



Poultry Patter

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CONTRACTING FOR EGG PRODUCTION

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Contracting has been quite common in many areas of our country where rapid expansion in egg production has been taking place. While egg contracts have not been used to any extent thus far in Minnesota, considerable interest has been shown in these practices as changes are taking place in the size of our production units.

The success of any contracting program depends on the services that the contract can perform for all the parties involved. The contract will fail as soon as it becomes too advantageous for one of the contractees at the expense of the other. A good contract must involve reputable people on both sides. They must have faith and trust in each other and the program. Each party must see an advantage in the contract approach, and it must serve a purpose for each contractee.

Kinds of Contracts

There are many kinds of contracts which have different requirements. But basically there are three types of egg contracts.

1. A percentage of return type. This contract seems to be the most satisfactory type of contract. Each party will share in the income from eggs based on a predetermined percentage. The fairest method of determining this percentage is on the cost of all the inputs. An example of this type would be: feed supplier gets 52 percent, ready-to-lay pullet supplier 29 percent, producer 19 percent of the egg income. These percentages will vary depending on the services rendered by each person involved. The smaller the percentage the less chance there is for a big

loss, but also less chance for big profits. Under this method each party shares in changes in price and no one takes all the risk. These percentages should be reviewed by the parties every 3 months to take a look at the cost of the inputs because feed ingredients and other production inputs change in price.

2. A fixed fee type. In this case the contractor takes most of the risk and the producer is working for wages. Usually the producer is paid a fixed fee per dozen of eggs sold, or per hen per week or month. Some of these contracts may have incentives based on feed conversion, egg production, egg quality, or mortality. In general, the producer is paid a fixed amount each month for his buildings, equipment, taxes, insurance, and labor.

3. Guaranteed price type. Here the producer owns the birds and pays all the expenses, but is guaranteed a fixed price for his eggs based on size and quality. In this case the producer is protected against price declines, but will also lose the profit during periods of high prices. Usually the price is guaranteed at a fraction of a cent under the average market price for the area.

In all of these contracts the producer is going to give up some of his profit potential for the services and protection that are offered by the contract. A well-planned contract contains some economies such as lower selling costs because of better scheduling of the egg supply. The real advantage to the producer is the sharing or the entire shedding of the financial risk.

Provisions That are Needed in the Contract

There are many minor and yet very important details that need to be clearly understood before signing of any contract. These things should be spelled out in the contract.

1. Who owns the birds and who determines when they should be sold and to whom?

2. Who determines the medication program and at whose expense?

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3. Who keeps the financial records?
4. What is the length of the contract and how can it be cancelled or renewed?
5. Who schedules and supervises the pullet rearing program?
6. What provisions are made if the flock is marketed early? Is the producer without any income?
7. What is the planned shutdown period between flocks for cleanup?
8. Who is responsible and who pays for cleanup?
9. How are the cracked and undergrade eggs marketed?
10. Is the producer allowed eggs for his own consumption?

Evaluation

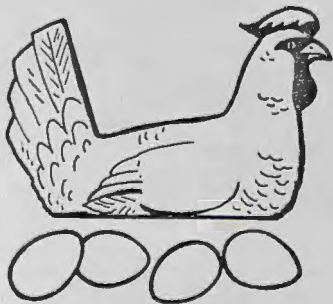
In order to evaluate any contract one must first study it so that he is familiar with the con-

tract. He can only blame himself for any parts of the contract that he does not understand.

The most common error in contracts is that a producer is paying for services for which he has no need. Services should be very carefully evaluated because duplication of any services can be costly. The most needed service is financing. If a person can finance himself as cheap or cheaper on his own, this should be known. Marketing the eggs is another service that is needed. In most cases a contractor can do a better job of selling eggs because there is a need for greater volume in the market channels.

After a thorough study of the contract, a budget of expenses and plan for debt retirement should be prepared. Will the income from the contract cover all costs? It must leave a profit, otherwise there is merely a trading of dollars for no real benefit. There must be some benefit for everyone involved in the contract.

All egg contracts do not fit all producers. A person must pick the one that fits his needs. It may provide a method by which your egg production enterprise can be expanded.



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IN THIS ISSUE. . . Contracting
For Egg Production

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