

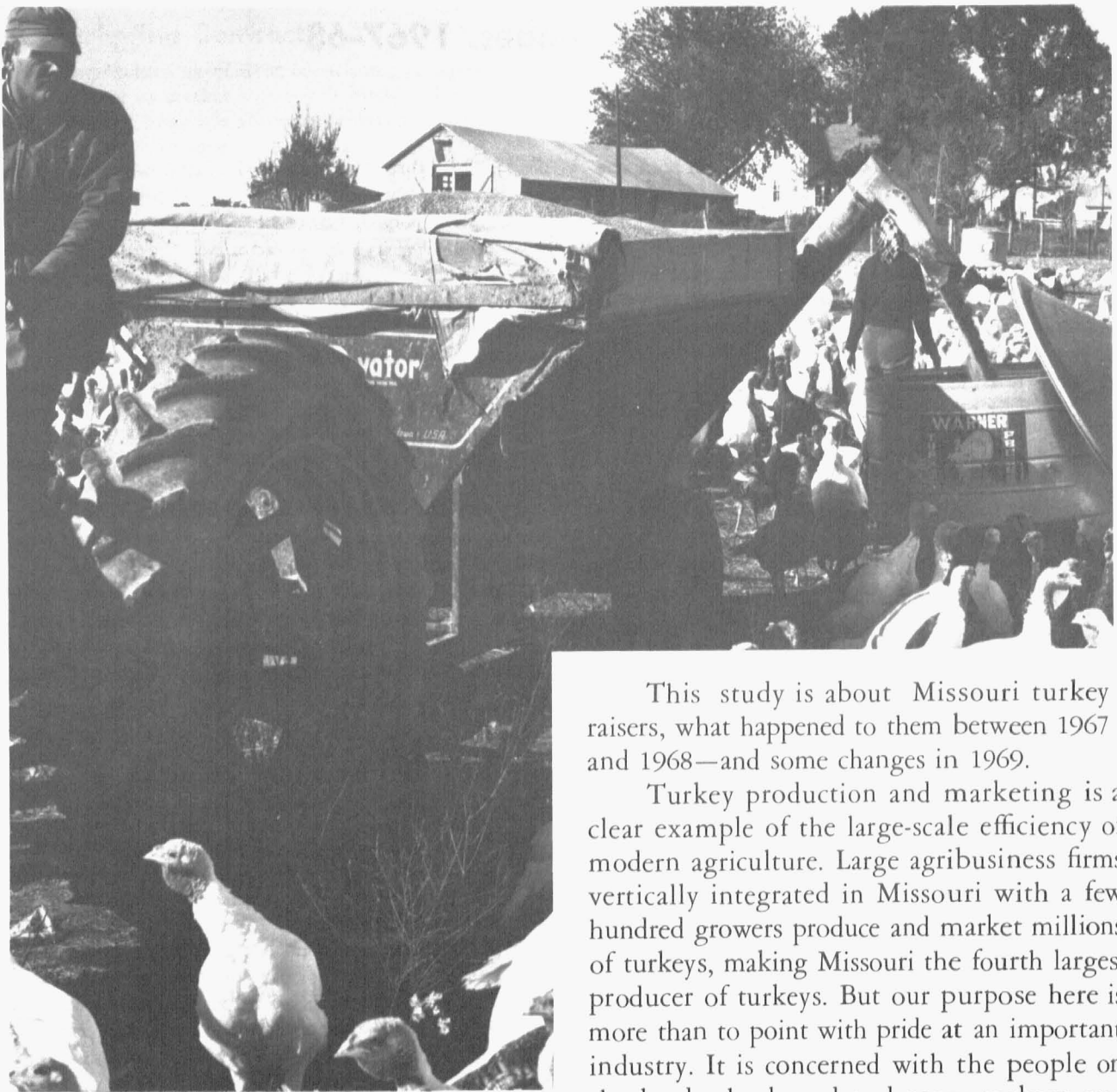
# Changes In Turkey Contracting 1967-1968



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## **Changes in Turkey Contracting, 1967-1968**

by  
**V. James Rhodes**

This study is about Missouri turkey raisers, what happened to them between 1967 and 1968—and some changes in 1969.

Turkey production and marketing is a clear example of the large-scale efficiency of modern agriculture. Large agribusiness firms vertically integrated in Missouri with a few hundred growers produce and market millions of turkeys, making Missouri the fourth largest producer of turkeys. But our purpose here is more than to point with pride at an important industry. It is concerned with the people on the land who brood and grow turkeys and with the economic consequences to them of a rapidly changing turkey industry.

