent).

Two previously constructed hatcheries were purchased, one maintaining the existing capacity in broiler chicks, and the other converting from turkey to broiler chick production.

One hatchery and two processing firms decreased capacity by reducing the number of plants owned to boost total capacity.

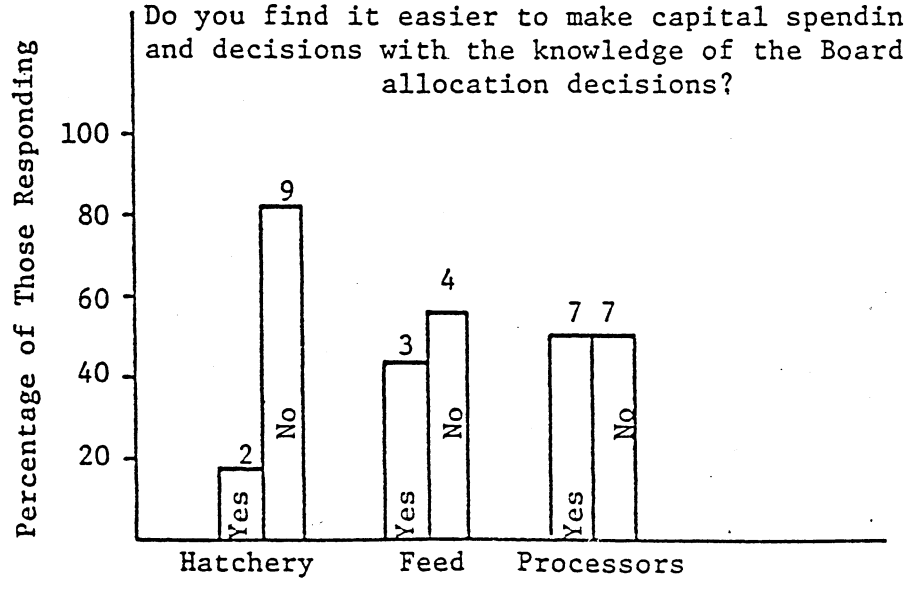
Only in the processor and hatchery segments did the combination of completely new capacity and new ownership occur. Two new broiler processing firms with new plants sprang up

Figure 3.23



Response Rate: Hatchery 11 of 11, Feed 8 of 9, Processors 14 of 14.

Figure 3.24



between 1965 and 1970. Another became established after 1970, although the parent firm was previously established in the hatchery, feed, and production sectors. As previously mentioned, one turkey hatchery was purchased and converted to broiler chick production.

Some respondents interpreted the question, "Can you attribute any of these adjustments in capacity to the introduction of the marketing board?", as meaning, "What help did the board offer you in expanding your scale of production?" The intent of the question was to explore the impacts of the institution of a marketing board on industry capacity. However, some firms appeared to be attempting to credit, or on the other hand, avoid giving credit to the marketing board itself, rather than the results of its decisions for this expansion or contraction in capacity.

3.8.5 Capital Spending Decisions

As may be observed in Figure 3.24, a majority of respondents within each of the feed and hatchery sectors reported that they do not find it easier to make capital spending plans and decisions with the knowledge of the marketing board's quota allocation decisions. The processors were equally divided.

One respondent from each sector posited that the greater stability of production facilitated by the marketing board's quota powers, provides a new element of certainty for the financial planning process. Another hatchery representative said that the board has directly helped capital spending in that the lending institutions look more favourably at a more stable industry which the broiler has become since the inception of the board.

On the other hand, three hatchery, one feed, and four processor representatives complained that the uncertainty surrounding the marketing board's future plans with respect to prices and output make capital spending more difficult than it was before the board. Five processors somewhat sarcastically stated that their capacity spending decisions are easier to make with the knowledge of the quota decisions because the prices which the board sets to accompany those output decisions confirm their decisions not to expand or to introduce new technology.

At this point, one hatchery, two feed, and two processor representatives strongly urged more forward planning by the marketing board past the immediate twelve-week quota period.

Another hatchery and two feed manufacturers said that they are largely ignoring the board's quota policies in their capital spending plans and are more concerned with whether a national chicken marketing agency is introduced to stabilize provincial shares of production and the increasing levels of imported chicken.

3.8.6 Changes in Costs

Respondents were asked of any changes in costs with respect to procurement, production, storage, or marketing which have been experienced as a result of the introduction of the broiler marketing board. Six processors (42.9 perceent) indicated increased procurement costs, with five stating that the price per bird is higher than it would be if the board did not set prices independently of the other sectors of the broiler system, and the other citing a higher percentage of under-grade birds than he received before the board was instituted.

Five processors believed that storage costs had increased as a result of the board setting production at unrealistically high percentages of basic quotas during periods of the year when demand was traditionally lower.

Referring to marketing costs, four hatchery and three feed representatives said that the financial stability which the board has provided growers has largely eliminated the writing-off of accounts receivable as bad debts.

Two hatchery, six feed, and three processing managers repeated an earlier statement that the board, through charging non-competitive prices, has helped to allow live and eviscerated imports into Ontario. They claimed that this has, is turn, reduced the capacity utilization within all three sectors and therefore has increased costs per unit of output as overhead is allocated over a smaller production throughput.

3.9 GENERAL

Certain additional questions which were directed to the respondents did not pertain closely to any of the previous sections and are included together here. They relate to the advantages and disadvantages of relative size vis-a-vis the marketing board, dissemination of information, attitudes toward the Quota Advisory Committee process, management abilities as they relate to the board, and finally, attitudes held toward reinvestment in the respondent's sectors.

3.9.1 Advantages and Disadvantages of Size

Participants were asked to classify their own firms as small, medium, or large enterprises in comparison with other firms in their sector, and to describe any advantages or disadvantages vis-a-vis the marketing board which they could associate with their relative size. As may be observed in Figure 3.25.1, the hatchery respondents' perceptions of their relative size tended to bias towards the "large" classification, while the opposite occurred in the case of the processors. However, when these self-classifica tions were compared with the size breakdown obtained from industry association representatives, it was found that no small firms classified themselves as large, nor did any large firms view themselves as small.

