CONTRACT PRODUCTION OF TURKEYS

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Contract Production of Turkeys

A study of contractual or vertical integration in turkey production in Missouri that may have implications for other farm commodities.

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This study presents: (1) an economic classification and analysis of turkey contracts in use in Missouri in 1967; (2) a report on the contracting process as viewed by a sample of Missouri turkey growers; (3) estimates of net returns to growers, 1967.

The turkey industry is undergoing an organizational revolution. This study is an attempt to help those in the industry to be better informed as to what is happening and what alternatives are available. A follow-up survey concerning the 1968 season has already been made. A later bulletin will describe the shifts, 1967 to 1968, in number and size of growers, the causes of the shifts, and their relation to shifts anticipated by growers in March-April, 1968. It will also examine shifts in contracts and net returns 1967 to 1968.

This study is part of a much larger study of the changing organization of agriculture. Several of us in the Department of Agricultural Economics are trying to understand the forces that are already bringing large organizational changes and are likely to bring even larger ones. We are concerned with understanding the role of such organizational devices as contracts and in comparing the operational aspects and the performance of a "contractual industry"[1] with those of a free market of independent growers and firms.

This report could have been couched in the terminology of vertical integration because we are analyzing certain aspects of contractual vertical integration. Contractual vertical integration is significant in several areas in agriculture including broilers, turkeys, and fruits and vegetables for processing and has made some inroads into cattle and hog feeding. This study focuses upon the turkey growers rather than upon the entire vertically integrated system.

While we cannot transplant the organizational changes in one industry to another, we believe that an economic analysis of contracting in the turkey industry has considerable significance for other agricultural industries.

[1] An industry in which contractual relationships largely determine the flow of inputs and outputs and the division of returns.

An Economic Classification of Contract Types

A decade ago most turkey growers financed their own production and dealt independently in the market place with suppliers of feed, poults and other inputs and, at marketing time, with processors. Today, most market relationships among growers, feed companies and processors have been altered by various forms of agreements. These agreements run the full gamut from a forward sale at a to-be-determined price to a complete transfer of grower risk and turkey ownership to the processor or feed company.

This evolution of market relationship, accomplished during a period of economic duress for some, or all, of the principals involved, has not been universally welcomed by growers. However, Missouri growers generally acknowledge that "contracts are here to stay," and are concerned mainly with working to improve this new way of doing things.

One of the first steps for such improvement must be a general understanding of the legal and economic nature of these various kinds of relationships. This study attempts to contribute toward such an economic understanding.

A fundamental distinction between types of contracts is whether they do or do not transfer some risks from the producer to other parties. It is also important to distinguish between two types of risks —production and market price.

Production risks refer to those risks and uncertainties in the production process that relate to feeding efficiency, mortality, and general health and quality of the birds.

Market price risks refer to those risks and uncertainties associated with variations in market prices of finished turkeys.

The following classification of contracts is centered upon the nature of risk-sharing and also introduces other distinctions.

Type I. Production Payment
- A. Piece-Wage
- B. Relative Cost of Production

Type II. Floor Price

Type III. Financing

Type IV. Marketing Agreement

Examples of the first two types are in Appendix B.

Risk-Sharing Contracts

Most interest centers upon the risk-sharing types of contracts because of the marked degree to which they have tended to alter previous independent market relationships. While there is a considerable variety of agreements, two major sub-classes can be identified on the basis of the sharing of types of risks.

Type I: Production Payment Contract

This type of contract shares *production risks* between grower and contractor (feed company or processor or both), but the contractor takes all of the *market price risk* for the birds contracted because the contractor owns the birds.

A. *Piece-wage.* A common form of the production payment type in Missouri states: "Contractor shall pay Grower on the following basis: two (2) cents per pound of turkey marketed (passing government inspection) as a base payment..." However "if livability is less than 87%, the...base payment... will be reduced 2% for each percentage point...drop in livability below 87%." Such a payment is economically very close to a piece-wage. This main component of the grower's return depends not at all upon the price of turkeys; instead his return depends upon the pounds of turkey marketed and the mortality rate. The grower has a strong incentive to exercise a level of management which will minimize mortality.

This particular contract provides an additional type of piece wage payment to give further incentive to the grower. This latter payment is a significant premium for efficient feed conversion, varying from 36 cents per turkey marketed for a feed conversion of 2.90,[2] and below, to no premium for a ratio of 4.10 and above. This premium payment is subject to the same reductions for mortality as is the base payment. Since the Contractor owns the turkeys and the feed, he would be the prime loser in case of heavy mortality, but the grower obviously would also be a loser, and in an extreme case, would obtain no payment for his season's labor.

[2] Pounds feed to produce 1 pound turkey.

B. *Relative Cost of Production.* The piece-wage contract is not the only form of the production payment type. Another form relates grower returns to relative cost-of-production. A frequently used contract in Missouri defines a "Flock Prime Cost" for the grower and an "Average Prime Cost" computed for all of the growers producing turkeys for this contractor at the same general time in a specified region. The grower's return then is computed according to a formula that relates FPC to APC (that is, relates Flock Prime Cost to Average Prime Cost). This particular schedule specified a possible range of 3.5 cents to 4.5 cents a pound (of turkey marketed) paid to the grower, depending upon the extent to which FPC was above or below APC.

The grower's return under this form of cost of production contract is unrelated to the market price of turkeys; instead, it is directly related to the number of pounds of turkeys marketed and the efficiency with which they are produced. The grower has a considerable incentive to produce efficiently, and bears a part of any large losses from high mortality or low feed efficiency. The grower works against an unknown standard—an average to be computed later. In the short run at least, growers work against each other and do not benefit *as a group* from increased efficiency. Although this cost of production contract and the previous piece-wage contract appear to be quite different, they are very much alike as to the nature of risk sharing, and it is likely that rates of payment could be scheduled so that the returns to growers would be much the same.

Type II: Floor Price Contract

The second major type of risk-sharing contract is the floor price contract. The grower owns the birds, carries all of the production risks and shares the market price risks, so the floor price contract is closer to an open market relationship than the production payment type. Comparing the two types from the contractor's point of view, the contractor takes *part* rather than *all* of the price risk and none of the production risks rather than part of them.

A distinguishing feature of floor price as compared to production payment contracts is ownership of the turkeys by the grower rather than by the contractor. A second feature is a guarantee of the contractor to purchase the grower's marketable turkeys at either a price no lower than a fixed minimum or at a schedule of prices related to market prices. For example, one contractor specified a fixed floor price of x cents per pound for toms plus a greater than 50% share for the grower of any excess of market price over the floor price. Thus the grower trades part of his potential profit if market prices are high for a guaranteed minimum price if they are low. Another contractor specified for 1967 that the grower would receive the market price plus ⅔ of the difference between it and 20 cents if the market price (for toms) was below 20 cents a pound. This was a flexible floor with the grower being assured of a return reasonably close to 20 cents—for example, the grower would receive 19 cents if market price fell to 17 cents. In exchange for the protection to the grower of the flexible floor, the grower gives up a small share of any prices above 22 cents. (See Table 1).

