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EGG PRODUCTION CONTRACTS

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CONSIDERABLE INTEREST has been expressed by producers and contractors alike in egg production contracts. The producers are interested in reducing capitol investment requirements and limiting risks while at the same time having some assurance of a guaranteed income. Contractors usually are feed dealers, hatcherymen, pullet growers, egg marketing agencies, or a combination of these interests. Their objective is to secure a market for feed or pullets or to secure a uniform supply of quality eggs.

For producers with limited capital this type of production may fill a basic need. Producers must recognize, however, that in return for this financial assistance and assumption of risk, contractors must secure from the enterprise a reasonable return. This return may be in the form of the regular markup on feed, pullets and eggs, or it may come in the form of returns over costs when the final production period is completed.

The following presentation is based on the premise that the contractor owns the birds.

Contractor's Responsibility

It is the responsibility of the contractor to furnish ready-to-lay pullets at 20 to 22 weeks of age, all feed, medication, vaccine, insecticides, and to pick up eggs at the farm. His serviceman checks the flocks periodically, and is available for consultation and assistance if problems arise. Taxes assessed against the flock are paid by the contractor. It is his responsibility to furnish monthly financial reports on the flock, as well as grade out reports on eggs and a running summary on performance.

Controls

The contractor has the authority to make decisions on management procedures, flock treatment, etc. It is desirable that such procedures be worked out mutually, but if a decision must be made it is the prerogative of the contractor since he owns the birds.

Producer's Responsibility

The producer provides suitable housing and equipment, and labor for caring for the birds. He keeps necessary flock records on production and mortality showing all removals and additions as well as daily egg production. It is his responsibility to:

(a) Maintain all buildings and equipment in good working condition.
(b) Personally supervise the maintenance, care and feeding of the flock.
(c) Spray for mites, flies and other insects when instructed by the contractor to do so.
(d) Notify the contractor of any flock trouble or disease.
(e) Allow no visitors in the laying quarters except the contractor's employees.
(f) Gather and case eggs according to contractor's instructions.
(g) Dispose of sick or dead birds in a sanitary manner.

Payment Schedule

The method of payment varies with different contractors. Usually, however, there is a regular weekly payment on the base price with bonus payments coming at the end of the laying period.

(a) **Base Payment Schedules** are usually based on the number of pullets in the laying house at the beginning of the month, or on the number of dozens of eggs sold. An example of base payments being made to producers would be 8½c per bird per month based on the number of layers in the house at the beginning of each month, or a flat rate of 5c per dozen for all eggs sold.

(b) **Bonus Payments** are usually paid at the end of the production period. They are based on one or more of the following: feed

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conversion, liveability, egg price or grade out.

An example that might be typical of bonus payment schedules follows:

1. *Feed Conversion Bonus Schedule* [1]

Pounds feed per doz. eggs	3.8	3.9	4.0	4.1	4.2	4.3	4.4	4.5
Bonus payment cents/spent hens	28	24	20	16	12	8	4	0

2. *Liveability Bonus Schedule*

A bonus of 10c per bird will be paid for each spent hen at the end of the production year.

3. *Price Bonus Schedule* [2]

Aver. price/doz.	30c	31c	32c	33c	34c	35c
Bonus payment cents/spent hens	4c	8c	12c	16c	20c	24c

4. *Egg Grade Out Bonus Schedule*

Payment of 5c per bird based on spent hens for egg quality which averages 93% Grade "A" or better.

(c) **Payment Based on a Market Price —** A specific market (New York, Detroit, Chicago) and a specific grade (U.S. Grade A, Large) should be selected for the base to be paid to the producer at the following:

Market Price	Producer is Paid
40c and over a dozen	8c a dozen
37½c to 40c a dozen	7½c a dozen
35 to 37½ a dozen	7c a dozen
32½ to 35c a dozen	6½c a dozen
30 to 32½c a dozen	6c a dozen
27½ to 30c a dozen	5½c a dozen
25 to 27½c a dozen	5c a dozen
Below 25c a dozen	4½c a dozen

The above rate would apply to Grade A, Medium and better. All other eggs to be paid for at one-half the above rate.