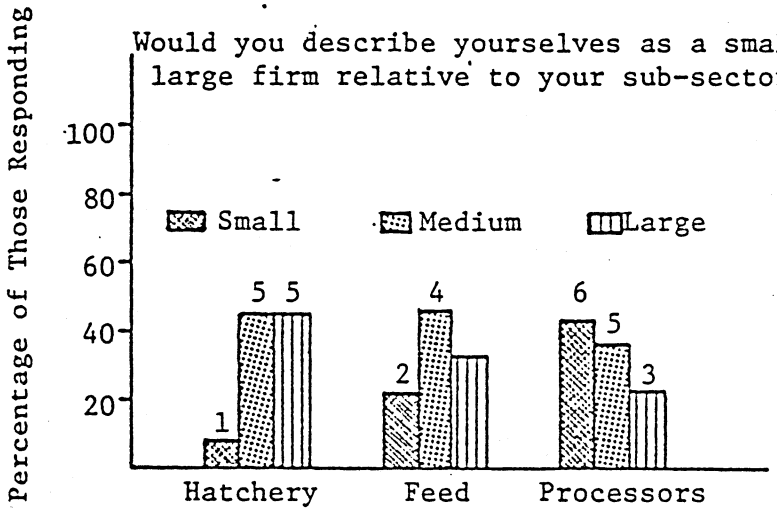
Figure 3.25.2 presents the proportion of firms stating that they face disadvantages vis-a-vis the marketing board because of their size, and Figure 3.25.3 shows those firms recognizing advantages which are related to their relative position in their sector.

One hatchery, two feed companies, and two processors, all either medium or large, reported that the marketing board, because of historical background of large corporations in the broiler industry, and the fact that all of the board members are independent producers, has a natural tendency to show favouritism toward small and/or independent companies. One large independent processor said that in the early stages, the marketing board would often recommend them to producers who were dissatisfied with their current processing arrangements. No information was obtained which would indicate that the board used its influence to encourage producers to deal with establishments of any particular size.

Another independent processor complained that during periods of shortages caused by marketing board reductions in the percentages of basic quota allocated for broiler production, the independent has difficulty obtaining birds without paying a premium because he does not have the 'package deal' to offer the grower as does the integrated processor.

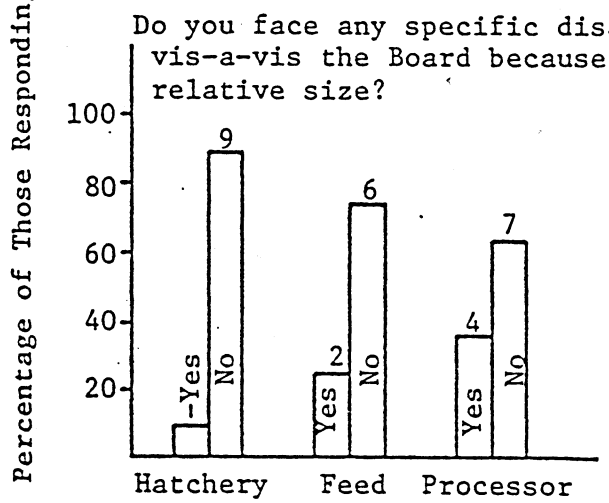
One large hatchery thought that a large firm may have the resources to react more quickly, or more easily absorb the shock of a board decision such as changes in production or prices which may exert pressure on available margins.

Figure 3.25.1



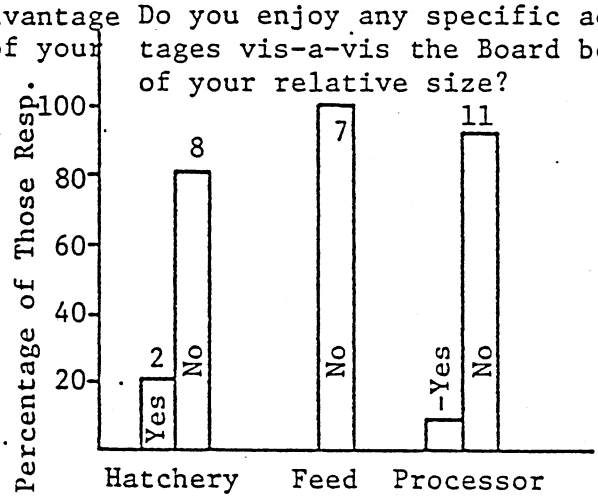
Response Rate: Hatchery 11 of 11, Feed 9 of 9, Processors 14 of 14

Figure 3.25.2



Response Rate: Hatchery 10 of 11, Feed 8 of 9, Processors 11 of 14.

Figure 3.25.3



Response Rate: Hatchery 10 of 11, Feed 7 of 9, Processors 12 of 14.

3.9.2 Information

Respondents were asked if they had experienced an increase in the amount of information available to them, other than the quota production announcements, that could be attributable to the marketing board, and whether the board could be a natural collection agency of information useful to other sectors. Results as shown in Figure 3.26 do not indicate any significant increase in information which can be attributed to the marketing board. When asked what information should be collected, only one processor suggested the collection of data concerning rates of condemnations at the farm and processing plant to make comparisons with the United States. Two processors said that because the marketing board has limited experience in marketing, they would not have a very good idea of what information should be collected. It appeared that most respondents from each sector were satisfied with the information obtainable from Agriclture Canada and the Ontario Ministry of Agriculture and Food. The one hatchery which responded affirmatively to the question maintained that is is easier to plan production with certain information released by board spokesmen, other than production decision announcements. The two processors answering affirmatively did not specify what additional information was made available by the marketing board.

3.9.3 Attitudes Toward Quota Advisory Committee

Respondents were asked if they were satisfied wth the Quota Advisory Committee, a body of four marketing board members, two processors, one feed, and one hatchery representative, which once met to provide information and to make recommendations for the marketing board's production decisions. Although this body was disbanded in late 1976, and subsequently replaced by the Chicken Industry Advisory Committee (C.I.A.C.)(36) consisting of only marketing board members and representatives of the Ontario Poultry Processors Association, the hatchery and feed groups were still asked to comment on the 'advisory group' arrangement. As may be seen in Figure 3.27, only the feed group was not unanimous in expressing dissatisfaction with the Quota Advisory Committee process. Two feed representatives said they were not aware of such a committee, while the two who expressed

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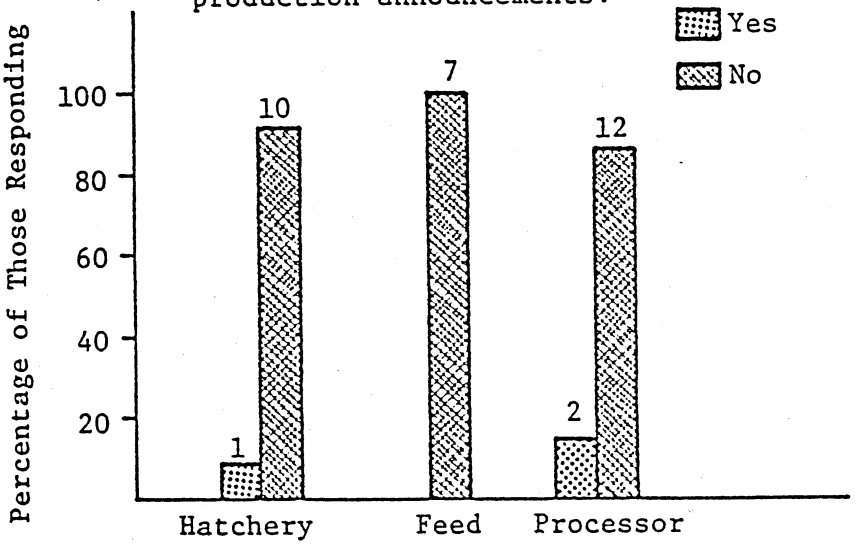
(36) In the course of writing, the researcher discovered that this consultative body (the Chicken Industry Advisory Committee) has been disbanded as well, apparently because of irreconcilable differences between the producers and the processors.