TABLE I. FLOOR PRICE SCHEDULE

Market Price	Grower's Return
(Cents per pound of marketable toms, 1967)	
24	23.6
23	22.8
22	22
21	21
20	20
19	19.67
18	19.33
17	19

A prime characteristic of the contractual way of doing business is its complexity. A primary problem with the floor price contract is the definition of market price. There are so many turkeys either owned by contractors or being formula-priced under contracts, that the market price for live turkeys is

set in too thin a market to be treated with confidence. The usual procedure in floor price contracts is to "define" the live price by working back from wholesale market prices for dressed turkeys. Four slightly different procedures for defining market prices were specified in four contracts that were examined. Thus, for an Urner-Barry wholesale price of 34 cents a pound, the "defined market prices" would have been 20.25, 20.40, 20.50, and 20.65 cents a pound under the four different contracts. Such price differences can hardly be ignored in a high volume, low margin business like turkeys.

Another important complexity in such contracts is the specification of discounts for lower grade turkeys. Two of the four contracts allowed a liberal 25 percent undergrade before applying a 3 cents a pound discount on pounds in excess. One contract penalized 3 cents a pound for B grade in excess of 13 percent and 6 cents a pound for C grade turkeys in excess of 7 percent. An even more stringent contract in 1968 penalized 6 cents a pound for all non-A-grade turkeys in excess of 10 percent.

Other Types of Contracts

The two most common types of non-risk-sharing contracts are used for purposes of financing or marketing. Growers with such contracts retain ownership of turkeys and are generally independent in their managerial prerogatives. As contracts of various sorts become prevalent, the remaining independents find it increasingly desirable to assure financing or markets via contracts.

Type III: Financing Agreement

Financing contracts extend credit from a feed company or processor to producers for all or part of the feed and other inputs. The turkeys are owned by the producer, subject usually to a chattel mortgage to the creditor. The agreement ordinarily provides that the grower use the creditor's feed or his processing facilities. This agreement is basically a money-lender's agreement rather than a risk-sharing agreement, but the tie to the lender's other business operations does alter the usual relationships, as to inputs or markets or both.

Type IV: Marketing Agreement

A marketing agreement constitutes an agreement of a processor to market a grower's birds and to return to him the net proceeds above processing, storage and other costs. Such an agreement is equivalent to a forward sale at an undetermined price. It insures a market for an otherwise independent grower, and it likewise schedules processing business for the processor. These purely marketing agreements should not be confused with floor price contracts which are often titled marketing agreements.

Prevalence of Contracts

Our sample survey of 1967 turkey production in Missouri found 13 (15%) independents and 74 (85%) contractual growers. Our best estimate of the distribution of types of contracts is as follows:

84%	Type I—Production Payment
7%	Type II—Floor Price
3%	Type III—Financing
6%	Type IV—Marketing
100%	

These percentages are subject not only to sampling error, but to some response error. Growers were asked to identify their contract in terms of the general classification described above and also to identify the contractor by name. On the basis of the

standard contracts being offered by contractors, two separate estimates were made of contract types. These estimates agree quite well as to type, when the two forms of Type I (piece-wage and cost of production) are considered as a single type rather than as two types as listed in the original schedule. However, 24 of the 74 contract producers reported only a verbal agreement and several others did not have a copy of their contract, so there may have been some deviations from standard contracts and some response errors that were not apparent in our methods of checking. Both the absence of written contracts and the lack of detailed knowledge of growers about their contracts was one of the surprising findings of this survey.

The important finding was the high percentage of producers having contracts (85% in 1967). Among contracts, Type I production payment was easily the most prevalent. Moreover, about 93 percent of the Type I contracts were of the piece-wage variety.

These figures indicate clearly the extent to which the conventional markets for live turkeys have disappeared in Missouri—and how frequently a piece-wage production-payment contract is the replacement.

Several features of a floor price contract would seem to appeal more to growers than the corresponding features of a production payment type. The floor price type leaves ownership and the predominance of entrepreneurial control with the grower. This type also appeals to the community because financing is left to the grower and the conventional agricultural credit agencies. On the other hand, growers carry more risks—both production and price—under the floor price plan than under the production payment. Presumably some growers consider these additional risks an attractive incentive, while others consider them an undesirable threat compared to a nearly sure wage.

Why would a contractor prefer a production payment type to the floor price? The contractor carries less risk, provides less management supervision, and has less capital invested with the floor price plan. Yet the contractor can achieve just as many of the economies of coordination and the security of sure supplies (or markets) with the floor price plan as the production payment.

The economist might prefer the floor price plan for one or more of three reasons:

(1) It should be more efficient because it distributes economic risk in a fashion to maximize production incentives and to motivate responsible planning. That is, production risks are highly related to grower care and management and he should not be insulated from them. Note that most production payment contracts find it necessary to place some of this risk on the grower. Likewise, the grower should not be so isolated from market risk that he exercises pressure on output in only one direction—upward. It will be shown later that contract growers placed much of the blame for the disastrous overexpansion of 1967 *upon themselves.*

(2) A second reason that some economists, including the authors, prefer the floor price plan is the better social effects of maintaining growers as owners and entrepreneurs rather than as quasi-employees. This preference is a value judgment.

(3) A third reason of some psychological and legal significance is the simplification of contracts which is possible when the turkeys are owned by the grower. Production payment contracts sometimes seem to have all the advantages in favor of the contractor. One contract allows the contract to be terminated "if the contractor feels unsafe." The defense has been that a contractor, like any owner, must protect his property. The counter-argument is to use the floor price contract which makes the turkeys the property of the grower.

Why then is the production payment plan so much more prevalent than the floor price? Is it more popular with growers or with contractors? Is its popularity based upon misconceptions or reasons not perceived above? Is the production payment plan so much simpler that it is a much better recruiting device for attracting new contractees? Do contractors prefer the production payment contract because it gives them much more *detailed control* over the production process? A strange contradiction seems to develop between:

(1) the alleged desire of contractors for detailed supervision of the production process;

(2) the desirability (necessity?) of contractors paying substantial incentives for good performance in feed efficiency and mortality, which in turn reinforces the grower's desire to manage in his own way. Numerous examples of this conflict over managerial prerogatives show up in growers' comments.

The Contracting Process

Ten years ago Missouri had approximately 13 large turkey processing plants and eight small scale turkey processing plants. At present, only seven large and four small scale turkey processing plants are in operation in the state.[3]

Growing by contract was introduced into the state during the early fifties. Since then, contract growing has become the predominant type of production. There are 12 major contractors in the state at present. The majority are feed companies; the rest are hatcheries or processors or some combination of all three. The more important firms in the Missouri picture in 1968 were Ralston Purina, F. M. Stamper, Swift, Hales and Hunter, Central Soya, and Producers Produce (a cooperative). The big "independent operators" include Joe Morrow, Karl Stout, Laverne Borron, Norris Waite, Gene Waite, and Dale Moore.[4]

It is difficult to quantify the relative growth of contracting in turkeys. One benchmark is the data provided from the ASCS registration of producers to vote in the national turkey marketing order referendum of 1962. A USDA study of these data indicates that about 25 percent of U.S. and 34 percent of Missouri production was produced under risk-sharing contracts in 1961. It also estimated that another 35 to 45 percent of U.S. production was under some other form of contract.[5]

There are other pieces of evidence. A number of growers have been financed by Production Credit Associations, even if under contract, as long as the grower actually owned the turkeys. Data for four Missouri PCA districts indicates a growth from about 2 percent of their borrowers with contracts in 1960 to about 95 percent in 1968.

