

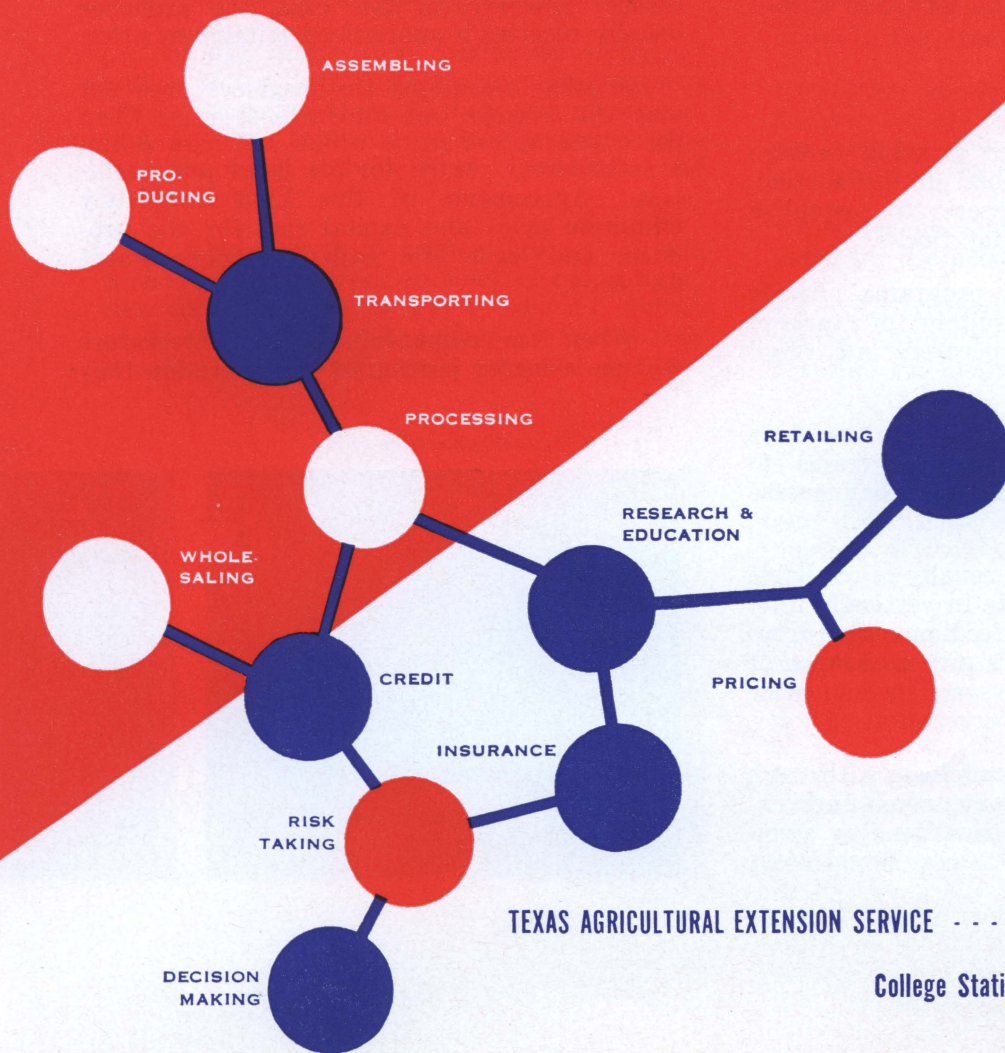
# VERTICAL INTEGRATION IN TEXAS AGRICULTURE

## Turkeys



Vertical integration in the production and marketing of turkeys is carried out through contracts and agreements between turkey producers and businesses, such as feed dealers, feed manufacturers, processors and hatcheries.

Indications are that integration in this industry will continue to grow.



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## *Extent in the U. S. and Texas*

Most turkey growers participate in some form of vertical integration. Estimates show that about half of all the turkeys produced in the United States come from integrated programs and about three-fourths of the major feed companies in the United States have integrated programs available to turkey producers.

A large percentage of Texas turkey feed manufacturers have integrated programs in cooperation with turkey producers. Six leading feed manufacturers in Texas have indicated that they financed about 84 percent of their turkey producer customers to some extent in 1958. This practice is increasing.

About 70 percent of a number of turkey producers in Texas who were interviewed in 1958 stated that they operate through vertically integrated programs. These programs include financing and supervision in cooperation with feed manufacturers, feed dealers and hatcheries.

### *Why Has it Grown?*

- • • Improved practices in growing turkeys have lowered the unit cost of production, thereby encouraging growers to establish large, specialized commercial flocks.
- • • Vertically integrated programs provide a constant and ample supply of turkeys throughout the year to processors and retail outlets.
- • • Feed manufacturers and dealers have promoted vertically integrated programs to meet competition in feed sales and to increase the tonnage sold.
- • • A marketing service usually is available to producers who participate in vertically integrated programs through feed manufacturers and dealers. These services give assurance of a competitive market, and some include price arrangements.
- • • Feed manufacturers and dealers, through vertically integrated programs, sometimes extend more credit than the usual lending agencies are willing to lend. If a loss should occur

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in production cost, the manufacturers and dealers may be able to recover some of the loss through profits in feed sales.

••• Vertically integrated programs assist in providing turkeys of more uniform quality to processors and buyers.

••• Financial risk to producers is reduced where it is shared through vertically integrated programs.