Figure 3.26

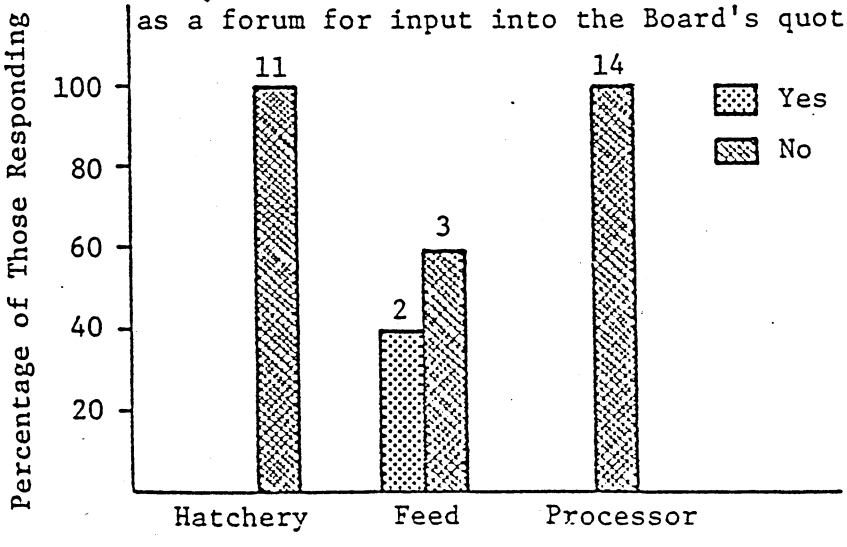
As a result of the Board, do you feel that there is more information at your disposal other than production announcements?



Response Rate: Hatchery 11 of 11, Feed 7 of 7, Processors 14 of 14

Figure 3.27

Are you satisfied with the Quota Advisory Committee as a forum for input into the Board's quota decisions?



Response Rate: Hatchery 11 of 11, Feed 5 of 9, Processors 14 of 14.

satisfaction felt that their input was taken into consideration by the board in its quota decisions.

Four hatchery, three feed, and five processor respondents believed that the board does what it wishes, regardless of the recommendations of an Advisory Committee. An addtional two hatcheries and five feed manufacturers argued that there is no power in "advisory" and that the Advisory Committee was only a figurehead.

Seven hatchery, one feed, and four processor representatives said that there should be an obligation on the part of the marketing board to take into account the input of the other sectors. Negotiation of prices between the hatchery, feed, producer, and processor groups with an arbitrator present was most often suggested. As the means to accomplish compulsory input, one other processor suggested a completely neutral committee be instituted to set prices and quotas.

3.9.4 Management Abilities

Most respondents found the question regarding the effects of the marketing board on their management abilities as interesting but difficult to answer objectively. As may be observed in Figure 3.28, a majority of the hatcherymen (72.9 percent) did not believe that the presence of the board encouraged them to be better managers. Feed manufacturers were evenly divided, and a majority of the processors (63.6 percent) believed that they had become better managers as a result of the institution of the broiler marketing board. Aspects of their management which they believed were improved, or on the other hand, worsened, are presented in Table 3.7. Some respondents gave more than one answer, and others did not elaborate.

3.9.5 Attitudes Toward Reinvestment

The final question asked participants to assume that they had the capital required to set up the plant which they managed, and to decide whether they would reinvest it in their sector or elsewhere. As shown in Figure 3.29.1, a majority of feed manufacturers (62.5 percent) would reinvest in their feed plant, although one qualified his answer by saying the plant would be on a smaller scale. On the other hand, 72.6 percent of the hatchery and 92.9 percent of the processor representatives said that they would not reinvest in their respective enterprises. Factors encouraging and discouraging reinvestment are presented in Table 3.8.

Table 3.7

HAS THE PRESENCE OF THE MARKETING BOARD ENCOURAGED YOU TO BECOME A BETTER MANAGER?

Answer and Explanation	Respondents by Sub-Sector					
	Hatchery		Feed		Processor	
	No.	%[1]	No.	%[1]	No.	%[1]
Yes	3	42.9	3	50.0	7	63.7
Have become very competitive and more efficient going after constrained number of growers	1	33.3	3	100.0	-	--
Are more aware of board's decisions before making my own	1	33.3	-	--	1	14.3
Searched for and found other sources of supply (i.e. imported)	-	--	-	--	1	14.3
Have had to tighten up everywhere in order to minimize losses	-	--	-	--	5	72.4
Created more awareness of whole industry	-	--	1	33.3	-	--
Better decision making in stable industry	1	33.3	-	--	-	--
Better use of financial resources - less bad debts, etc.	-	--	1	33.3	-	--
No	4	57.1	3	50.0	4	36.3
Have difficulty planning and making decisions - uncertain of what board will do in medium or long term	-	--	-	--	1	25.0
Not meeting obligations to shareholders	-	--	-	--	1	25.0
Is strictly competition anyway	-	--	-	--	2	50.0
Leave the board rather than ourselves to keep industry trends - getting lazy	1	25.0	-	--	-	--

[1] Some respondents gave more than one explanation.

