

Guide for Prospective Contract Broiler Producers

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Georgia ranks as one of the top poultry growing areas in the United States, producing more than 8 billion pounds of chicken meat annually. The state's broiler industry has experienced impressive rates of growth since the 1950s. During the 1980s and 1990s, it was not unusual for this industry to grow at annual rates of 5 -7 percent, leading to the addition of many new production facilities. In recent years growth has been in the 2-3 percent range because of the economic downturn experienced in the United States and world markets. As the economy improves, growth of the broiler industry should recover as consumers continue to demand this high quality, inexpensive food item. As a major supplier for U.S. and world markets, Georgia will continue to benefit from this important agricultural industry.

Because of the unique structure of contract poultry farming and its long-term investment, new broiler producers should understand its financial and managerial requirements before they commit resources to this endeavor. The information in this bulletin will help those considering poultry production as a new enterprise.

Structure of the Broiler Industry

The broiler industry is rapidly changing and highly technical. It is "vertically" integrated, meaning that all or most production aspects are owned and controlled by an individual company called an "integrator." Integrators usually own the breeder flocks, hatcheries, feed mills and processing plants and contract out the growing and egg production flocks to farmers. The integrator provides a contract producer with the chicks, feed, medication and technical advisors to supervise farm production. Under this system, the company retains ownership of the birds and expects producers to grow their flocks under very specific management programs. Company field representatives normally visit farms weekly to assist with management, but they may do so more often if necessary.

Vertical integration reduces product costs through coordinating and professionally managing each production stage. This approach not only improves cost efficiency, but permits the production of more uniform birds in large volumes necessary to successfully compete in the market. In this system, the integrator is responsible for all processing facilities, processing labor and salaries, and marketing activities crucial to the success of the poultry business. Processing and marketing are very specialized and require considerable expertise and experience for success. For this system to work effectively, integrators and producers make significant contributions to the process and depend on each other.

Broiler Production Contracts

It is virtually impossible to be in the broiler production business today without contracting with a poultry integrator. Production contracts are written legal agreements between integrators and producers defining the terms and conditions affecting producer payments for production of poultry. In the contract system, the producer provides land, labor, housing and equipment, utilities and litter. In return for these production inputs, producers receive a payment based on pounds of live birds produced. Also, contracts usually provide bonus incentives for superior bird performance. Most integrators use a competitive system that ranks growers based on an average production cost per pound for all flocks sold during the same week. Above-average producers receive above average payments while below average producers receive less.

The contract system has advantages and disadvantages. One of the key advantages for producers, however, is the shift of a significant portion of production and market risk to the integrator. Contract poultry producers are somewhat insulated from price fluctuations in the poultry markets and, since they do not own the birds, have less capital at risk. Prospective producers should understand there are risks as variations in bird placements, size of birds produced, performance and disease problems can cause fluctuations in producer incomes and profit. The recession of 2008 resulted in some growers losing their contracts.

Financial Considerations

Costs for broiler production facilities represent substantial investments for producers. Costs for new housing including site preparation, construction, equipment, wiring and plumbing often exceed \$220,000 per house. Generally a minimum of two houses is required to make a production unit, but farms consisting of four or more houses are becoming the norm. An average producer can easily have \$800,000 or more invested just in housing and growing equipment.

Prospective producers should understand that poultry houses are long-term investments. Although construction and equipment loans are usually amortized over 15 year periods, the physical life of the broiler house structure can be as much as 30 years or more if it is well maintained. The life of equipment is less and is replaced periodically as it becomes worn or obsolete. The history of the poultry business is one of rapidly-changing technology, so producers can expect that significant upgrades will be necessary during the life of the production facility. Staying current with new technology is generally required to maintain competitiveness and the long-term value of the production facility. This is true not only for poultry, but for most any business enterprise that is going to be successful over time.

New broiler production facilities generally range from 25,000 to 30,000 square feet in size. Depending on the weight of the bird produced and the number of flocks per year, gross income for average performance producers for a 25,000 square foot broiler production facility may range from \$45,000 to \$55,000 annually. Annual fixed and cash costs per broiler house can range from \$35,000 to \$40,000, depending on type of house, interest rates and mortgage structure. Thus, cash returns to an average producer's land, labor and management per house are generally moderate (\$6,000 to \$10,000 per year) during the 15 year mortgage payment period. During this debt retirement period, most producers will need additional sources of income for living expenses while equity in the poultry house is being accumulated.