Other evidence: Of the 74 contractees in this survey, 36 had begun producing as independents. About 65 percent of the contractees had started contract production since 1964. One of the larger contractors in Missouri began a significant amount of contracting in 1963 and another began in 1964.[6]

Turkey prices at farm level had trended downward during the 1950s from an annual average high of 37.5 cents a pound in 1951 to 25.4 cents in 1960, but that gradual fall hardly prepared the industry for a further big drop to 18.9 cents in 1961. The losses of 1961 precipitated a search for alternatives. After the failure of the turkey marketing order referendum in 1962, growers had no apparent alternative way to reduce their market risks except through risk-sharing contracts. Various factors have been leading feed companies, processors and independents toward contracting, or in some cases toward *more* contracting, in the past decade.

To Summarize the Growth of Contracting in Missouri:

In 1967 about 72 percent of the producers had risk-sharing contracts and another 13 percent had other contracts. Since, as will be shown later, contract growers handle more turkeys than do the independents, the percent of *production* under contract is larger than the percent of producers. These figures indicate an approximate doubling of the percentage of risk-sharing contracts since 1961 in Missouri. There is no evidence that the trend toward more contracting had yet reached its maximum in 1967.

Motivations for Contracting

A contract is presumably a voluntary legal relationship between an agribusiness firm and a farmer. Some of our previous discussion has implied some of the motivations of each to contract.

Feed companies and processors are motivated by (1) efficiencies of cordination and (2) market position and power. Contracting firms listed the desires "to increase volume" and "to increase efficiency" as their primary motivations.[7] Both the feed company and the processor need to use their plants at near-full capacity to hold down their operating costs. The processor who builds a new plant can use contracts to develop and assure an adequate supply of turkeys

[3] *List of Plants Operating Under USDA Poultry and Egg Inspection and Grading Programs,* USDA Consumer and Marketing Service, April 1968.

[4] This listing is from a recent newsletter (*Missouri Turkey Report,* Nov. 1968) of Professor Walter Russell, Extension Poultryman, University of Missouri - Columbia. This list coincides with our survey findings, when it is extended to include such out-of-state processors as Ocoma Foods of Omaha and Louis Rich Food, Inc. of West Liberty, Iowa.

[5] William Gallimore, *Contracting and Other Integrating Arrangements in the Turkey Industry,* USDA Marketing Research Report #734, Nov. 1965.

[6] Unpublished data provided by Dr. Randall Torgerson, Department of Agricultural Economics, University of Missouri - Columbia.

[7] Gallimore, *op. cit.*

in the area. The selling costs for feed can be reduced by contracts. The struggle for market position is often very strong. Suppose feed mills A, B, and C are competing for the business of growers in an area. Then mill A negotiates a contract with farmer Brown and thus "sews up" that part of the market. Then mill B contracts "in self-defense" with farmer Smith, etc. The process can quickly snowball.

Many growers are initially motivated to contract in order to reduce risks—particularly market price risks. Some farmers may also contract to enter a new enterprise—such as turkey production—because the risk-sharing contract allows entry with a much smaller investment and smaller risk than would be possible otherwise. Missouri expansion indicates that a considerable number of new turkey growers can be readily "recruited" in a new area through the contract device.

Independent turkey producers face a quite difficult market price risk situation because of (1) the variability of farm market prices for turkeys and (2) the composition of input costs. While costs vary from flock to flock, some average figures from a USDA study[8] indicate a cash outlay per pound of turkey for variable inputs (mainly feed and poults) of 18.0 cents, and a fixed cost (buildings and equipment depreciation, repair, taxes, etc.) of only 0.9 cents.

When turkey prices were "good" in the 1960s, the independent grower had 2 or 3 cents a pound left for his labor and management; when they were "bad" he sometimes didn't cover his variable cash costs. When a farmer's net returns to labor, land, and management are 30 to 40 percent of his gross, it takes a similar size price drop of 30 to 40 percent to wipe out his net. In the turkey business this net is more like 10 to 15 percent of his gross and it only takes a price drop of 10 to 15 percent to wipe out his net.

This greater susceptibility of turkey growers than most farmers to price risks is presumably one of the explanations of the greater amount of risk-sharing contracts in turkeys. Creditors are as aware of these price risks as the growers and their pressures have influenced growers toward contracts.

Missouri Growers View the Contracting Process

The following section summarizes the grower's answers to questions concerning the contracting process. It is their side of the story and may differ at times from the perceptions and attitudes held in the contracting firms.

(1) Why did growers decide to contract? It will be recalled that about half of the contract growers were former independents while the others entered production as contractees. *Less risk* was by far the most important reason why independents shifted to contracts. A few mentioned *lower capital requirements* or the hope for higher net returns under contracts.

(2) Have you changed contractors? Why or why not? Less than half (30 of the 74) had changed contractors and few of them had changed more than once. Of the 44 who had not switched contracts, only 24 had ever been contacted by a fieldman of another contractor and the majority of these reported that they received no better offer. However, a few cited good relations with their present contractor as the reason for never switching. Of the 30 who had switched, 14 reported better contract terms as the reason, while 10 had made involuntary switches either because the first contractor had gone out of business or had ceased offering a contract to that grower. Contractors often talk about the many opportunities of their growers to switch to competitors —just as in any free market—but the growers perceive a more limited view of their opportunities. One contractor reputedly has said "if you ever leave me, you can't come back," which is at the other extreme from the freedom of the purely competitive market.

(3) What features do growers seek in a contract and where do they obtain information concerning contract terms available to others? Contract growers' concern for avoidance of risk came to the fore, because a guaranteed payment in the form of wages or price was by far the most desired feature. It was men-

[8] William Gallimore and James Ventrees, *A Comparison of Returns to Poultry Growers,* Marketing Research Report #814, Feb. 1968.

tioned in 53 percent of the total responses. The nature of company services and the extent of out-of-pocket costs to the grower were mentioned in 12 and 10 percent, respectively, of the responses.

The four main sources of information to growers about contract terms were: contractors, other producers, trade magazines, and Extension.

(4) Is the big producer (25,000 or more birds) probably able to negotiate a better contract than the little grower? With two producers of the same size, can one get a better contract than another? Only 17 of the 74 contractees thought a bigger grower could get a better contract. Most of these 17 were small growers. Only 24 of the 74 contractees thought that contracts might differ between two producers of the same size.

(5) What kinds of problems do growers experience with contractors? A majority (43 of 74) said they had no problems. A wide variety of problems were listed by the others, with *inexperienced fieldmen* getting 37 percent of the mentions. Other complaints were:

Shortage of poults at start of season
No competition between contractors
Not enough fieldmen to be efficient
Market grading and weighing
Not picking up birds when contract stated
Given low quality turkeys
Breaking of contract by contractors
Transmittance of disease by fieldmen
Fieldmen are overly protective of contractor
No consideration for producer
Vague contracts

It is general knowledge in the industry that there was a large expansion of turkeys in the area around Ava in 1967 and the sponsoring contractors got into considerable financial difficulties with corresponding repercussions on some of the growers. Various stories of these difficulties and acid criticisms were volunteered by a few growers in the area. The problem is significant. A primary motivation for contracting by growers is to shift risk, but a successful shift depends upon the ability of the contractor to accept that risk and upon the degree to which the contractual agreements really make the shift. There ought to be either bonding of contractors or some other public system for insuring that growers receive the returns due them under their contracts.