Figure 3.28

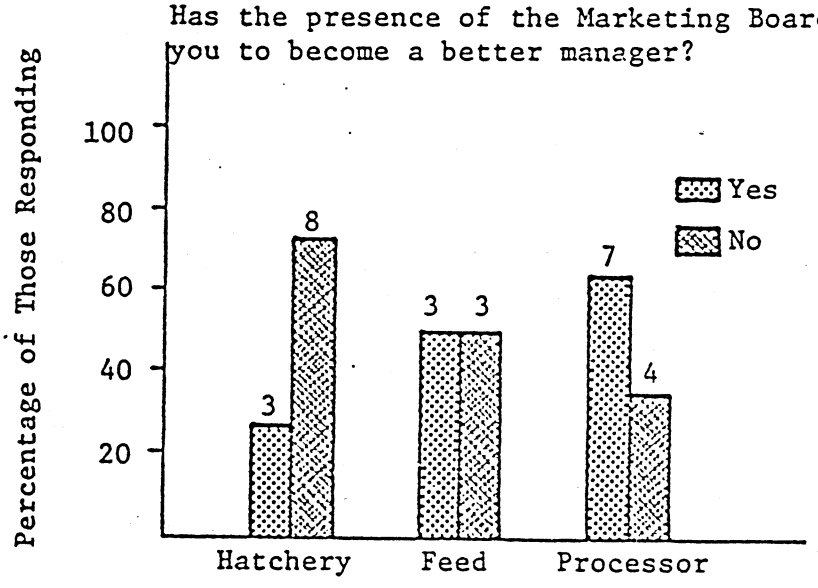
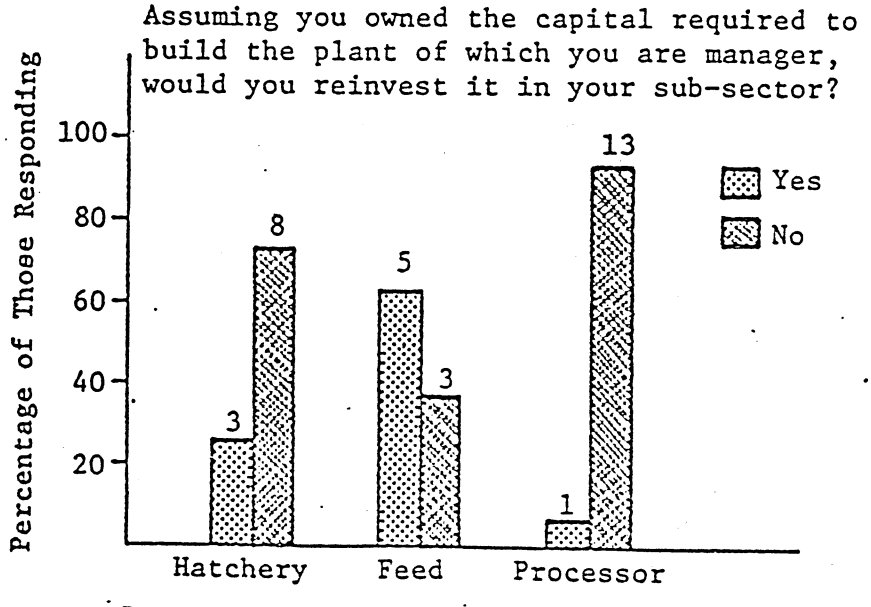
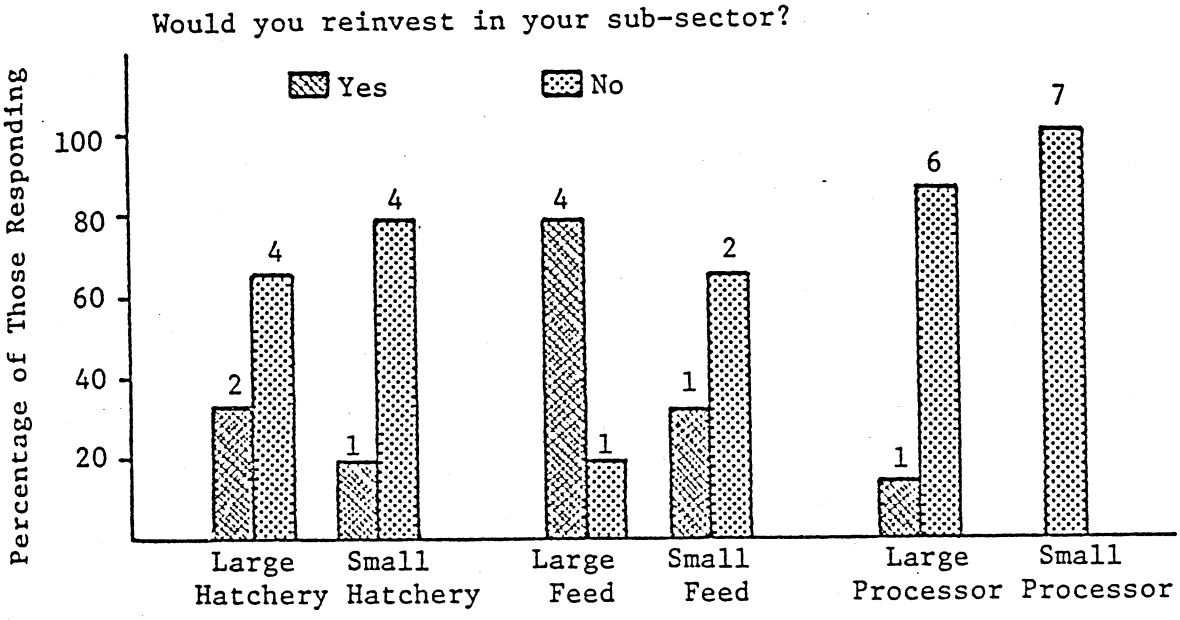


Figure 3.29.1



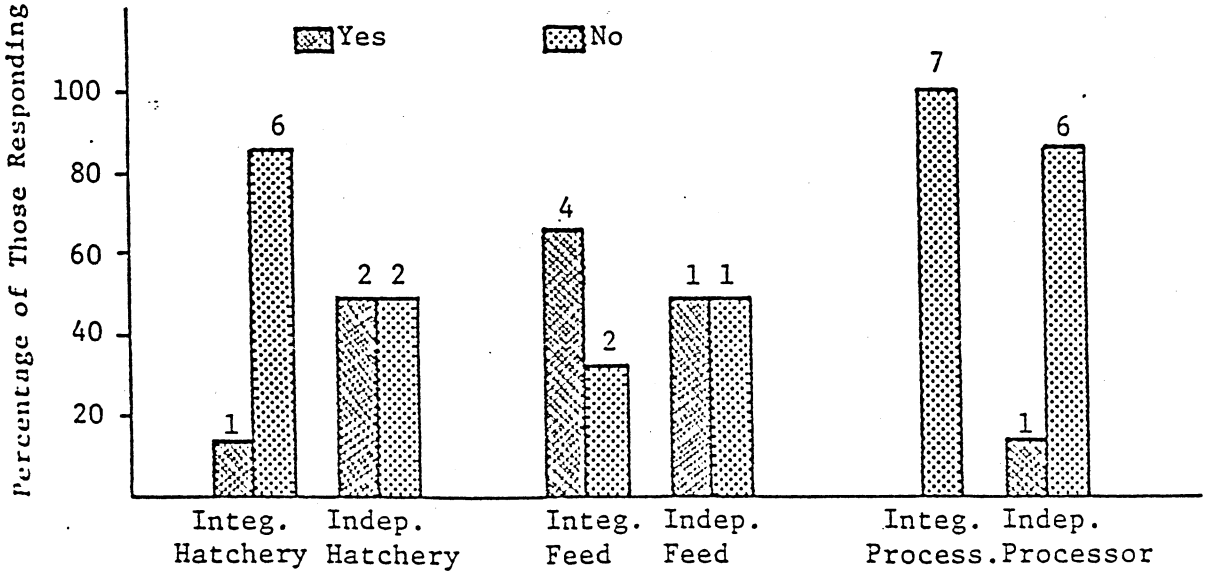
Response Rate: Hatchery 11 of 11, Feed 8 of 9, Processors 14 of 14.