(d) **Profit Sharing Plan —** In lieu of other bonus payments and guarantees producers and contractors may wish to consider a profit sharing plan. Such a payment should be set up so that inputs would be charged in at cost and payments made on the basis of a percentage of the remainder being paid to the producer, and the rest to the contractor. Since base payments usually account for only a nominal wage if any for producers, it seems logical that the contractor's inputs should also be charged in at cost. A real problem becomes evident when one realizes the difficulty of arriving at a cost price for the contractor.

Example: When producers are paid 8⅓c per bird per month this amounts to only 94c per year per pullet housed, if mortality averages 1% per month. Since depreciation on a new pullet house and equipment could equal or approximate 32c per bird per year, interest on investment, repairs and maintenance 19c per bird per year, and taxes, insurance and utilities 20c per bird per year, only 23c per bird or approximately 1¼c per dozen is left for labor based on 17½ dozen eggs produced per pullet housed. [3]

Although it is difficult to predetermine labor requirements it would appear that this is somewhat less than what might be considered a minimum wage.

If a profit sharing plan were set up so the producer received 45-55% of the income over cost and the contractor 55-45%, there would be an added incentive for the producer to do a better job. This would also encourage the contractor to provide "top notch" pullets, as well as good feed and management supervision. Such a plan would provide for a sharing in returns rather than having the contractor assume all risks and reap all of the advantages that might accrue through good egg prices and profitable management or, vice versa, assume all of the loss which might come.

For Pullets Not Yet In Production

A payment of 2c per bird per week might be made for pullets placed in the laying houses until the flock reaches 50% production. When 50% production is reached, the laying contract begins.

When Payment Is Made

Payments should be made to the producer at regular intervals, preferably weekly. Since money management is usually in the hands of the contractor the producer should receive monthly running account statements so he will know how the project is progressing.

Length of Contract

Although present contracts are usually written for one laying year, 12 to 14 months, it would be desireable to have the contract written for a 3-to-5 year period. This would assure the producer that he could stay in business if he continues to do a good job and at the same time would assure the contractor that he would have the facilities for successive laying years. This would also encourage contractors to be competitive in contracts offered to good producers and use caution in selection of producer, facilities, etc.

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[1] This approximates a 50-50 sharing of savings effected through good feed and good management. Management is a factor over which the producer has considerable control.

[2] This approximates a return to the producer of 25% of the advantage of a price structure where average prices reach or exceed 30c/doz. 75% of the advantage of more favorable prices go to the contractor since more of the risk is shared by him. Also the contractor has the responsibil ty of finding the best possible market.

[3] Investment for buildings and equipment was computed on the basis of $3.20 per bird and was depreciated over a 10-year period, or at the rate of 10%. Interest on investment was computed at 6% per annum, simple interest, and figured on the full amount of the initial investment. It was recognized that interest charges would decrease with depreciation or as payments were made but it was calculated that this interest advantage would be offset by repairs and maintenance which would increase as the buildings and equipment become older. It is possible that obsolescence might add to this increased maintenance cost also. The charge of 19c/bird/year for taxes, insurance and utilities was estimated based on a study of costs of these items on some poultry farms in Western Michigan. The hypothetical 23c left for labor for 12 months of work might diminish or be a negative figure if the producer had higher investment costs or was on a rapid pay-back schedule and/or add on interest. (Add on interest charges at the rate of 6% on a $5.00 investment cost and a 5-year pay-back would necessitate a repayment at the rate of approximately $1.30/bird/year leaving a labor income of minus 36c/bird without including repairs, maintenance taxes, insurance and utilities.)

What Happens If??

Since poultry flocks are made up of living entities, it is conceivable that a poor flock might develop that seemingly does not have profitable production potential. If this happens the contractor may, at his discretion, replace said flock with ready-to-lay pullets, and the contract would be automatically renewed.