This is the second study with the 87 producers described in a previous publication, *Contract Production of Turkeys*, Missouri Station Bulletin 879. These producers were re-interviewed in November and December, 1968, one production season later than their first interviews in early spring of 1968. Sampling procedures were described in Bulletin 879.

# Contracting Changes, 1967-68

There was a major change in the number of producers from 1967 to 1968. Of the 87 producers in 1967, 22 did not produce turkeys in 1968.

The proportions of contractees and independent producers remained almost unchanged—86.2 percent contractees in 1968 compared to 85 percent in 1967. Five independents turned to contracting while three contractors became independent (Fig-

ure 1). These three had contracted in 1967 with a company which made a major cut-back in contracting in 1968 as a result of losses in 1967.

Risk-sharing by the contractor was almost universal in 1968, involving 97 percent of all contracts compared to 91 percent in 1967. Also, changes in the general proportions of particular types of contracts—production payment, floor price, etc.—were small (Table 1).

Figure 1

Changes in Turkey Contracts, 1967 to 1968

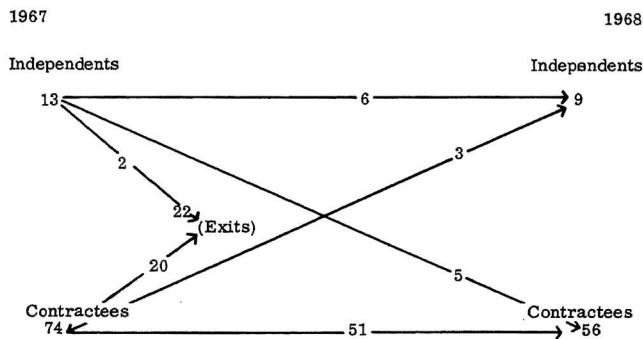


TABLE 1

Types of Turkey Contracts 1967-68

Percentage		Types*
1967	1968	
84	84	I. Production payment.
7	10	II. Floor price (floor price with profit share, firm purchase).
3	0	III. Financing (tied to feed or markets).
6	3	IV.. Marketing.
0	3	V. Profit share.
100	100	

\*Number of contracts slightly exceeds number of producers because of multiple contracting. One producer, for example, had two piece wage contracts and two floor price contracts involving four different contractors. For this table, two "types" are counted, although there were four contracts. However, six contracts in 1967 and two in 1968 were excluded from these totals because it was impossible to determine what type they were.

"A fundamental distinction between types of contracts is whether they do or do not transfer some risks 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 centered upon the nature of risk-sharing and also introduces other distinctions.<sup>1</sup>

## 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."

The production payment is a piece wage for output accomplished. The contractor pays the producer so much per pound for turkeys marketed. This payment may include incentives for other aspects of performance such as mortality and feed efficiency. In another form of this type contract, the size of the per pound payment is related to the costs of production for a flock as compared to average costs of all comparable flocks owned by that contractor.

## II. Floor Price Contract

The grower owns the birds, takes all of the production risks and shares the price risks with the contractor. In turn, the contractor guarantees to purchase the birds at either a price which is no lower than a fixed minimum (floor) or at a schedule of prices related to market prices. In the usual case, the grower trades part of his potential profit if market prices are high for a guaranteed floor price if they are low.

## III. Financing Contract

The grower owns the birds and takes all production and price risks. However, in return for contractor financing of turkey production, the grower agrees to buy the contractor's feed and/or to sell the finished birds to the contractor.

## IV. Marketing Contract

"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."<sup>3</sup>

## V. Profit Share Contract

There is great variety of definitions of profits, risks, and management. Generally, the producer supplies land, equipment and labor while the contractor furnishes the rest.

# Contracting Comparisons 1967-1968

Most contractees retained the same type contract in 1968 that they had in 1967. Of 46 producers with classifiable contracts both years, 36 kept the same type, three switched from one type to another and seven with multiple contracts made partial shifts in contract type. This kind of stability of types is not surprising in view of the predominance of the piece wage type in both years.

Contracting is still rather unbusiness like. Of the 30 contractees, only 25 had a copy of the contract in their possession. Seventeen reported verbal agreements. Most of the other 14 had apparently signed a contract with all copies retained by the contractor's representative. It's difficult to imagine such a method of doing business. It may reflect a contractee's disinterest in having a copy. At other times, it reflects a producer's lack of bargaining power and a reluctance on the part of contractors to supply a copy to the contractee. A verbatim comment of a small producer (10,000 birds) tells the latter story. "I only got a short look at the contract. The fieldman said he only had one and I gave it back to him, but thought that he'd bring another, but he never did."