(6) What about the division of decision-making power between producer and contractor? A small majority (36 of 74 contractees and 9 of 13 independents) of growers felt the contractor's share of power was too great.

Some grower comments:

"Your have to follow their feeding program and can give medicine only with their permission. Sometimes when disease occurs this can be costly."

"It is the contractor who makes the decisions and you can take it or leave it."

"They have ruined the business by encouraging overproduction."

"When you sign your contract you automatically give them complete control."

A higher proportion of the contractees who had once been independent were critical of contractors' powers than was true for those who had never been independent.

(7) What changes are desired? The only change desired by 15 was more dollar returns. The other 59 contract growers suggested a wide variety of changes. Reflecting the big production and low prices of 1967, 41 percent of the suggestions were for a cut in production. A return to independent production was mentioned 22 percent of the time. Other changes with a few mentions included: more disease controls, standardized contracts, better quality started poults, and more competition.

(8) If there was over-production in 1967, what were its causes? (Only three contractees felt there was not over-production.) It's notable that more (41 percent) of the contractees put the blame for overproduction on growers' optimism than upon any other factor. Feed promotion by contractors was mentioned by 22 percent, easy credit by 7 percent, and risk reductions in contracting by 12 percent.

Were the growers right in their opinions about the above question? We don't know just how these decisions are arrived at. It is a question of considerable significance. It is conceivable that a contractual system is more susceptible to over-production than either a system of independent production or corporate production.

(9) How many growers experienced delays in marketing in the big production year of 1967? Delays in marketing are irksome and sometimes costly to growers. Almost half of the growers (31 of 74 contractees and 8 of 13 independents) reported marketing delays. *Overproduction* and *processing plants filled to capacity* were generally given as explanations. It should be emphasized that production was abnormally large in 1967.

(10) What alternatives had growers considered before entering the turkey industry?

Twelve percent of the producers did not consider any other alternative but turkey production. Fifteen percent considered expanding their general farming operation to include grain, cattle, and hogs. Forty percent contemplated expanding some particular phase of their farming operation such as specializing in cow-calf herds or feeder pigs. Twenty-three percent considered obtaining full time non-farm employment while continuing to live on their farm. The remaining 10 percent considered moving off the farm and obtaining full time employment. Therefore, 90 percent of the pre-entry alternatives were such that the producer could reside on his farm.

Volume of Production and Net Returns, 1967

Missouri turkey producers in 1967 varied widely as to their volumes of production and the returns for their labor, management, and investment.

Net returns are defined as the returns to family labor, management and land. They do not include a return to capital because depreciation and interest are deducted as expenses.

Contract producers tended to market larger volumes of turkeys than independents and to receive a bit higher returns. Returns to most growers were quite low in 1967. However, most growers had other sources of farm income besides turkeys and about 40 percent also had off-farm employment.

Information on returns and incomes is not readily available. Our data tend to be a bit inaccurate and messy to present. The details of the returns and income estimates are presented below.

A producer is defined as a *brooder* if he has possession of the birds from the time they are a day old to eight or nine weeks. The term grower is used interchangeably with producer throughout this report. In this particular section, a more restricted definition is given to "grower," and quotation marks will be used to indicate the special meaning of one who grows out started poults. To be a *"grower,"* the producer must have possession of the birds from eight or nine weeks of age until the birds are marketed. The sample included ten brooders, 70 "growers" and seven combination brooders and "growers."

Of the 87 producers in the sample, 66 responded with information adequate enough to allow computation of net returns for their turkey operation. Twenty-one did not divulge enough information to obtain a net return. Table 2 shows the sample distribution with respect to the type of "'grower" operation. Production and net returns data are shown by two classes: 17 brooders (or brooders and "growers") reporting net returns, and 56 "growers" reporting net returns, while 21 "growers" did not report net returns (Tables 2 and 3).

TABLE 2. NUMBER OF "GROWERS" RECEIVING VARIOUS RATES OF NET RETURN, AND THEIR SIZE, FOR CONTRACT AND INDEPENDENT "GROWERS," 1967

		"Growers" Under Contract		Independent "Growers"	
Net Returns ¢/lb.	Comparable Hourly Wage	Number of "Growers"	Average Number of Birds Produced	Number of "Growers"	Average Number of Birds Produced
Negative Nets	$ --	9	24,515	6	15,516
.1¢	0.15	6	14,809	0	--
.2¢ - .9¢	0.81	10	19,515	1	**
1.0¢ - 1.9¢	2.11	13	30,431	0	--
2.0¢ - 2.5¢	3.29	8	19,775	3	12,300

** Data withheld to prevent identification of grower.

TABLE 3. NUMBER OF BROODERS RECEIVING VARIOUS RATES OF RETURN AND THEIR SIZE, 1967

Net Returns ¢/poult	Number of Brooders	Average Yearly Production	Average Number of Broods per year
2.9 - 3.9¢	6	57,417	2
4.0 - 4.9¢	4	15,600	2
5.0 - 5.9¢	5	19,394	1
6.0 - up	2	28,500	2

Size and Type Operation—"Growers"

The average production for 1967 was 23,037 birds[9] for the 74 contract "growers" and 12,307 birds[10] for the 13 independent "growers." Wide confidence intervals indicate the great variation in output per producer in both groups, but especially in the independent group which includes everything from small sideline operations to very large full-time "growers."

Both the contract and independent "growers" generally produced two broods per year. The contract "growers" represented in this study produced approximately 1,474,368 turkeys, while 159,991 were produced by the 13 independent "growers." The contract and independent "growers" accounted for 89.15 percent and 10.85 percent, respectively, of the total production.

The largest contract "grower" produced 81,800 birds in 1967. The smallest contract "grower" produced 5,300 birds. Of the 13 independent "growers," the largest "grower" produced 33,400 birds in 1967, and the smallest "grower" produced 500 birds.

Eight of the 64 contract "growers" grew their birds in confinement, and all eight had positive net returns. One independent "grower" grew his birds in confinement, but he did not have a positive net return.

Net Returns—"Growers"

Cost data from *Missouri Turkey Record Analysis 1967,* prepared by Walter Russell of the Extension Division, was used in conjunction with the gross returns reported by producers to enable net return computations to be made.

Of the 56 "growers" reporting net returns, 46 were contract "growers" and 10 were independent. Nine of the 46 contractees had negative returns in 1967, while six of the ten independents had negative returns. The mean *negative* net returns of the contractees and the independents with losses were -1.73¢ per pound and -2.00¢ per pound, respectively. The range of losses for the contractees was .2¢ per pound to 4.3¢ per pound. For the independents, the range of losses was from 1.0¢ to 3.6¢ per pound.

Mean net returns of contract "growers" and independents differed by 1.1 cents a pound, although the large variations in returns made the mean difference nonsignificant. The mean net return for the contract "growers" was .62¢; whereas, the mean net return for the independents was a negative .49¢ per pound. To lose about 10¢ a bird on a 20 pound turkey in addition to receiving no return at all to labor or land is a serious loss.

The net returns, calculated as cents per pound, are divided into five groups in Table 2. Data in the table tell how many growers had net returns falling in each group, the approximately comparable hourly wage a grower obtained from his net returns, and the "growers'" average size. The data omit 18 who declined to report net returns.