Interruption of Contract

If for reasonable cause either party desired to discontinue the contract, notice must be given in writing at least ninety days before the anticipated completion of the laying year. Arbitration has usually been possible as a means for settling disputes rather than resorting to the courts.

Escape Clause

The contractor may wish to provide opportunity so that at his sole option and with just cause, he may terminate the agreement at any time by delivering or tendering to the producer a bill of sale (actually the integrator gives the chickens to the producer in order to cancel the contract or agreement) for all female chickens included in said flock, which bill of sale shall be accepted by the producer in full release and discharge of all the producer's rights, and all of the contractor's liabilities then accrued or thereafter to accrue under the terms of the agreement, including any liabilities of the contractor for future payments under the provisions of the contract. (This would probably be used only with a poor producer, a poor contract, or with an extended period where extremely adverse market conditions prevailed.)

SUGGESTED PROVISIONS FOR AN EGG PRODUCTION CONTRACT [1]

Memorandum of Agreement

This agreement, made and entered into this .... day of ...., 19......., between .... of ...., Michigan, hereinafter designated "Contractor", and .... and ...., his wife, of ...., Michigan, hereinafter designated "Producer."

WITNESSETH:

(1) The Contractor has this date delivered to the Producer's farm located at the above address, a total of .... (...............) sexed female chickens, receipt of which is hereby acknowledged by the Producer. Title to said chickens shall at all times be and remain with the Contractor, and the Producer shall have no right, title or interest of any kind whatsoever therein. [2]

(2) During the term of this agreement, the Producer will, at his sole expense, maintain, feed and care for all of said chickens and eggs at the Producer's farm in accordance with instructions issued, or to be issued from time to time, by the Contractor. The Contractor will pay all expenses for feed and medicines used in the maintenance, care and feeding of said chickens. In connection with such maintenance, care and feeding Producer shall:

a. Supply and keep in good working condition all buildings and equipment

b. Personally supervise the maintenance, feed and care of all said chickens in accordance with good poultry husbandry practices. Gather and maintain the quality of all eggs produced by said chickens, in accordance with instructions issued by the Contractor from time to time.

c. Keep all cages and dropping pits on the Producer's farm in good condition and spray for mites, flies and other insects when needed or when instructed by the Contractor to do so. Add superphosphate to the droppings when instructed by the Contractor to do so (said insecticides and superphosphate to be provided by the Contractor). Remove and crate for market all spent hens in accordance with good poultry husbandry practices, or when instructed by the Contractor to do so.

d. Notify the Contractor of any flock disorders.

e. Allow no visitors in the laying quarters except employees of the Contractor. Permit signs to be posted by the Contractor at all entrances to the Producer's poultry house forbidding visitors to such areas. The Contractor's employees and agents shall be permitted to make unannounced visits to the Producer's farm for the purpose of inspection.

f. Because of the recognized dangers in the spread of infectious diseases, the Producer will refrain, and will prevent those persons employed in care and feeding of such flock, from visiting other poultry farms unless special precautions, as recommended by the Contractor from time to time, are strictly observed.

g. Maintain daily inventory records on all flocks, showing all removals and additions, and daily egg production on forms provided by the Contractor.

(3) Throughout the term of this agreement, the entire egg production of said chickens and all marketable poultry meat obtained through culling said chickens are the property of the Contractor. The Contractor, or his agents, shall regularly pick up all marketable poultry meat and eggs from the Producer's farm or arrange with the Producer to deliver same to a convenient central location. (The Producer should provide for a disposal pit or incinerator for disposal of dead or otherwise unsaleable chickens, as well as unsaleable eggs, such as "leakers", etc.)

[1] Although this has been prepared as a model contract, it is recognized that each contract should be geared and revised to the individual situation.

[2] If pullets are less than 20 weeks of age some provision should be made for payment until 50% production is reached. (This could conceivably be on the basis of 2c/bird/week.)

