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## **THE PROS AND CONS OF PRODUCTION AND MARKETING CONTRACTS**

Alfred R. Million  
Poultry Contract Grower

Hello, I am Alfred Million a Native American and I own a small farm near Tahlequah, Oklahoma. My sons and I have 5 broiler chicken houses. We went into the chicken business in 1976. We also raise cattle, hay and sell wood shavings for chicken house bedding and horse stable bedding.

I received my first contract in May of 1976 so I borrowed money to build the chicken houses. Once the houses were built we started production which is a twenty-four-- (24) hour seven (7) days a week job and definitely a family business. It cost me approximately \$30,000 dollars per house to build and at that time propane cost .20 cents per gallon. Now according to the type of Equipment requirements and dirt work it would take approximately \$85,000 to \$100,000 dollars to build new chicken houses. Today propane prices have increased to .98 cents per gallon. If you pre-purchase propane some propane companies will lock in a lower rate. This year's pre-buy rate is .58 cents per gallon.

In 1976, when we started in the chicken farming business the bottom grower received \$2.50 per one hundred pounds and the middle Grower/Producer made \$3.00 per one hundred pounds. Now 24 years later the average pay received of the bottom Grower/Producer is \$3.10 per hundred pounds and the middle Grower/Producer is \$4.25 per one hundred pounds. This isn't a very large pay increase compared to the rising costs of fuel, utilities, insurance, equipment and parts. As farmers our pay rate hasn't increased at the same rate as inflation. We are given a fuel allowance of .02 cents per bird for 2 winter flocks. This fuel allowance is the same today, as it was 24 years ago even though the price of fuel has risen approximately 400%.

The chicken company retains title to all chickens until they die and then the dead chickens become the Grower's/Producer's responsibility. The grower has to dispose of these dead chickens at his own expense especially if you have a large death loss due to heat or disease.

The chicken company schedules the pickup of birds according to the age of the birds. If the schedules were made to pickup all birds of the same age it would be fair, in other words all birds need to be picked up as near to the same age as possible within the same week. All birds need the same type of feed for every grower for every week. All birds need the same medication for the same week so that all these flocks are closer in comparison and in cost. The close comparison would make the growers pay more uniform.

Each Grower/Producer whose Net Pound Value, as calculated above, is two and one-half cents (2.5 cents) more or less than the Average Net Pound Value shall be removed from the average. Why? Because if the Grower/Producer was left in the line-up the Company would have to spread their cost over the whole group from the middle to top therefore the Company would have to spend more money on pay. Also, those Growers/Producers who are Company management employees or their immediate family (including, but not limited to spouse, parents, parents-in law, brothers or sisters, brothers-in law, sisters-in law, sons or daughters, sons-in law or daughters-in

law, and step children) shall be settled with all Growers/Producers. The Average Net Pound Value for the "Adjusted Average Net Pound Value" for the Growers/Producers settling birds for the week.

Each Grower/Producer settling broilers during the week whose Net Pound Value is equal to the Adjusted Average Net Pound Value at this location, determined in subparagraph C, will receive the Base Pay of four and twenty-five hundredths (4.25 cents) cents per Net Pound. For each one hundredth cent (.01 cent) per Net Pound that the Producer's Net Pound Value is less than the Adjusted Average Net Pound Value. The Grower's/Producer's shall receive one-hundredth cent (.01 cent) more than the Base Pay per Net Pound. For each one hundredth cent (.01 cent) per Net Pound that the Grower's/Producer's Net Pound Value is more than the Adjusted Average Net Pound Value, the Grower's/Producers shall receive one-hundredth cent (.01 cent) less than the Base Pay per Net Pound. No Producer shall receive less than three and ten hundredths (3.10 cents) per Net Pound.

There are so many variables in the contracting end that the Grower/Producer really needs to be in the process of writing the contract.

Each Grower/Producer needs the same number of chicks per square feet of house space. All Growers/Producers need to receive the same medication and at the same age of chickens. The feed ration needs to be the same for all Growers/Producers.

Example: During the summer months the calories in the feed may be reduced to help with the mortality rate, but the change in the feed needs to take place at the beginning of each week so every Grower/Producer will get the same advantage.

I feel the company should not demand new or more equipment as long as the Grower/Producer is doing a good job raising chickens and keeping his costs low which is a problem we have had in the past. The buildings are built 2 or 4 on a farm usually 40 X 400 feet and built to company specifications so they can only be used to grow chickens. If you should change to a different chicken company the equipment in the chicken houses has to be rerouted or at least rearranged and often times the existing equipment must be changed or more added. The closer the Growers/Producers are grouped in a weeks settlement the less they get paid therefore we need a square foot contract with incentives for Growers/Producers who do a good job.

This is one Industry where there are no cost of living increases in pay. As I have said earlier in 1976 our base pay was \$3.00 per one hundred pounds. Today our base pay is at \$4.25 per one hundred pounds.

The fuel allowance of .02 cents per bird has stayed the same rate for 24 years while during those 24 years the price of fuel has increased. This pay can vary according to the type of chicks and quality of chicks. The quality and type of feed (amount of calories) and medication, if given in the time frame it's needed.

All chicks, medication and feed costs are charged against the Grower/Producer so it is of real importance that all Growers/Producers get the same quality of chicks, feed and medication.

The Grower/Producer relies on the hatchery chick count and feed weight at delivery even though it is a split load. The Grower/Producer relies on the Company's Processing Plant for the number and weight of chickens processed and condemned.

As I have said there are so many variables involved such as the number of chickens placed, the breed of chickens placed, type of feed used and amount of feed used (feed with or without medication, withdrawal feed and finisher feed)

We also need to address the issue of down time, while catching chickens. When trucks run late break down or loader break down time occurs will effect the chickens. This is very important because of "shrinkage". The feed and water have already been turned off for several hours

therefore the chickens have already shrunk and then they will start to eat off of the floor therefore this increases the chance for a higher number of condemned or contaminated chickens received by the Processing Plant.

The average Grower/Producer payment will be .20 cents per chicken after condemnation. A 40 X 400 chicken house will hold approximately 20,000 chickens, then you have to subtract the number of chicken mortality (this varies per flock), and the number of chickens condemned by the chicken company plant.

Example: on the average your pay may be figured on 19,000 chickens more or less. Then the expenses such as Electric, Labor, Bedding, Water, Mortgage, Insurance and various equipment repairs are subtracted. Most Growers/Producers don't even make minimum wage. I have seen checks for as little as \$5.00.

In Oklahoma two (2) years ago we had legislation started for better management of poultry waste from chicken houses. The chicken company lobbyists told the legislation committee they didn't want them to police the law that they would make sure the Grower/Producer followed their management plan and if the Grower/Producer didn't follow the plan as they were suppose to they wouldn't supply them with anymore chickens.

Some of the things that are good about having a contract are that the Grower/Producer doesn't have any of the marketing risks. A family can stay on the farm and work at home (but can't make a living). There are other opportunities for income such as fertilizer from chicken house clean out which helps produce excellent hay crops.

In closing I would like to say that we need square feet contracts with incentives or bonuses for performance. The fuel allowance and rate of pay needs to match the inflation from the past 24 years.

One thing that stays in my mind is that the Company says if you don't do what we say in regard to equipment or equipment placement changes we will not give you anymore chickens. The Grower/Producer has to give a 60-day termination notice before terminating their contract with the Chicken Company, but the Company can terminate a Grower/Producer anytime.

Thank you for your time. Are there any questions?

Thank you.