Figure 3.29.2



Response Rate: Large Hatchery 6 of 6, Small Hatchery 5 of 5,
Large Feed 5 of 5, Small Feed 3 of 4,
Large Processor 7 of 7, Small Processor 7 of 7.

Figure 3.29.3



Response Rate: Integrated Hatchery 7 of 7, Independent Hatchery 4 of 4,
Integrated Feed 6 of 6, Independent Feed 2 of 3,
Integrated Processor 7 of 7, Independent Processor 7 of 7.

Table 3.8

WOULD YOU REINVEST IN YOUR SUB-SECTOR?

Answer and Explanation	Respondents by Sub-Sector					
	Hatchery		Feed		Processor	
	No.	%	No.	%	No.	%
Yes	3	27.2	5	62.5	1	7.1
The production sector is stable and profitable in terms of producer incomes - this makes sales to broiler growers attractive	3	100.0	3	60.0	-	--
Yes, but on a smaller scale	-	--	1	20.0	-	--
I don't know any other business	-	--	-	--	1	100.0
Would reinvest exactly the same way as we did before in the feed business	-	--	1	20.0	-	--
No	8	71.8	3	37.5	13	92.9
There is presently no profitability in the broiler industry outside the production stage	3	37.5	-	--	2	15.4
We have to get back to a situation where prices and production are determined by the market, not the marketing board	-	--	-	--	2	15.4
The marketing board does not "manage supply" despite the term supply management being associated with it - they only control the supply of Ontario grown chicken which is not the total supply - therefore, we don't really have supply management or free enterprise - I would rather have one of the two applied in full	-	--	-	--	3	23.1

Table 3.8

(Continued)

Answer and Explanation	Respondents by Sub-Sector					
	Hatchery		Feed		Processor	
	No.	%	No.	%	No.	%
No -- Continued						
Very difficult for independents to start up today - is a very limited number of independent growers available, and must steal business - have to offer the "package deal" of the integrators, or else offer chicks at a discount, which makes it difficult since margins in the hatchery industry are already low	3	37.5	-	--	-	--
Not at today's costs and prospective returns	2	25.0	-	--	1	7.7
There is no industry growth to warrant rebuilding this plant - there already is excess capacity	2	25.0	2	66.7	-	--
Would rather put capital into broiler farms and broiler quota	3	37.5	1	33.3	5	38.5
Would rather put capital into the feed business	1	12.5	-	--	-	--
I am frustrated with the extent of the bureaucracy of the board - the inflexibility it allows the growers limits us in our growth and our relations with producers	2	25.0	1	33.3	-	--
I am afraid for the future of the broiler industry in Ontario - I think it may bankrupt itself and allow the U.S. to supply our needs	2	25.0	-	--	-	--

[1] Some respondents gave more than one explanation.

As may be observed in Figure 3.29.2, a majority of large feed manufacturers (four out of five or 80 percent) indicated that they would reinvest in the broiler feed industry, while two of the three smaller feed company representatives (66.7 percent) said they would not reinvest. No such noticeable contrast existed between large and small hatcheries and processors.

Figure 3.29.3 classifies companies by level of integration. In this case, 'integrated' refers to a company with ownership interests in three or four sectors (i.e., of hatchery, production, feed, and processing) and 'independent' includes those firms with ownership in one or two sectors. All of the independents with ownership in two sectors have the farm level as one of them. Six of the seven integrated hatcheries (85.7 percent) would not reinvest, whereas the independents were equally divided with two answering affirmatively and two negatively. Two-thirds of the integrated feed manufacturers (four or six) believed that they would reinvest, while one of the two independents (50 percent) felt he would invest the capital elsewhere.

3.10 AGGREGATE PERCEPTIONS OF POWERS AND PROCEDURES OF THE OCPMB

At the conclusion of each interview, an attempt was made to ascertain the managers' level of awareness of the powers and procedures delegated to, and utilized by, the marketing board together wth some quantitative, albeit subjective, measurement of the effects, or potential effects, of the board powers on each sector.

To administer this portion of the questionnaire, each respondent was given a list of board powers and asked to indicate on a coded sheet whether he was aware of the existence of that power, whether he knew of it being exercised by the board, and to what degree that power has been or would be beneficial or detrimental to his firm.

Whenever possible, the interviewer remained with the respondent to provide further explanation and to record any elaboration of responses. In some cases, however, the interviewee lacked the additional time to complete this part of the questionnare. When this occurred, the form was left with the participant together with instructions for completions of the coded sheet at a time which was more convenient.

Under the above circumstances, forms were left with three processors, one feed manufacturer, and one hatcheryman, but never returned despite one reminder to each by a telphone

call. The final sample for this part of the analysis thus consisted of ten hatcheries, eight feed companies, and eleven processors.

3.10.1 Awareness of Powers and Procedures

Of the ten delegated powers for which the respondents were asked to indicate cognizance, only three have been utilized by the OCPMB. They are:

1. To fix and allot quotas to growers for the marketing of broiler and roaster chickens;

2. To make agreements relating to the marketing of chickens and to prescribe the terms and conditions of such agreements including the weight categories by which chickens are to be marketed and the terms of payment for live chickens;

3. To determine the price to be paid to growers for live chickens.

Table 3.9 shows that everyone in the three sector groups was aware of the board's quota allocation and price setting policies, and between 80 and 90 percent of the respondents from each group acknowledged the power to set terms listed above.

The firm managers were, in general, much less aware of those powers which have not been exercised by the marketing board. In some cases they were very surprised, as in the instance where only 27 percent of the processor representatives were conscious of the power to purchase quantities of chicken the board deems advisable and to subsequently sell this chicken as the board sees fit. Implementation of this power would effectively involve the marketing board as a participant in the marketplace for chicken, an area in which most of the processors complained the board does not assume sufficient responsibility despite its price and output determining authority.

The hatchery and feed groups appeared to be somewhat more familiar than the processors with the specifics of the marketing plan. This may be explained by the fact that, as Figure 3.1 shows, eight of the eleven hatcherymen (72.7 percent) and seven of the nine feed representatives (77.8 percent) were involved in their sectors at the management level at the time the marketing board was introduced. They may have taken the opportunity at that time to familiarize themselves with the proposed marketing plan prior to its voting and implementation in 1965.