It is important to keep in mind that, in addition to the cash returns, producers also receive returns from their houses in the form of accrued equity. The ability of poultry farmers to obtain financing and build assets over time by virtue of the stability of income provided by contracts is one of the benefits of this system. Once the facility is paid for, cash returns per house become much more substantial and may then be in the range of \$20,000 to \$25,000 annually.

Many factors can affect the cash flow and profitability for broiler farms. Some producers will do better at times while others may not do as well. The figures presented above are intended as a guideline to provide an example of what an average producer might expect to achieve. More detailed information on costs and returns for broiler operations is available through other sources (see recommended reading list).

Steps before Building

1. Meet with poultry company personnel and other producers to discuss the business aspects of contract production. Study contracts carefully and be sure you understand all aspects of contract production. Realize that you cannot depend on being an above average producer every flock. Flock performances vary even with good management, and individuals will sometimes need cash reserves or other sources of income to cover low pay periods. The financial fluctuations associated with poultry production are, however, generally less than for other agricultural commodities and represent one of the key factors in the stability of this enterprise.

2. An agreement with a poultry company to grow chickens will be necessary before financing or building of production houses can begin. Generally, companies require new production facilities to be in close proximity (25 to 35 miles) of complex operations such feed mills, processing plants, or hatcheries. This reduces expenses of feed delivery, chick delivery and live haul to the processing plant. Experience with growing chickens is not absolutely necessary for obtaining a contract, but certain producer characteristics (see summary) may be essential.

3. Meet with lending agencies to determine the availability of financing, interest rates, and payment schedules. Make realistic cash flow projections to determine feasibility of meeting financial obligations. Producers need to consider the consequences of below-average performance as well as average and above average projections.

4. All new construction must meet state and local laws regarding zoning and environmental impact. Discuss building plans with appropriate authorities before proceeding. Poultry facilities must conform to industry and company standards. House design and equipment recommendations vary by company preference, and their technical representatives will provide detailed information for new buildings. It is recommended that the most current and widely accepted house design and equipment be chosen to allow the producer the option of growing for other integrators in the future.

5. In some cases, purchasing an existing production farm is a good way to enter the business. This approach also needs careful consideration before making a commitment. Location of the farm, condition and age of the housing and equipment, and purchase price of the farm are very important. Potential buyers should obtain the contracting company's thoughts on the future and productive potential of the farm and what improvements, if any, would be necessary for the company to continue placement of birds in the facilities. Potential buyers should keep in mind that cash flow from the poultry facilities may not be enough to support the purchase of non-production related assets such as dwelling house, barns, trucks, tractors, etc.

Management and Flock Care

1. Poultry companies have very specific management programs that producers are expected to follow as part of their contractual obligation. To ensure proper management, companies provide field service representatives to work closely with producers on a regular basis. Producers and company field representatives work together to implement best management programs and achieve the highest flock performance levels possible. This benefits the company as well as the producer.

2. Maintenance for buildings and equipment is a constant job. As houses and equipment age, maintenance requirements for production facilities generally increase. Producers need to handle as much of the maintenance and repair work as possible, since hiring this type of work can be expensive and can substantially increase the cost of farm operation. Preventive maintenance on ventilation, feeding and watering equipment is essential for extending the productive life of these systems and must be done routinely.

3. House preparation prior to receiving birds is a very important producer management function as the first few days are critical to flock performance. Such preparation includes cleaning and disinfecting the house, spreading litter, setting up brooders, preheating the broiler house to the proper temperature, and being sure feeding, watering and ventilation systems are working properly. Establishing a good brooding environment before chicks arrive is more likely to ensure a successful flock.

4. Once birds are placed, a considerable amount of time is required for flock management activities such as collecting and disposing of mortality; keeping flock records; monitoring feed, water and environmental control systems; as well as observing for possible health problems. These activities must be done each day throughout the production cycle, but they generally require more time during the critical first two weeks of brooding. Any problems with the flock should be reported immediately to the company representative.

5. Disease prevention and control are important flock management factors. To protect the flock, access to the poultry house must be limited to authorized personnel. Producers should avoid visiting other poultry farms and eliminate any contact with other poultry, especially hobby, exhibit and backyard flocks. Decisions related to medications of flocks for disease problems or vaccination programs for disease prevention are company responsibilities and are done only as prescribed by company representatives.

6. Producers are responsible for disposal of all dead birds according to state approved methods. In Georgia, several disposal options are generally available to producers. The more common methods include burial pits, composting, incineration and rendering. Company representatives or local county extension agents can advise producers on the most appropriate methods for their situation.

7. Producers are responsible for maintenance of grounds and access roads around poultry houses. Keep weeds and grass mowed to reduce rodent and other pest problems. Areas around houses need to be well drained and roads need to be maintained for easy access to feed bins and load-out areas.