The net return data were converted to an equivalent hourly wage for comparisons. Labor requirement data were taken from North Central Research Publication 185.[11] For the mid-point of each net return classification, a comparable hourly wage is calculated, assuming no return to land or management. This hourly wage applied to both contractees and independents.

It was also of interest to determine whether or not the "grower's" net returns were related to the number of birds he grew out in a year. The relationship was not statistically significant. Only 6.7 percent

[9] 95% confidence interval of 18,810 to 27,264.
[10] 95% confidence interval of 5,586 to 19,028.

[11] D. Lee Bawden, *The Cost of Producing Turkeys: A Comparison Among States,* Bulletin 388, North Central Research Publication 185, pp. 1-19.

of the variation in net returns was explained by the number of turkeys handled yearly.[12] A low net return would not necessarily be corrected by increasing the number of birds raised per year by a producer.

Size and Type Operation—Brooders

All the producers involved in brooding turkeys from day old to started poults reported the information required to compute a net return per bird figure. There were 17 producers involved in brooding operations, seven of which also had growout operations. Only one of the 17 brooders was not brooding under contract. Therefore, the analysis of the brooders and their operations will exclude any comparisons between independent and contract brooding operations.

The 17 brooders brooded a total of 560,871 poults, or an average of 32,992. All the broods were brooded in confinement. The smallest number of poults brooded by any of the 17 producers was 5,529, while the largest brooder raised more than 140,000 from day old to started poults in 1967.

Net Returns—Brooders

The highest brooding net return reported was 8¢ per poult (Table 3). This brooder, however, had less than 10,000 birds during the course of the year. The next highest return was 6¢ per poult, and this particular brooder brooded almost 50,000 poults during 1967. The 2.9¢ return represented the lowest brooding net of the 17. This producer also brooded almost 50,000 poults in 1967. The mean net return for all brooders was 4.52¢ per poult.

The question arises whether net returns in brooding could be a function of the number of poults brooded per year. Again, simple regression techniques were employed. Net returns for brooding were found not significantly related to size. The regression coefficient was 0.2035, and the correlation coefficient was 0.3147. Both were found not to be significant at a 95 percent level of confidence. Only 9.9 percent of the variation in net returns was explained by size. Both coefficients were positive, in contrast with the relationship for grow-out.

Total Income of Turkey Producers

Data on other income of turkey producers was obtained to give a better picture of their overall economic situation. Of the 68 providing net farm income data, 62 reported positive figures. The mean was $5,123 for the contractees and $3,379 for the independents. However, there was a wide range within each group. Income from turkeys was, of course, a significant contributor to those net farm income figures. Omitting those with negative net returns from turkeys, the average contribution of the turkeys was 49.5 percent for the contractees and 39.0 percent for the independents. These percentage contributions of turkeys would presumably be larger in a year of more normal turkey prices.

Forty-one percent of the contractee operators had off-farm employment with average non-farm incomes of $4,047. Only four of the 13 independent operators had off-farm employment; their mean was $1,825.

In summary, turkey production was most often a less-than-full-time operation, supplemental to other farming enterprises or off-farm employment.

[12] The regression coefficient was −.3083 and the correlation coefficient was −.2652. The important thing to notice here is that both the correlation and regression coefficients were negative.

Characteristics of Farmers in the Sample

Turkey growers are commercial farmers tending to be much like the average of all commercial farmers in Missouri. However, they farm slightly smaller acreages, have smaller net farm incomes, and are younger.

The average size of both the contractees' and the independents' farms was a little under 300 acres (Table 4).

In general, in socio-economic description, independent producers compare with contractees about as follows: they are older, they own more land, they have a little more education, they have been farming longer, and they have a smaller net farm income.

On the average, independent producers were about 5.4 years older than the contract producers (Table 4). Threy had an average of 11.0 years of education as compared to 10.2 years of education for the contractees.

Generally, the independent producers started farming much earlier than the contractees. Forty-six percent of the independents began farming before 1940, as opposed to only 14 percent of the contractees. Moreover, 47 percent of the contractees began farming since 1950 as opposed to 39 percent of the independents.

Membership in farm organizations seemed to be limited to the following four organizations: Missouri Farmers' Association, Missouri Turkey Federation, National Farmers' Organization and American Farm Bureau Federation. Many MFA members also belonged to another farm organization. Twenty-five contractees and three independents did not belong to any farm organization. Thirteen of these 28 were less than 40 years old.

TABLE 4. SOCIO-ECONOMIC CHARACTERISTICS OF MISSOURI TURKEY PRODUCERS, 1967

Characteristics	Contract Producer		Independent Producer	
Acreage Owned and Operated	250.5		282.5	
Acreage Rented from Others	45.9		2.3	
Total Operated Acreage	296.4		284.8	
Total Tillable Acreage	140.7		161.0	
Total Acreage in Grain	46.5		61.7	
Present Age	45.7		51.1	
Education	10.2		11.0	
When First Began Farming	#	%	#	%
1920-29	0	0	2	15
1930-39	14	19	4	31
1940-49	25	34	2	15
1950-59	15	20	4	31
1960-67	20	27	1	8
Net Farm Income, 1967	$5,123		$3,379	

Summary and Conclusions

A rather wide variety of turkey contracts were used in Missouri in 1967. No two companies used the same contract, and at least one company used two or more kinds of contracts. Since the sharing of risks seemed the most important economic aspect of contracts, the contracts were classified as follows:

Type I. Production Payment
A. Piece Wage
B. Relative Cost of Production
Type II. Floor Price
Type III. Financing
Type IV. Marketing.

The *grower* has some of the *production* risk in Type I, and all of it in Types II, III, and IV. The grower has none of the *market price* risk in Type I, some risk in Type II, and all of it in Types III and IV. The contractor owns the birds in Type I, the grower owns them in the other types.

Only 15 percent of the growers were independents. About 72 percent of all growers had risk-sharing contracts (Type I or II). This 1967 percentage of risk-sharing was much higher than in 1961, and the percentage is apparently still rising.

The diversity and complexity of contracts and the use of oral agreements in numerous cases make communication difficult. It is tempting to recommend a standardization of contracts to reduce the confusion. Certainly some of the diversity accomplishes no useful purpose. However, it seems apparent that there are differences among growers as to the relative amounts of production risk and/or price risk which they are willing and able to assume. If a strong producer organization were writing the contracts, there would be considerable standardization, but perhaps there would still be more than one type. If such an organization were preparing contracts, there would almost certainly be more emphasis upon defining the rights of the growers than is now the case.

Feed companies and processors are motivated to promote contracts by (1) efficiencies of coordination and (2) market position and power. Growers are initially motivated to contract in order to reduce market risks—particularly market price risks. High risks discourage potential lenders, and so the reduction of risk and easier financing are associated motivations. As contracts become prevalent, market opportunities tend to become scarce, and so the remaining independents find it necessary to accept contracts in order to secure a market.

Motivations for contracts in turkeys have been somewhat different from those in contractual broiler production. Inability of many small, uninformed and unspecialized farmers to take advantage of new technology in broiler growing has often been cited as a primary cause of contractual vertical integration in broilers. In contrast, the bulk of the turkey production had long been in the hands of a relatively few large, specialized, and knowledgeable growers. In fact, many growers still stoutly assert their managerial superiority over the contractor's fieldmen. However, about one-half of the present contract growers began as contractees, and that proportion can be expected to rise greatly as ex-independents gradually retire from the business.