Table 3.9

RESPONDENTS' AWARENESS OF DELEGATION AND EXERCISE OF BOARD POWERS AND PROCEDURES BY SUB-SECTOR

Board Power	Percentage of Respondents Aware of Power Being Delegated to Board			Has this Power Been Exercised	Percentage of Respondents Aware Whether Power was Exercised		
	Hatchery	Feed	Processor		Hatchery	Feed	Processor
1. To Direct Marketing	60	75	55	No	70	100	64
2. To Pool	70	63	64	No	100	100	100
3. To Set and Allocate Quotas	100	100	100	Yes	90	100	100
4. To Require Commodity to be Sold to or through Board	50	50	55	No	90	88	82
5. To Control Agreements and Determine Terms and Conditions of Sale	80	88	82	Yes	80	88	82
6. To Require Licences and Information	90	75	100	No	20	37	36
7. To Determine Prices	100	100	100	Yes	100	100	100
8. To Prohibit Marketing of any Size, Variety, Grade or Class	80	63	46	No	50	75	55
9. To Purchase Quantities	60	50	27	No	100	100	91
10. To Appoint Agents	60	50	46	No	90	88	91
AVERAGE	75.0	71.4	67.5		85.0	90.2	82.9

Board Procedure	Percentage of Respondents Aware of Board Having Power to Become Involved in This Activity			Has the Board Been Involved In This Activity	Percentage of Respondents Aware of Board Being Involved in this Activity		
	Hatchery	Feed	Processor		Hatchery	Feed	Processor
1. Quota Advisory Committee	100	88	100	Yes	80	63	100
2. Research	80	75	64	Yes	50	50	46
3. Promotion	100	100	91	Yes	80	63	73
4. Information Dissemination	100	100	82	Yes	80	63	73

All three groups were fairly accurate in most of their assessments of whether the board powers had actually been exercised, especially for the two most visible powers, those of price setting and quota allotment. The two exceptions were the powers to require licenses of persons engaged in marketing and to prohibit marketing of certain forms of chicken.

Until 1976, the Farm Products Marketing Board, the provinicial caretaker of the Farm Products Marketing Act, could request information from poulry processors (persons engaged in marketing) in order to assess their financial situation as buyers of live chicken. If the Board was satisfied, a licence to process chickens was issued to the processor. This power was delegated to the chicken board in 1976 "as a necessary part of other powers related to the enforcement of regulations of this local board."(37) However, as of October 1977, the chicken board had yet to implement a processor licensing program. The small percentages of respondents from each sector answering correctly whether the board had exercised this power may be explained by confusion on the part of some respondents as to which institution actually issued the licences to the processors.

Some confusion also existed as to the application of the broiler board's power to prohibit marketing by producers of any size, variety, grade, or class of broiler or roaster chicken. According to the OCPMB, this power had not been exercised except where chickens over six months of age were exempted from the provisions of the chicken plan, and therefore, not marketable under the quota allotment and price setting structures of the broiler board.

With the possible exception of research, the provisions for the marketing board to become involved in marketing related procedures was well known among respondents. Table 3.9 shows, however, that knowledge of the board being engaged in these activities was less apparent. Only half of each group knew of any research activities undertaken by the board, and some of the interviewees qualified their acknowledgement of these board activities by saying that the extent of the chicken board's promotion and research was much less than they would like to see.

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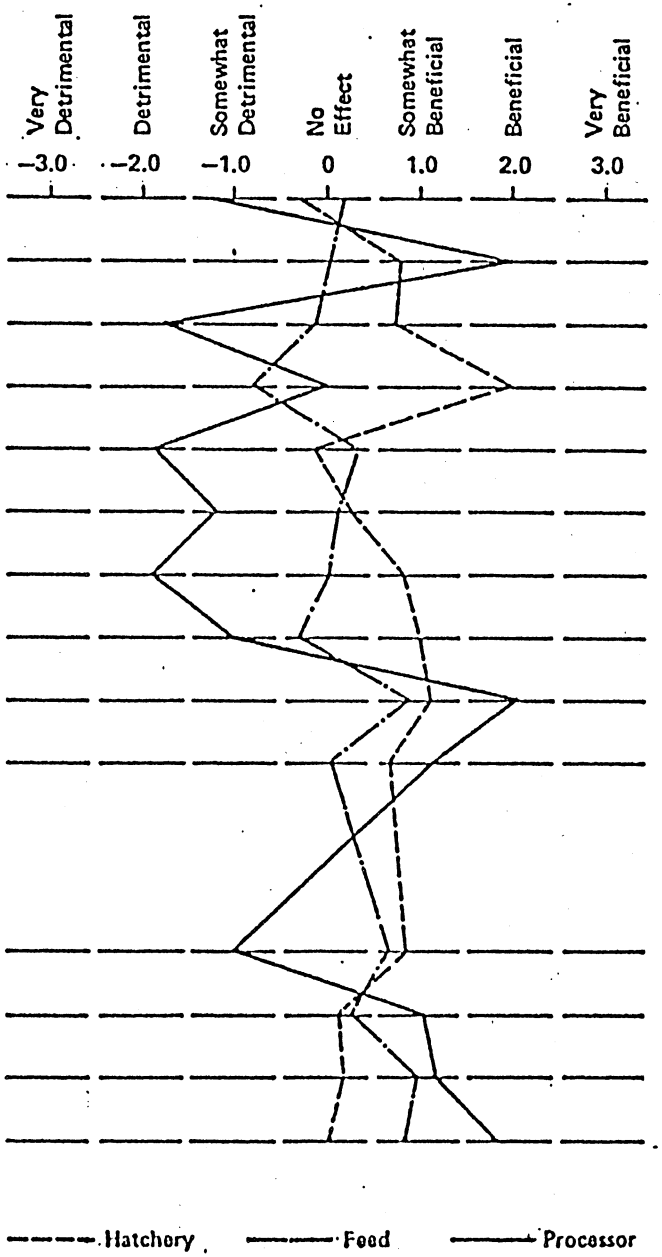
(37)Personal communication from Dr. George H. Collin, Chairman of the Farm Products Marketing Board, October 13, 1977.

Figure 3.30



	Standard Deviations		
Board Powers	Hatchery	Feed	Processor
1. To Direct Marketing	1.84	0.45	2.50
2. To Pool	1.42	0.58	1.22
3. To Set Quotas	2.41	0.84	1.49
4. Commodity to be Sold to or through Board	1.33	1.21	2.60
5. To Control Agreements and Terms of Sale	2.39	0.84	1.72
6. To Require Licences and Information	1.81	0.41	1.49
7. To Determine Prices	2.1	1.41	1.99
8. To Prohibit Marketing	1.76	1.13	2.29
9. To Purchase Quantities	1.4	1.21	1.80
10. To Appoint Agents	1.35	0.38	1.32
Board Procedures			
1. Quota Advisory Committee	2.22	0.58	2.37
2. Research	2.11	0.89	1.80
3. Promotion	2.06	1.0	1.17
4. Information Dissemination	2.33	0.84	1.19

3.10.2 Impressions of Board Powers and Procedures

The participants were asked to indicate on a coded sheet the degree to which the various powers and procedures of the marketing board had or might affect their firm or their sector. The scores were summated and averaged to obtain the aggregate impression held by each sector. These impressions are represented graphically in Figure 3.30. Average scores ranging from -.49 to +.49 inclusive define the 'no effect' classification, .5 to 1.49 the 'somewhat beneficial' (-.5 to -1.49 the 'somewhat detrimental') and 1.5 to 2.49 the 'beneficial' (-1.5 to -2.49 the 'detrimental').