8. Do not use chemicals, pesticides, herbicides, insecticides, vaccinations or medications in or around poultry houses without company approval.

Other Considerations

1. Consumer demands and market conditions can change company production and marketing strategies. Changes in company strategies in these areas can cause changes in bird placement schedules and sizes of birds grown. These situations can and do cause variations in producer income. Producers should, therefore, be prepared to periodically experience lower than expected incomes from their production units.

2. Environmental management practices related to litter utilization, dead bird disposal, air and water quality, dust, odor, and pest control are very important aspects of maintaining a viable poultry operation. Current management practices can generally handle these concerns for most farms. Poultry producers should understand, however, that environmental pressures on agriculture are likely to continue and may lead to increased costs of business for both producers and integrators.

3. Disposal or utilization of poultry litter is a major consideration for poultry farms. Broiler houses generally produce 130-150 tons of litter material annually. In Georgia, most of this material is used as a fertilizer and soil amendment. Producers are encouraged to develop litter utilization plans before building houses to ensure environmentally sound application or disposal of these products. Company representatives or University of Georgia extension personnel can help with these plans.

4. Additional equipment such as a tractor with a front loader, a manure spreader, a truck or other specialized equipment may be necessary depending on the size of the operation and the type of management plan employed. Additional expenses for these pieces of equipment may need to be factored into budget projections.

5. Vacations and time off have to be scheduled around production cycles. Once birds are placed in the houses, they require constant care and management. Achieving good performance levels and above average pay out requires attention to details, and most producers feel they must remain close to their farms during this period.

6. Develop and maintain friendly relations with your neighbors. Offering to supply manure for a garden plot each year or some other benefit can go a long way when their support is needed.

Summary

Contract poultry production has been a good business for many Georgia farmers. Growing chickens, however, is not for everyone. Before deciding to become a contract producer, determine whether or not you possess the attitudes and capabilities to be a successful producer. A prospective producer needs the following attributes:

- * A desire to raise chickens.
- * The financial capability to build housing.
- * Adequate land for placing the house and disposing of litter.
- * Adequate and dependable labor.
- * A willingness to meet contractual responsibilities.
- * A mind for business.
- * An open mind to accept technological changes.
- * A willingness to work within an integrated approach to production.

Once you decide you are interested in contract production, contact companies within your area to determine if they are interested in adding new producers. Get copies of the companies' specifications for buildings, equipment, scheduling and contracts. Discuss broiler production with company representatives. Do not invest in land, buildings or equipment until you have written assurance from a broiler company that you will be provided a contract.

Visit producers who are currently contracting with the company in which you are most interested. If possible, work with an experienced producer for a few weeks to determine if you are suited for the type of work and hours involved. Before building, design a litter utilization and dead bird disposal plan to meet your production plans and farm situation. Keep in mind possible expansion plans for the future of your farm. Talk to your neighbor about your decision. Do you have their support or will neighbors become a major problem?

Talk to local authorities regarding any zoning restrictions or ordinances that might affect your plans. Discuss your plans with lending agencies to determine potential for financing. Visit and discuss your plans with your county extension agent and extension poultry scientist. Obtain copies of extension publications on broiler production and management from your local county extension office or the Department of Poultry Science, The University of Georgia (see recommended reading list).

Making a good decision on broiler farming depends on obtaining as much information as possible. The more people you talk to, the more knowledgeable you will become. Broiler production today requires a substantial investment of funds as well as a major commitment to a life style. It can be an enjoyable and rewarding lifestyle if the decision is made with the appropriate knowledge.

Recommended Reading List

- Broiler Production Systems in Georgia: Costs and Returns Analysis. Department of Poultry Science, Extension Publication B-1240, Athens, Ga.
- Broiler Production and Management. Department of Poultry Science, Extension Publication B-1197, Athens, Ga.
- Litter Quality and Broiler Performance. Department of Poultry Science, Extension Publication B-1267, Athens, Ga.
- Management of Large Broiler Farms. Department of Poultry Science, Extension Publication L-419, Athens, Ga.
- A Guide for Preparing Zoning Ordinances Relative to the Poultry Industry in Georgia. Department of Poultry Science, Extension Publication C-842, Athens, Ga.
- Basic Introduction to Broiler Housing Environmental Control. Department of Poultry Science, Extension Publication B-1264, Athens, Ga.
- Nutrient Management Programs for Georgia Poultry Growers. Department of Poultry Science, Extension Publication B-1226, Athens, Ga.

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