### *Integrated Practices*

A common practice is a contract between the turkey producer and feed company which stipulates that the producer is to use the company's feed and its supervisory management in return for financing furnished by the company.

The grower usually furnishes facilities and labor. Contracts may stipulate further that the turkeys are to be sold to specified processors; however, in this case, the producer usually receives a guaranteed minimum price.

In some situations the producer does not own the turkeys but contracts to raise them for a guaranteed price which will assure him a satisfactory return for his labor and facilities. Agreements of this kind completely eliminate price and capital risk for the producer and leave him with few management decisions.

When feed companies and other integrators finance a major portion of the operation they

usually provide supervisory management. Field representatives visit growers regularly and advise on management practices pertaining to nutrition, housing, sanitation, disease control and the best-known methods of production and marketing.

The purchase of turkey poultts may be financed by feed dealers and other integrators. When this is done, the poultts are insured against losses such as from hail, floods and fire. The cost of medication and disinfectants also is financed. In some instances, the grower reserves the right to purchase poultts from the hatchery or breeder of his choice.

### *Future Developments*

Integration will continue to encourage greater specialization in the turkey industry. This will mean larger production units and more efficiency in the production and marketing. Total turkey production probably will be maintained at a more uniform level.

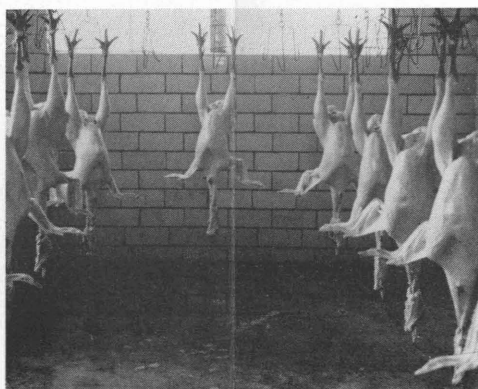
Through integration, production efficiency and a larger total volume may bring about smaller margins of profit per unit of production. In turn, further economic pressures may face the small and inefficient producers and integrators.

Further growth in vertical integration will depend to some extent on whether credit agencies can meet the turkey producers' future needs. If they do not, turkey producers may increase the use of credit supplied by feed

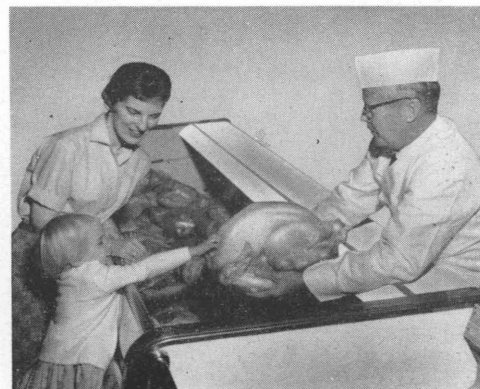
--- Production ---



--- Processing ---



--- Consumption ---



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dealers, feed manufacturers and other integrators.

The growth of vertical integration in turkey production also will depend on the general financial position of producers. Producers who have land, facilities and labor, but lack capital, probably will use integrated programs based on credit.

Vertically integrated agreements in the turkey industry likely will continue to increase in number. However, contracts may change to meet changing conditions.

### *Advantages*

- The producer usually has less capital risk involved in turkey production.
- Some producers will be able to use their own land, labor and facilities which otherwise might not be used to the best advantage.
- In some instances, integrated programs increase the producer's income.
- New producers may enter turkey production for the first time. If successful, they can bring a new and prosperous agricultural enterprise to the community.
- Needed additional capital can be provided for the producer to operate efficiently.
- Satisfactory market outlets and managerial ability will become available, thus increasing the chances of adequate profits.

### *Disadvantages*

- Independent producers in a limited area may find it difficult to compete with a large number of vertically integrated turkey growers.
- In some cases, producers must give up some of the management decisions to others in return for reduced risks and capital supplied by the integrator.
- If a single integrator should gain control of the market supply in an area he could have a certain degree of monopolistic power. As long as producers can choose among several

integrators, competitive conditions should remain vigorous and turkey producers can maintain their bargaining position.

### *Guides for Producers*

- Examine the contracts available through integrators and other local sources. Study and understand every clause in the contract that you sign and make sure that the terms are of mutual benefit to you and the integrator.
- Make sure that contracts are made with reputable integrators who can and will fulfill their obligations.
- Make sure that the contract arrangements are flexible enough to fit your needs and that you understand completely what is expected of you as a turkey producer.
- If vertically integrated programs in turkey production are growing rapidly in your immediate area, it might be advantageous for you to participate. The independent producer who does not have a dependable source of supplies and a constant market may eventually operate at a serious disadvantage.

- Determine whether it is more important to share capital risk with someone or retain your individual freedom in making production and marketing decisions.

Vertical integration refers to the linking together of two or more stages of production, processing or marketing activities under one management. The key feature of vertical integration is the centralization of decision-making, risk-bearing and supervision.

This is the twelfth leaflet in the series, "Vertical Integration in Texas Agriculture." Similar releases on other crops and livestock important to the Texas economy will follow.

By bringing together present knowledge and current practices regarding vertical integration in Texas agriculture, the staff of the Texas Agricultural Extension Service and Texas Agricultural Experiment Station in the Department of Agricultural Economics and Sociology hope to help you make wiser decisions about this matter.

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