There were certain noticeable differences in the general approaches of the respondents toward this part of the questionnaire. Some respondents indicated with a +3 or -3 anything which they felt was beneficial or detrimental to their firm. In some cases, this led to rather large standard deviations for responses. The feed representatives were apparently either the least committal, or the least affected of the three groups because rarely did they indicate a response greater than 1 in absolute terms.

The frame of reference which the interviewees used in relation to the effects of the powers differed as well. The instruction given to each respondent to indicate the impact of a power on his own firm was interpreted by most feed respondents as the direct effect. The majority of them therefore appeared to give little thought to the feed industry as a whole. The results obtained from the feed group indicate very little impact, and several feed respondents questioned the relevance to the feed industry of the specifics of a marketing plan which is designed for producers.

The typical hatchery manager, however, viewed the elements of the marketing plan more philosophically. Several regarded the powers and procedures of the board as the instruments with which to organize and stabilize broiler production, and believed that they as hatcherymen, would benefit indirectly if the powers were administered so as to ensure the viability of the entire broiler industry. Consequently, the majority of the powers, both those which are exercised and those which are not, were deemed to be somewhat beneficial by the 'average' hatcheryman. Several respondents qualified their approval of the price setting and quota allotment powers by adding that prices and production levels need to be set properly so as to maintain competitiveness with the U.S. and Quebec industries. The majority of the processors concluded that because the pricing power is not administered with the entire industry in perspective, it is a detrimental power.

The above frame of reference which many processors employed may have resulted in the greater variation and much stronger sentiment expressed by the processor group as compared to those of the hatchery and feed sectors.

As previously mentioned, the processors were quite concerned with the broiler board's administration of the pricing and quota powers, and they viewed the powers to prohibit marketing, require licences, and control agreements as intrusions by the marketing board into their freedom to market chicken in the form, and place which they might choose.

Two delegated powers, neither of which has been exercised by the board, were labelled as 'beneficial' by the processors. Pooling of the proceeds from sale for redistribution to producers on the basis of the amount of live chicken sold, was felt to be a means of allowing the marketing board to vary the price from day to day to meet competition from imported chicken, without penalizing the producer who happens to sell his chickens on a day for which the price was lower under the present system the marketing board announce the price for the following week on Thursday at noon. As a result, importers can simply wait until then to price their products and undercut the marketing board's price if they wish.

The second power, that processors in general felt would be 'beneficial' was for the marketing board to purchase quantities of chicken. The respondents who happened to be carrying frozen stocks of chicken favoured this concept because the board would assume the costs of storage of unwanted chicken. Other processors expressed the desire that the marketing board become more involved in the marketplace in order to obtain a more thorough knowledge of the factors of demand and supply of chicken, and to utilize this knowledge in their pricing and quota allotment procedures.

Chapter 4

SUMMARY AND CONCLUSIONS

The major purpose of this reseach has been to analyze the role and influence of the Ontario Chicken Producers' Marketing Board on the hachery, feed, and processing sectors of the broiler industry. The previous chapter presented the results of depth interviews with industy managers as they relate to the specific objectives of the research. The purpose of this final chapter is to summarize these results and draw some tentative conclusions concerning the influences of a marketing board on agribusiness.

4.1 SUMMARY OF MAJOR FINDINGS

The most obvious effect of a supply management marketing board on agribusiness is the transfer of market power from agribusiness sectors to the production sector. In the broiler industry this transfer of market power resulted in two fundamental changes: first, the supply of broiler chickens is no longer determined primarily by feed companies and processors through contracts and financing agreements, but rather through the quota allocation decisions of the marketing board; and second, prices of chickens are no longer determined primarily by market forces of negotiations between buyers and sellers, but rather through the pricing formula established by the board. These two basic changes in the environment in which agribusiness firms operate have had important effects on the broiler industry which will be discussed in the following sections.

4.1.1 Integration

The first effects are those dealing with industry structure. Beginning in the 1950's, there was a rapid movement on the part of hatcheries, feed companies, and processors to integrate their operations. Although much of this integration was with the production sector through direct ownership or contractual arrangements, a certain amount of it involveed integration with other allied sectors.

Since the inception of the OCPMB in 1965, there has been a sharp curtailment of integration activities. This has been particularly pronounced in the case of integration to the production sector because of the marketing board's policy not to permit increases in quota ownership by an individual or organization beyond 75,000 square feet, or amalgamation of quota on one premise in excess of 35,000 square feet. Although there are certain loopholes which permit agribusiness firms to accumulate more quota, further integration to the farm level has been limited by the cost of obtaining additional quota and the fact that the maximum production capacity at any one location is too small to justify the purchase price of the premises and quota rights. The result of these factors has been to hold the ownership of production quota by agribusiness firms to approximately the same level which prevailed at the time the marketing board was introduced.

The fact that integration to the production sector has been slowed by the restrictions of the marketing board has resulted in a production sector characterized by a large number of relatively small producers. Although large, integrated firms report that this creates some inefficiencies in the form of higher selling and distribution costs, smaller independent firms attribute their very existence to this situation. They claim that in the absence of the marketing board they would have eventually lost their markets or sources of supply to the integrated concerns, and therefore been forced to leave the industry or sell out to another firm.

Integration of agribusiness firms with other sectors of the broiler industry also appears to be declining. Despite the fact that "package deals" are still viewed as desirable by many growers, the available evidence indicates that many firms are offering these more on the basis of working arrangements with other firms than through ownership of these firms. To some extent industry managers attribute this situation to the marketing board's restrictions on the accumulation of quota under one owner on one premise. Because they feel that the ownership of the farm level is necessary to take full advantage of vertical integration, and because this is not possible under the current stuation, they have decided to limit their integration into other sectors as well. In addition, the reduced profitability of the processing sector in recent years has made potential investments in this sector by feed companies and hatcheries very unattractive.

4.1.2 Margins

In addition to influencing changes in the rate of vertical integration among firms in the broiler industry, the presence of a marketing board also has had an effect on gross margins. However, unike the situation with respect to vertical integration, the effects on gross margins have not been felt equally by all sectors. Survey results showed that most hatcheries and feed companies reported increased gross margins after the introduction of the marketing board, whereas all processors reported decreased gross margins.

The increased gross margins reported by hatcheries and feed companies were attributed mainly to the improved financial situation of producers brought about by the policies of the marketing board. Because of this situation, many industry managers felt that prices for chicks and feeds have increased faster than they would have in the absence of a marketing board. In addition, the improved financial situation of the industry has also reduced the amount of bad debts experienced by these firms. This is a very significant change for firms who, prior to the marketing board, had experienced substantial losses on contracts and mortgages held with their customers.

