Broilers

Until the last two decades, broiler growing was a traditional enterprise on most Texas farms. Many farmers would produce just enough for family needs, and even growers for the commercial trade usually considered the enterprise as a small sideline. It also was highly seasonal. Production was virtually divorced from marketing and processing, except when the farmer also retailed and dressed his birds.

Broiler production today is highly commercialized. Most production in Texas now is integrated in two or more stages of the industry which extend from the producer to the consumer. Production has doubled and redoubled. Quality has improved vastly. Production is no longer seasonal.

HARLEY BEBOUT
Associate Professor
Texas Agricultural Experiment Station

ROBERT CHERRY
Economist
Texas Agricultural Extension Service

BEN WORMELI
Poultry Husbandman
Texas Agricultural Extension Service

The Texas A. & M. College System
VERTICAL INTEGRATION IN TEXAS AGRICULTURE

Broilers

The producer and his dealer.
The hatchery.
The processor.
The economic reason for vertical integration in the broiler industry, as in other farm products, is so that ultimate profits of the combined enterprises may be increased. This often happens through increased efficiency when the size of the total operation is expanded and farm production and marketing functions are brought under centralized management.

When the production and marketing phases of broiler production are integrated, the farmer, under contract with his supplier (generally a feed dealer, or possibly a feed manufacturer or processing plant), obtains all required production items and delivers the finished broilers to the supplier. The supplier performs the functions of processing, wholesaling and retailing the product. This may permit a product of higher quality and lower cost to be offered consumers and should permit higher earnings to all segments.

Under the contract method of integration so prevalent in the broiler industry, the farmer may or may not show a profit. He may benefit if he is allowed a fixed margin of return for his labor and capital. In the case of a more complete type of integration where the integrator gives close supervision and provides all the investment and operating capital, the farmer is an employee.

Integration for broilers may begin at any level in the production-marketing chain. It may begin with a farmer cooperative which operates under contracts with its members; or with the farm supplier such as the feed dealer in the broiler industry; or with the processor contracting with farmers; or with the retailer who contracts with the processor or does his own processing.

In some states, the processors and hatcheries are important broiler integrators. With few exceptions, most of the integrators in Texas are feed dealers or feed manufacturers who contract with growers to produce the broilers and provide all marketing services up to and including the processor level.

Contract production in the broiler industry began in the Delaware-Maryland-Virginia area in the late 1930's, with the "no-loss" type of
contract coming into use on a large scale in 1950. The contract type of vertical integration has spread more rapidly and involves a greater part of the supply in the broiler industry than does vertical integration in any other agricultural product. More than 90 percent of the broiler production in the United States is under some type of contractual arrangement between the producer and feed dealer or manufacturer.

Only a small percentage of the total broiler industry in Texas and in the United States is completely vertically integrated throughout all of the processes between the producer and consumer. The general situation is one of partial integration.

Management Arrangements

Various types of contractual arrangements have developed between feed dealers and broiler growers in Texas. These arrangements are similar to those in other broiler-producing states.

The integrator usually is a feed dealer who plays the role of supplier, financier, risk bearer and general manager or supervisor of the operation. The farmer usually owns and furnishes the facilities and labor to produce the broilers. The feed dealer’s interest in the arrangement is that of making an overall profit from all phases of the integrated enterprises—the chicks, feed, fuel, litter, medicine and other supplies and services—which he provides. The farmer’s incentive is a profitable return from the use of his broiler-producing facilities and his labor. The farmer usually receives a guaranteed payment from the dealer based on a per-pound or per-bird agreement.

Management services are offered under all arrangements, even to non-integrated cash producers.

Some common types of agreements used in Texas are: (1) open account, (2) no-loss, (3) feed conversion, (4) flat fee and (5) labor contracts.

The open account actually is a method of financing rather than one of effective integration; however, the dealer generally supervises the operation. Under this plan, the dealer takes a chattel mortgage on the birds and furnishes the grower with his chicks, feed, medicine and other supplies. Ordinarily the dealer does the selling, collects payments and credits the grower’s account. Under this arrangement the dealer does not assume the production risks and price risks.