Only 30 of the 74 contract growers had ever changed contractors, and 10 of these changes were involuntary on the grower's part. Growers viewed their opportunities to "shop around" and improve their contracts as quite limited. Most growers view their bargaining power, as individuals, as equally limited. While a significant minority say they would like to see the turkey industry return to independent production, most appear to think that contracts are here to stay. The gradual retirement of those growers who ever knew independence will presumably diminish interest in that method of production.

Wide variation existed in the net returns from turkeys, within both the contract "growers" (those growing out started poults) and the independent "growers." The range of net returns in 1967 was -4.3¢ to 2.5¢ per pound for the contract "grower" and -3.6¢ to 2.5¢ per pound for the independents. The mean net return for contract growers was 0.62¢ per pound, and it was -0.49¢ per pound for the independents. However, because of the large variations of net returns within each group the net returns of the two groups were not statistically different. For the average "grower" to have made a minimum wage of $1.30 per hour, he would have needed a net return of about 0.88¢ per pound.

All 17 of the brooders, including one indepen-

dent, had positive net returns. The range of brooding net returns was from 2.9¢ to 8.0¢ per poult. The mean net return for brooding was 4.52¢ per poult.

Economists are concerned about pricing efficiency and distributional equity. In more popular language, they seek "equal pay for equal work" and "the same prices for the same products." The great diversity in the net returns to growers raises questions about how well these goals are met. Much of the diversity was presumably due to differences in grower productivity as manifested in differences in feed efficiency, mortality, and quality of birds. However, the returns of the two-thirds of the growers with Type I contracts were protected from the 1967 fall in market prices, those with Type II contracts were partially protected, while the returns of the others were affected substantially. This latter difference in returns was due to the diversity of organizational arrangements rather than differences in grower productivity.

It seems self-evident that efficient turkey production requires production incentives to growers. High feed efficiency and low mortality are obtainable only by the careful attention and management of highly motivated growers. The floor price contract provides the greatest production incentives to growers of any of the risk-sharing types. While the floor price approach seems to be of limited popularity, it has much to recommend it. A fixed, or very inflexible, floor price can serve much the same function as a production payment contract, but can do it in a simpler and more straightforward fashion. It would leave ownership with the grower and allow financing through conventional channels of agricultural credit. It would tend to put production in the hands of the most efficient growers and certainly in the hands of those growers who can bear the production risks. We need to determine the reasons why the floor price plan is used less than the production payment approach.

There was considerable national overproduction of turkeys in 1967. The industry with its high fixed costs and largely undifferentiated products is susceptible to recurrent overproduction. As more growers transfer their price risks, they lose their chief concern about overproduction and press hard for a full capacity assignment of poults. In fact such growers and their fieldmen tend to develop a vested interest in an ever-expanding production.

Thus, the movement to risk-sharing contracts may be accentuating the industry's problems of fluctuating overproduction. The contractors, with their major share of the decision-making power, were primarily responsible for the overproduction in 1967.

Appendix A

Description of Sample Survey

Our objective was to obtain as good a sample as feasible of commercial turkey producers in Missouri. A list was the only economical sampling method, although most lists are a bit incomplete.

A poultry specialist of the Extension Division provided a mailing list of Missouri turkey producers. Integrators (contractors) who were also producers, or who owned feed companies or processing plants, were excluded. Names were then arranged by county and those 18 counties with ten or more producers were chosen. The 18 counties were: Polk, Osage, Pulaski, McDonald, Barry, Stone, Benton, Pettis, Cooper, Moniteau, Morgan, Miller, Wright, Douglas, Ozark, Sullivan, Johnson, and Lawrence. County Extension Agents in each of these counties were asked to add or delete names from the list based on whether the agent thought the producer had turkeys in 1967. Upon completion, the list contained 412 names.

A serial sample was then obtained by starting at a random point and choosing every third name from the population of 412. Of the 137 producers in the sample, 87 were found upon interviewing to have produced turkeys in 1967.

The information used in this study was obtained by the University of Missouri Field Research Team by means of a personal interview with each of the 87 producers selected in this sample. Interviews were conducted in February, March, and April, 1968.

Are 87 growers a significant share of the Missouri growers? Their combined production in 1967 was 1,634,000 birds or 14.3 percent of the 11,459,000 produced in the state. While representing 14.3 percent of the 1967 production, these 87 growers were presumed to be a larger percentage of the really commercial growers but a smaller percentage of total growers. We don't know the precise totals for the state of either group in 1967, but we can make some approximations. Based upon our sampling techniques, we estimate the number of commercial[13] growers in 1967 to have been about 537. The number of all growers reported by the 1964 Census of Agriculture was 2,202, which was down about 50 percent from the 1959 Census.

[13] Only three growers of our sample of 87 produced less than 5,000 turkeys, so our implied definition of "commercial grower" is a grower of 5,000 or more birds.

APPENDIX B

The following contracts are copies of turkey contracts used in Missouri in 1967 or 1968. Company names, addresses, and brand names have been removed. These contracts are presented as examples of the two risk-sharing classifications used in the text.

TYPE I.A. PIECE-WAGE

COMPANY TURKEY GROWING CONTRACT

DAY - OLD TO MARKET

This contract entered into by and between _____ Company, hereinafter called COMPANY and _____, hereinafter called GROWER:

WITNESSETH:

WHEREAS, Company and Grower desire to enter into an agreement for the growing of turkeys from day-old to market:

NOW, THEREFORE, inconsideration of the premises and the mutual promises hereinafter contained, the parties hereby agree as follows:

1. Number of Turkeys - The Grower agrees to produce for Company _____turkeys in accordance with the terms and conditions hereinafter set out.

2. Poults Starts and Growing Requirements - Grower agrees to start poults on the following date(s) _____. No other turkeys and/or other poultry will be raised on Grower's farm unless approved by Company. Grower agrees to grow turkeys to age and/or weight required by Company.

3. Equipment and Labor Costs - Grower will provide approved housing, feed storage facilities, equipment, fuel, lights, water, litter, growing range, shelters, fencing, sanitation supplies and all labor, including the prompt and efficient moving of birds from brooder house to range and the catching and loading of turkeys for market.

4. Company to Furnish Poults and Feed - Company shall supply day-old poults and ~~Mill-Fresh~~ Company Turkey Feeds to produce said turkeys. All feeds will be supplied in bulk, unless for reasons of convenience or necessity Company desires to furnish feed in bags. Any feed left over when turkeys are marketed is to be bagged by Grower, weighed and checked immediately with Company Field Representative and verified by Field Representative on Turkey Record Chart for feed conversion credit. Surplus feed will be distributed by Grower as approved by Company. Title to said turkeys and to all feed and supplies is to rest with Company.

5. Feeding and Management by Grower - Grower agrees to follow the feeding and management program from time to time recommended by Company and to use only feed supplied by Company. If Company desires turkeys debeaked, Grower will debeak in manner approved by Company. No medication, vaccination, or treatment is to be used on turkeys except as recommended and approved by Company. Necessary medicants and/or vaccines will be supplied by Company and administered by Grower as recommended by Company.