The decrease in gross margins reported by processors also were attributed to certain policies of the marketing board, particularly those related to pricing. Given the pricing formula used by the board to establish live broiler prices, most processors reported gross margins are depressed because they (the processors) are postitioned between a relatively inflexible, cost-of -production determined price for their inputs, and a downward, flexible, market-determined price for their processed products. In addition, they claimed that because of the board's restrictions on production through its quota allocation decisions, their fixed costs are spread over a much smaller volume of output resulting in significantly higher unit operation costs.

The situation with respect to gross margin changes has been met with a variety of responses. In the feed and hatchery sectors, the increased gross margins have been responsible for some improvements in product quality, services to customers, and profits. In the processing sector, on the other hand, the decreased gross margins have been absorbed by decreased profits with little or no reported changes in product quality or customer service.

4.1.3 Operating Policies

Another possible influence of a marketing board on agribusiness is in the area of internal policy formulation with respect to such factors as pricing promotion, product development, market development, and inventories.

Most managers in the broiler industry feel that competition within their sector, rather than the marketing board has had the greatest effect upon their decisions in the areas of pricing, promotion, and product development. A possible exception is that some feed company executives feel that pricing is not as important as it was prior to the introduction of the marketing board when producers were under greater pressure to obtain the lowest possible price for their inputs. Moreover, despite the fact that the OCPMB is involved in some promotional activities for broilers, managers in all sectors reported that this had no effect on their promotional decisions.

The situation is somewhat different in the area of market development. Here most managers in all sectors felt strongly that the pricing policies of the OCPMB eliminated the possibility of developing new markets for Ontario broilers outside of the province. In respondng to questions in this area, a surprisingly large number of managers cited what ostensibly is an industry credo; "The marketing board should be called a production board because they have nothing to do with marketing." They supported this statement by explaining that the board takes no responsibility for marketing live broilers after they have been picked up at the farm by the processors, despite the fact that the board sets production levels and live prices which have significant impacts on the availability and retail prices of the final product.

In the area of inventory policy no changes were reported by the feed and hatchery sectors. Processors, however, reported sizeable inventory increases since the introduction of the marketing board. These increases were attributed to the pricing policies of the board which resulted in what they termed "unrealistically high prices" and a lack of proper incentives for growers to produce the weight categories in greatest demand.

4.1.4 Technology and Capacity

Other examples of specific influences of a marketing board on agribusiness firms can be found in the areas of technology and capacity utilization. As expected, findings substantiate important influence in these areas.

First, the presence of a marketing board was found to reduce the incentives to make investments adopting new technology. This was particularly true in the processing sector where managers cited the lack of market growth and inadequate margins as reasons for adopting new technology at a slower rate than they would have in the absence of these conditions.

Capacity utilization was also found to be affected adversely by the policies of the marketing board. With the exception of two processors who specialized in processing imported chickens, all firms in all sectors reported operating below desired capacity. For a large proportion of firms the difference between desired and actual capacity was significant as it exceeded 20%. As in previous cases, the problem of inadequate capacity utilization was found to be somewhat more serious for processors than for firms in the feed and hatchery sectors because of the recent influx of eviscerated imports and the specialized nature of most processing plants.

4.1.5 Risks

A major area of influence of a marketing board on related agribusiness firms is risks. Since the inception of the marketing board in 1965, the Ontario broiler industry has seen a transfer of risks from the feed, hatchery, and production sectors, to the procesing sector. This transfer of risk to processors, however, has not been accompanied by any risk premium for this sector. On the contrary, available evidence seems to indicate that the opposite situation prevails.

According to current operating policies, broiler producers assume the least amount of risk of any participants in the system. Because most of them sign contracts with processors before undertaking production, they are assured of a market for their product; and because their product is priced on the basis of a cost-or-production formula, they are assured that the price they receive will normally cover their production costs plus an allowance for a certain return on investment. As a result, about the only economic risks they face are associated with the value of the quota they own.

Feed companies and hatcheries also have less economic risk than before the marketing board came into existence. This is mainly because of the stabilizing influence of the board which has led to less bad debts and fewer contracts and mortgages held by these firms.

Processors, on the other hand, have assumed substantially more risks as a result of the marketing board. These firms are now in a position where they must contract for their supplies three to five months before production without knowing, first, the price the board will set in the week the birds will be delivered; second, the percentage of basic quota which will be in effect at that time, hence the exact number of birds they will be obligated to purchase; and third, the price of eviscerated imports and the demand for broilers at the time of processing. This situation, together with the chronic low profitability of this sector, clearly illustrates the fact that processors have assumed the major economic possibility of receiving compensation for the assumption of these risks.

4.1.6 Other Marketing Board Powers

In addition to the two fundamental powers of any supply management marketing board to set prices and determine and allocate production quotas, many marketing boards have additional powers which, if exercised, can have beneficial or detrimental impacts on agribusiness firms. Two of these additional powers, the power to pool and to purchase quantities of broilers are viewed as beneficial by many industry managers. The power to pool the proceeds from the sale of broilers in any week and then distribute these proceeds to producers on the basis of the amount of live chicken sold, was felt to be a means of allowing the marketing board to vary prices from day to day to meet competition from imported chicken without penalizing producers who happened to sell on days when prices were lower. This power is not currently used by the marketing board and, as a result, importers can wait until the weekly price is determined to make their pricing decision. Many managers felt that this was an important factor contributing to the present situation of a high level imports from the United States into Ontario, and thus partially responsible for unused capacity and reduced profits in the Ontario industry.

The second power which is viewed as being beneficial by industry is the power to purchase quantities of chickens deemed advisable by the board. Although this power likewise has not been exercised, most industry managers feel that it should be used so management of the marketing board may obtain a more thorough understanding of the complexities of the market and thus improve their pricing and quota allocation decisions.

4.2 GENERAL CONCLUSIONS

Although the focus of this research has been on the effects of a specific marketing board on a specific industry, it may be possible to generalize beyond this situation. The following summary statements attempt to do this by pulling together many of the specific findings of this research. Because these statements are derived from limited observations, they should be viewed as hypotheses for further research rather than as definite conclusions.

First, the extent to which a marketing board influences the agribusiness depends upon the specific powers of the board and the extent to which these powers are exercised. Agribusiness views some powers as beneficial, some as detrimental, and many as having little or no effect.

Second, the extent to which a marketing board influences agribusiness also depends upon specific operating policies of the board. For example, boards that become more involved in marketing activities for the commodities they represent are likely to be viewed as having more favorable impacts than boards which are not involved in these activities.

Third, the powers of setting prices and determining and allocating production quotas, which are characteristic of supply management marketing boards, can influence related agribusiness firms in the important areas of industry structure, margins, capacity utilization, the adoption of new technology, and to some extent, the formulation of operating policies.

And, finally, the influence of a marketing board is not the same for all related agribusiness sectors. In general, the impact on firms in output sectors such as processing is more direct and detrimental than on firms in various input sectors.

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