The guaranteed no-loss plan is similar to the open-account plan of financing except that the dealer absorbs price risks and also any cash loss that may occur. The grower risks the loss of his labor and the loss of returns on the use of his housing and equipment.

The feed conversion contract provides incentive for the grower to practice good management. The dealer retains title to the broilers and supplies all production items. He generally supervises the production and markets the broilers. The grower furnishes the labor, houses and equipment. All loss responsibility is assumed by the dealer and the grower is paid according to a fixed schedule based upon his feed conversion ratio.
The flat-fee contract is now used most widely in Texas. Under this plan, the dealer retains ownership of the broilers, furnishes all production items and does the selling. The producer is simply paid a flat fee per bird or per pound sold, to compensate for the use of his broiler houses, equipment and labor. Under some contracts, the grower receives a share of the profits, if any, rather than a flat fee, or at times a share of the profits as well as the flat fee.

The labor contract plan is similar to the flat-fee plan except that the grower is paid a fixed weekly wage by the dealer instead of on a per-bird or a per-pound basis.

**Future Growth and Extent**

Vertical integration in the broiler industry likely will continue at a high level in Texas and in the United States. Farmers desiring to shift their price and production risks to someone else probably will continue to grow broilers under contract with feed dealers. Many farmers undoubtedly will expand their operations. Feed dealers probably will have stronger affiliations with feed manufacturers, hatcheries and processors. More processors probably will contract with retail outlets to furnish regular supplies of specified quality broilers. Some large retailers may fully integrate their broiler business through ownership rather than by the contract method. Vertical integration through ownership of production facilities will be slow because of labor-management problems and costs that are associated with assembly line production and the fact that integrators would have to bear full and direct depreciation costs on buildings and equipment, now borne by the farmer.

While further vertical integration in the broiler industry appears inevitable, many individual producers probably will maintain independent ownership and management. These will be the large-scale, low-cost, efficient producers who are able to finance themselves and who can find a market for their output, thus integrating the enterprises themselves.

Vertical integration also may be done more in the future through farmer-owned cooperatives extending their activities to supplying the grower and practicing marketing activities that combine two or more links in the production-marketing chain.
Guideposts to Producers

The broiler producer should remember that he gives up some of his independence in management decisions when he associates himself under contract with an integrator. The integrator exercises some control to protect his investment and must be able to assume the added risks involved. The farmer, therefore, exchanges some management freedom for more stabilized economic security. Only the cash producer can maintain complete independence to take full advantage of profit potential or to suffer the total loss.

The degree to which a farmer gives up management of his operation depends on the type of contract he signs with the dealer. It may involve a mortgage or surrender of ownership of the birds. The farmer may exercise less control over the quantity and quality of his production for a guaranteed price, an assured income or even a fixed salary. There are many variations even within the described types of contracts. The producer should select the one that best suits his particular situation.

The producer needs to know that he can expect his contractor to carry out the terms of the agreement and give good service during the life of the contract. Broiler contracts usually are in effect only for the production of one brood; that is, 8 to 10 weeks. The producer then may consider entering into a different type of contract or changing to an open account or cash basis.

Producers, who are able to finance themselves but desire to shift their production and price risks, have only to decide which integrator or dealer can offer the best “deal.” Competition among integrators has increased and relatively favorable contracts usually are available for efficient producers.

Broiler producers who need financing to get started should explore ways to finance both facilities and production before entering into contracts. If these facilities are financed with different lenders, the producers have better opportunity to shift needed production finance from one supplier to another and perhaps obtain more favorable contract terms. Some producers may not want to be associated completely with any one concern.

To obtain maximum returns and still produce under a contractual arrangement, producers will need to make full and continuous use of facilities and labor. They will need to consider also the possibilities for future expansion of the total production in regular contracting with a given firm.