Contracts were reported with 14 different contractors. There were six contractees who reported 1968 contracts involving more than one contractor. Two companies (with 16 and 11, respectively) had the largest number of contractees in the sample. Their total birds in the sample were 732,000 or 52 percent of total contract birds and their average flock size was 27,100.

The diversity of contracts greatly complicates classification. There were usually different types of contracts for brooding and growing. Moreover, some of the contractors had one or two variants from their usual contracts. There were 46 piece wage contracts<sup>4</sup> in 1968 but only 25 were entirely piece wage (Table 1). In addition, 10 had a profit share clause, al-

though returns were usually too low to make it operative. Then there were four piece wage contracts which specified a slight connection between feed conversion dimensions and market price, so the contractee had a very tiny share of the price risk.

There were nine floor price contracts, (including four firm purchase), and two profit share. Firm purchase<sup>5</sup> is classified as a variant of the floor price contract. A price scale is guaranteed by the contractor and linked to the price of feed. The contractee with a firm purchase contract, as with a floor price, has all the production risk; however, the contractee has no price risk with a firm purchase contract, whereas he ordinarily has some price risk with the floor price contract. In both cases, the contractee owns the birds. A profit share contract is somewhere between a risk-sharing contract and independence. Both these contracts were with a small contractor and he apparently retained ownership of one flock and financed the other.

One of the concerns about contracting as a replacement for the free market is the extent to which the producer can achieve any genuine competition among contractors for his services. One indication of such competition could be the amount of switching between contractors. Such a measure has some important defects, because switching can be influenced by several factors other than competition among contractors.

How much switching was there among contractors between 1967 and 1968? There were 49 contractees who contracted both years and who furnished enough information to clearly identify their contractors both years. Thirty-five of these 49 stayed with the same contractor; eight switched completely, and the other six made partial switches. This is a sizable amount of switching, but mainly reflects the large cut-back of one major contracting firm in southwest Missouri. Most other contractors had almost exactly the same total number of contracts both years, with the exception of a relatively large gain by one firm. Thus, much of the switching was involuntary on the part of growers and it is not evidence of active competition among contractors for growers.

## Changes in Volume Produced

Missouri turkey production declined by 21.3 percent from 11,473,000 in 1967 to 9,033,000 in 1968, while U.S. production declined by only 16 percent in the same period. This sample indicates that most of the reduction in Missouri turkey production from 1967 to 1968 was by exits or dropouts in 1968 (Table 2). Within this sample, 79 percent of the net reduction in production was attributed to the drop-outs. Of the 65 producers, 15 increased production, 31 cut production and 19 maintained production at the same level in 1968 and 1967. (A change of less than 10 percent was counted as maintaining production). Consequently, average size of production for those producing in both years declined only slightly, except a larger drop for the contractee brooder-growers (Table 3).

These declines, however, interrupt a rather persistent annual growth in average size in recent years.

Since this is a repeat study of the 1967 producers, information is not available on how many turkeys were produced in 1968 by "new" producers who had not produced in 1967. Since the sample production fell 29.1 percent while state production fell 21.3 percent, it seems likely that some of the difference is due to the production of new producers, or the change in the direct production of contractors or the large independent operators not included in the sample.

## The 1968 Drop-Outs

In the turkey industry as in any industry, the important questions about exits are: Who left? Why? Where did they go? Is the exit permanent?

**Who left?** In March 1968, 22 producers planned not to produce. Nineteen of these 22 did exit. There were three others who dropped out, although they had planned to produce in 1968. These 22 included two independents and 20 with contracts. The 20 contracts in 1967 included 18 of the production payment type, one finance and one floor price.

The producers who quit production were much like other producers as to size of operation, years of experience in production, and average age. The 22 exits included four who only brooded turkeys, two brooder-growers and 16 growers. The brooders ranged in size from 1,000 to 40,000 and averaged 21,590 compared to an average size in 1967 of 19,100 for all other growers. These 22 producers averaged the same age as all 87 producers—47 years of age in 1968—with a range in age of 27 to 62. Their first year of raising turkeys ranged from 1945 to 1967 with 1964 being the median (middle) year, which was also the median for all producers in 1967. Nine of the 22 had raised turkeys only one or two years.

**Why did they leave?** A 25.3 percent (22 out of 87) exit rate 1967-68 seems quite high. The very poor returns associated with the national excess production in 1967 presumably increased the "normal" rate of exit. The rate may be larger in this sample than for the state as a whole because the exits were partially localized. For example, five out of six producers

in Wright County and four out of nine in an adjacent county quit. Of the 20 contractees quitting, 10 had contracts in 1967 with the contractor in southwest Missouri who drastically cut production in 1968 as a result of heavy financial losses in 1967.