6. Payment to Grower - Company shall Pay Grower on the following basis: TWO (2) CENTS per pound of turkey marketed (passing government inspection) as base payment, plus a feed conversion premium computed in accordance with the Feed Conversion Premium Chart hereinafter set out. The base payment and feed conversion premium earned will be paid if Grower has a Livability Record (turkeys marketed and passing government inspection) of 87% or better. If livability is less than 87%, the total of base payment and feed conversion premium to Grower will be reduced 2% for each percentage point (or nearest fractional percentage point) drop in livability below 87%.

FEED CONVERSION PREMIUM CHART

Lbs. Feed to Produce 1 Lb. Turkey	Premium Per Turkey Marketed
4.10 and above	no premium
4.05 - 4.09	1-½¢
4.00 - 4.04	3¢
3.95 - 3.99	4-½¢
3.90 - 3.94	6¢
3.85 - 3.89	7-½¢
3.80 - 3.84	9¢
3.75 - 3.79	10-½¢
3.70 - 3.74	12¢
3.65 - 3.69	13-½¢
3.60 - 3.64	15¢
3.55 - 3.59	16-½¢
3.50 - 3.54	18¢
3.45 - 3.49	19-½¢
3.40 - 3.44	21¢
3.35 - 3.39	22-½¢
3.30 - 3.34	24¢
3.25 - 3.29	25-½¢
3.20 - 3.24	27¢
3.15 - 3.19	28-½¢
3.10 - 3.14	30¢
3.05 - 3.09	31-½¢
3.00 - 3.04	33¢
2.95 - 2.99	34-½¢
2.90 and Below	36¢

7. Poult Losses - Those poult losses on which the hatchery assumes responsibility will not be considered in determining livability, but will be deducted from number of poults started. On all other poult losses Grower shall have the risk of loss; provided however, that if Grower applies for and is accepted under Company's Guarantee Agreement, said Guarantee Agreement shall become a part of this Contract as if expressly incorporated herein.

8. Delivery of Birds and Counting Procedure - Birds will be picked up by Company at the Grower's farm and weighed upon nearest truck scales available at time and date of pickup. Base payment and feed conversion premium shall be based upon this weight after deduction of any birds or parts condemned by government in spector at processing plant. The live head count at the processing plant, after deduction of any birds condemned, will be used to determine livability.

9. Breach of Contract, and Repossession - The use of any of the feed or supplies furnished hereunder for any purpose other than for feeding the turkeys covered under this contract and/or gross and open neglect of the turkeys covered hereby shall cancel all payment and premium clauses of this Contract and any and all obligations of Company in regard to succeeding bunches. Furthermore, if the Grower shall fail or refuse to perform any of the terms, conditions or requirements provided herein, then in any such event Company may, without notice or process of law, enter upon the premises upon which the turkeys are then located and repossess said turkeys and feed. The legal description of the premises owned or operated by Grower where the turkeys will be raised is as follows:

Section_____Township_____Range_____

in the County of_____State of_____.

10. Cancellation - In the event of strikes, plant shut-downs, disablement of plant or facilities due to war, storm or act of God, Company reserves the right to cancel this contract if turkeys haven't been placed in the Grower's custody.

11. Temporary Care of Birds - In the event the condition of the turkeys should be such that they cannot be sold at regular pick-up time, in Company's judgment, or if said turkeys are not in good quality and finish at such time, or if roadways or driveways to Grower's turkey range will not reasonably permit pick-up, then and in any such event Grower agrees to care for the turkeys until such time that they can be sold.

12. Effective Date - This Contract shall not become effective until signed by the Grower and accepted by Company.

ACCEPTED:

Date_____ Grower_____

Accepted by Company _____

By_____ Witness_____

Date Started _____ Date_____

I DO I DO NOT want Company Grower Guarantee Payment (mark out one you don't want).

SIGNED _____
Grower

SCHEDULE A

TURKEY AGREEMENT DATED_____

BROODING AND GROWING

After processing of each flock COMPANY agrees to pay GROWER based on the following method:

1. The average production cost, exclusive of grower payment, will be calculated for all pounds of turkeys of the same sex produced by contract growers under the supervision of the General Manager, COMPANY, or his delegate, and processed during that same calendar week, the two previous calendar weeks and the following calendar week. In the event no turkeys are marketed prior to or after flock produced by GROWER is marketed, the average for the nearest 4-week period will be used. Such cost is designated as "Average Prime Cost."

2. The production cost per pound, exclusive of grower payment, will be calculated for each flock produced by GROWER under this contract. Such cost is designated as "Flock Prime Cost."

3. If the Flock Prime Cost equals the Average Prime Cost, the GROWER received four-cents (4¢) per pound of turkey.

4. For each full one one-hundredth of one-cent (.01¢) that Flock Prime Cost is lower than Average Prime Cost, GROWER'S payment will be increased by four one-thousandths of one-cent (.004¢) per pound up to a maximum total payment to GROWER of four and one-half cents (4.50¢) per pound.

5. For each full one one-hundredth of one-cent (.01¢) that Flock Prime cost is higher than Average Prime Cost, GROWER'S payment will be decreased by four one-thousandths of one-cent (.004¢) per pound, but in no case shall GROWER receive less than three and one-half cents (3.50¢) per pound.

TYPE I.B. RELATIVE COST OF PRODUCTION

TURKEY BROODING AND GROWING AGREEMENT

THIS AGREEMENT made and entered into by and between _____ COMPANY, hereinafter called COMPANY and _____, hereinafter called GROWER:

WHEREAS, COMPANY has need for GROWER to brood and grow turkeys and;

WHEREAS, GROWER has the facilities to brood and grow turkeys and desires to brood and grow turkeys to be supplied by COMPANY;

NOW, THEREFORE, the parties agree as follows:

A. COMPANY AGREES:

1. To deliver to GROWER'S farm located at _____, _____, one-day old turkey poults as follows for the first year of this Agreement:

Approximate No. of Poults	Approximate Delivery Date
_____	_____
_____	_____
_____	_____

thereafter for the remainder of the term of this Agreement in the number and at the times deemed by COMPANY to be best under the circumstances.

2. To furnish GROWER the necessary feed, medication, grit and vaccines for said turkey poults.

3. To provide necessary labor for debeaking, if required in COMPANY'S judgment.

4. To pay GROWER in accordance with Schedule "A" attached.

5. To supply necessary trucking facilities and supervisory personnel to move the turkeys at end of growing period.

B. GROWER AGREES:

1. To furnish all land, buildings, equipment, water, litter, fuel, labor, electricity, and facilities necessary to properly grow, care for, and raise said turkeys under this Agreement and to establish and maintain good roads to areas where turkeys covered under this Agreement are located which are easily accessible by COMPANY'S trucks, and to pay all fees for a wrecker, if needed by COMPANY'S trucks on GROWER'S farm because of the failure of GROWER to establish and maintain these good roads.

2. To provide adequate catching labor for any loading and for medication when needed and to be present when turkeys are delivered to GROWER'S farm and when picked up therefrom.

3. To use COMPANY products exclusively in feeding and caring for said turkeys and to follow the COMPANY program as outlined for feeding, management and sanitation, and to give his best care and attention to the turkeys.

4. To keep no other poultry on the premises where the turkeys under this Agreement are kept.

5. To accurately keep and to transmit any and all records requested by COMPANY pertaining to GROWER'S operations under this Agreement.