(4) The Contractor agrees to pay the Producer, or credit to his account, as sole compensation for the maintenance and care of all said chickens covered by this agreement, a base amount of 5c per dozen. Base payments will be made weekly to the Producer, or credited to his account, for all eggs received the previous week. All materials incidental for preparing said eggs for market shall be furnished by the Contractor.

(5) Profit-Sharing Plan

The Contractor agrees to charge all pullets, feed, medication and other supplies to the flock at cost. Cost is to be computed on the basis of actual purchase price plus delivery charges for pullets, feed on the basis of actual ingredient costs plus a mixing and delivery charge not to exceed $8.00 per ton. All other supplies are to be charged to the project at cost. (If complete feeds are purchased by the Contractor, only the cost plus a $1.00 per ton delivery charge shall be charged against the enterprise with no additional markup.)

a. At the close of the laying contract the Contractor will furnish a complete report on the flock. Receipts will include egg sales and spent hens. Expense items will include base payments to the Producer, all charges for feed, medication and other supplies as well as veterinarian and/or laboratory charges. Expenses for the serviceman are to be borne by the Contractor.

(1. A share of the remainder is to be paid to the Producer as a bonus over and above the base pay of 5c per dozen. This share might be 45% to 55% of the remainder.)

(6) The Contractor may not terminate this agreement during the twelve (12)-month period hereinafter designated unless Producer fails to adhere to the agreement as outlined in Paragraph (2). In the event the Producer violates or fails to carry out any of the terms outlined in Paragraph (2) hereof, the Contractor may serve written notice outlining noncompliance with said Paragraph (2) hereof, and if the Producer fails to correct the condition or conditions outlined in said written notice within ten (10) days from receipt of said notice, then in that event the Contractor may, after five (5) additional days, remove all birds from Producer's premises, or take necessary steps to correct management. Additional costs are to be charged against the Producer's account.

a. It is further agreed that should the Producer and the Contractor be unable to agree mutually on flock treatment, and other management decisions, it shall be the Contractor's prerogative to make such managerial decisions.

(7) This agreement shall automatically expire when said chickens shall have been housed at Contractor's expense in the Producer's premises for a period of twelve (12) months; provided, however, if the physical condition of the chickens and/or market conditions are such as to make it economically profitable, then in that event this contract may by mutual consent of the parties hereto, be extended, from month to month.

a. It is further agreed that this contract shall be automatically renewable at the end of the production cycle unless the Contractor or the Producer has served written notice at least ninety (90) days prior to the end of the contract year, that he desires to interrupt the contract relationship at the end of the existing contract. At this time if necessary adjustments are indicated in either the base payment or profit sharing schedules, such changes should be indicated. Any such changes which can be mutually agreed upon should be made before the new contract is tendered.

(8) It is agreed that the Contractor shall not be liable to the Producer in any manner for any losses or damages occasioned by any diseased or defective condition of said chickens, or by any of them, whether known or unknown. The Producer also agrees to hold the Contractor blameless for all damages of any kind or nature whatsoever that may be claimed by or caused by any act or negligence whatsoever of the Producer or any agent or employee of the Producer.

(9) The Contractor shall not have possession or any right to possession of the premises, which shall remain in the possession and control of the Producer, excepting right of inspection at all reasonable times. Further, the Producer agrees to save blameless the Contractor from any and all liability, loss and expense, including attorney's fees in defending against the same, arising from the condition of the premises, or an act or failure to act by the Producer, his agents or servants, and from any and all liability to the Producer or his employees under the Workmen's Compensation or similar laws.

(10) This agreement and Producer's rights hereunder shall not be voluntarily assigned by the Producer to any person, firm or corporation without the written consent of the Contractor, nor in any event be assignable by operation of law.

IN WITNESS WHEREOF, the parties have hereunto set their hand and seals, the day and year first above written.

.... (Contractor)

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.... (Producer)

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