6. To permit COMPANY to publish the results of said feeding operations and any statements of GROWER or photographs taken concerning the same.

7. That if any of the following acts or events occur, this Agreement shall at COMPANY'S option immediately terminate, and the GROWER does hereby grant unto COMPANY the right to come upon the premises where the turkeys are situated without Court Order or Writ, and to immediately take possession of all turkeys, feed, medicines and sanitation products placed with the GROWER and to dispose of same as COMPANY in its sole discretion shall determine to-wit:

   a. In the event COMPANY feels unsafe or insecure in the manner in which the GROWER performs this Agreement;

b. In the event the GROWER for any reason removes, or attempts to remove from the above-described premises the turkeys, feed, medication or sanitation products supplied under this Agreement;

c. In the event the GROWER in any manner encumbers, sells, or assigns said turkeys, feed, medication or sanitation products;

d. In the event COMPANY, in its sole discretion, feels the GROWER is improperly or neglectfully feeding, watering, or otherwise caring for said turkeys.

UPON termination of this Agreement for breach of any condition mentioned herein, COMPANY'S grower payments outline in Paragraph A-3 shall not apply, and GROWER does hereby fully release, indemnify and hold harmless COMPANY, its representatives and assigns from any and all claims of any kind or character whatsoever.

C. COMPANY and GROWER MUTUALLY AGREE:

1. In the event of the death of said turkeys at any time prior to the time they are picked up from the GROWER'S premises, GROWER assumes any losses due to the expenditure of labor, use of land, facilities and equipment and the cost of any fuel and/or electricity; COMPANY assumes the loss of the cost of the poults and the cost of feed and other supplies furnished by COMPANY.

2. It is understood and agreed that all poults and supplies furnished by COMPANY are, and shall remain the sole and exclusive property of COMPANY.

3. This Agreement shall be for a term of three (3) years from the date hereof. However, this Agreement may be cancelled by COMPANY in accordance with Paragraph B-7 above without prior notice to GROWER.

D. INDEPENDENT CONTRACTORS:

IT IS expressly understood and agreed by the parties hereto:

1. That GROWER accepts full and exclusive liability for the payment of any and all taxes, including local taxes, on the turkeys, grit, litter, fuel and/or electricity, and sanitation products, and of any and all taxes for Workmen's Compensation Insurance, or Old Age Benefits, or Annuities now or hereafter imposed by any governmental agency, as to himself and all persons engaged in the performance of this

Agreement on behalf of the GROWER. Said taxes shall be paid directly by the GROWER.

2. That the GROWER, his agents and employees shall not be considered to be employees of COMPANY for any purpose whatsoever.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement this _____day of_____, 19_____.

COMPANY

_____ By_____
Witness

_____ By_____
Witness GROWER

TYPE II FLOOR PRICE

TURKEY MARKETING AGREEMENT

THIS AGREEMENT, made by and between _____ COMPANY, hereinafter referred to as "COMPANY", and _____ whose address is _____, hereinafter referred to as "Grower",

W I T N E S S E T H:

WHEREAS, Company produces turkey poults, operates a turkey processing plant and is desirous of obtaining a supply of turkeys for processing, and

WHEREAS, Grower has facilities for growing and handling turkeys or can arrange for necessary facilities and desires to have a sure market for his finished turkeys,

NOW, THEREFORE, in consideration of the premises, the parties hereto contract and agree as follows:

1. Grower agrees to purchase from Company for cash and the number of turkey poults listed below at the prices shown.

Number Poults	Sex	App. Hatch Date	Price Per Poult	App. Mktg. Date

All turkey poults delivered by Company on the same date to the same growing location shall be considered a "flock" of turkeys.

2. Company agrees to repurchase from Grower and Grower agrees to resell to Company the finished, live, healthy, marketable turkeys which are grown from the poults referred to in paragraph 1 of this Agreement. The turkeys will be repurchased by Company at approximately 18 - 21 weeks of age for hens and 21 - 24 weeks of age for toms. The exact marketing date will be determined by Company and this will depend upon the size of the turkeys and market conditions.

3. Grower is to provide and pay for all equipment, water, heat, litter, utilities, and the necessary feed and medications for the feeding and caring of said poults. When it has been determined that the turkeys are ready for marketing, a processing date will be set and Company shall provide for the hauling of said turkeys to the processing location. The finished turkeys are to be sold to Company on the basis of weighing done at _____.

4. Subject to the provisions of paragraphs 5, hereof, upon delivery of the finished marketable turkeys to Company, Company shall pay Grower a floor price which shall be _____¢ per lb. live weight for hens, and _____¢ per lb. live weight for toms.

In addition, a market price shall be computed for the finished marketable turkeys which shall be the average of the New York Urner-Barry "inside" quotation for the week the turkeys are processed converted to a live weight basis as follows:

Hens - the above-described average of Urner-Barry quotations less _____¢ per lb. times a yield factor of 81%.

Toms - The above-described average of Urner Barry quotations less _____¢ per lb. times a yield factor of 82%.

Subject to the provisions of paragraph 5 hereof, in the event that the computed market price exceeds the floor price, Company shall pay grower, in addition, all of the excess in the market price over the floor price up to a total excess of _____¢ per lb. and _____% of any additional excess in the market price over the floor price.

Final payment for turkeys purchased by Company under this contract shall be on an individual flock basis.

5. Each flock of turkeys shall be inspected and graded by U.S.D.A. inspectors at the processing plant and the amount as determined by the preceding paragraphs shall be paid by Company for A grade turkeys only. Company shall be entitled to deduct from grower's total compensation, as provided for in paragraph 4 above, _____¢ per lb. for undergrade hens and _____¢ per lb. for undergrade toms.

6. Deductions for undergrades will be made on the basis of live weight. The live weight of undergrades shall be determined by dividing the dressed weight by yield factor of 82%.

7. Turkeys dead upon arrival at processing plant and those condemned under U.S.D.A. inspection at the processing plant shall not be considered as marketable turkeys and grower shall not receive compensation therefor. Live weight of condemned birds shall be determined by dividing the dressed weight by the yield factor of 82%.

8. It is understood and agreed that neither grower's employees nor his contract growers nor any employees of his contract growers shall be deemed or construed to be employees of Company, and such individuals shall not be entitled to the benefits of an employee of Company, such as, but not limited to, workmen's compensation, group insurance, vacation, pension, and unemployment insurance.

9. Grower agrees to indemnify and save Company harmless from, and to assume full responsibility for payment of all state and federal taxes for unemployment insurance, old-age pensions, or other social security legislation as to all employees engaged in the performance of this Agreement, and further agrees to meet all requirements that ma be specified in regulations now or hereafter promulgated from time to time by administrative officials, including but not limited to the Fair Labor Standards Act of 1938, as amended.

10. Neither party shall be liable in any respect for failure or delay in the fulfillment or performance of this contract, if hindered or prevented, directly or indirectly, by war; conditions of war; acts of enemies; national emergency; sabotage; revolution or other disorders; inadequate transportation facilities, inability to secure raw materials or supplies, fuel or power; fire, flood, windstorms or other acts of God; strikes, lockouts or other labor disturbances; orders or acts of any government or governmental agency or authority; interference by civil or military authority or any cause of like or different kind beyond any party's reasonable control.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be signed, sealed and delivered on the day of ,19 .

COMPANY

By_____

By_____

GROWER