Almost one-half (10 of 22) of the exits were "involuntary" in the sense that they couldn't obtain a contract or couldn't obtain enough birds. Six said they quit because of low returns, two because of dissatisfaction with contractor service, one because of poor health, and one sold his farm.

What about the 1967 net returns in turkey production of the 22 who dropped out in 1968? The four brooders had positive returns; of the 18 growers and brooder-growers, three reported negative net returns, 10 didn't report earnings, and five reported positive net returns. The unweighted average net return of those growers reporting was zero.

**Where did they go?** Two thirds (actually 16 of 22) of the drop-outs have placed more emphasis upon other farm enterprises. Two were hauling feed for a turkey contractor, one retired, and three were in other nonfarm occupations.

Contractors sometimes argue that Missouri turkey producers can be tough bargainers because of good off-farm opportunities. This data suggests that off-farm opportunities were not very attractive for the producers. It is also argued that other farm enterprises are an attractive alternative and give turkey producers bargaining power. While the above evidence suggests that other farm enterprises were the best alternatives of the drop-outs, it is well-known that turkey production is concentrated in below-average income farming areas.

**Are the exits permanent?** Exits can be temporary, but are more likely to be permanent. While the data is not complete, it seems likely that only two of the 22 exits in 1968 raised turkeys in 1969. The 1968 drop-outs were asked if they "planned" to raise turkeys in 1969 and also if they "would like" to raise turkeys in 1969. Thirteen "would like" to produce in 1969 including five who "planned" to produce. In August, 1969, 11 of the 13 who said they "would like" to grow turkeys in 1969 were again contracted. Only two of the eleven produced turkeys; they grew-out 23,400 on contracts; in 1967 they had produced 63,000. Two had sold their equip-

TABLE 2

Turkey Production<sup>7</sup> 1967 & 1968 in Sample

	1967	1968	Percent Change
Contract growers	750,580	731,460	-2.5%
Contractee brooder-growers	706,910	609,380	-13.8%
Independent growers	32,700	29,140	-10.9%
Independent brooder-growers <sup>8</sup>	50,900	29,580	-2.6%
Drop-outs, 1968	459,870		-100.0%
	2,000,960	1,419,560	-29.1%

TABLE 3

Average Size Producers 1967 & 1968

	<u>1967</u>	<u>1968</u>
Contract growers	20,850	20,320
Independent growers	6,540	5,830
Contractee brooder-growers	37,210	32,070
Independent brooder-growers	12,720	12,390
4 brooder drop-outs	17,880	-----
2 brooder-grower drop-outs	21,450	-----
16 grower drop-outs	21,590	-----

ment, one had a building burn and one quit farming. Five of the other nine, who had indicated no desire to produce in 1969, were interviewed by telephone. None of the five produced turkeys in 1969; one had sold his equipment and one had retired.

## More Exits Soon

Corporations may exist in perpetuity; individual producers cannot. The present producers will eventually be replaced by a new group. The 1968 producers were asked how many turkeys they planned to produce in 1969. Later, they were asked: "How many more years do you want to raise turkeys?" Twelve producers (eight contractees and four independents) said they planned no production in 1969. However, one of them was very undecided and said he "wanted" to raise turkeys one more year but disease problems might prevent it. In addition, two producers were undecided and said they didn't "want" to raise turkeys again, although they earlier said that they would produce in 1969. One was an independent who wanted to quit but felt he must raise turkeys long enough to pay off his creditors (on turkeys). The other was an independent who was determined not to contract, and planned not to produce in 1969 unless he did well in 1968 (he didn't have any financial settlement for 1968 yet at the time of the interview). Thus, of 65, 11 producers seemed to have decided to quit while three more were quite undecided about 1969.

In August, 1969, contacts were made with 12 of these 14 producers who had indicated in 1968 that they probably would not produce in 1969. Four, or one-third, did produce turkeys in 1969 while the other eight dropped out. Three in 1967 and all four in 1968 were on contract. The four produced 84,000 birds in 1968 but only half that many in 1969. Three of the four planned to produce in 1970. These eight producers ranged in age from 26 to 66 with a mean of 49. Their first year of raising turkeys varied from 1942 to 1965, and four of them began in the 1940's.

Producers' predictions of exit the following season were fairly accurate—19 of 22 in 1968 and eight of 12 in 1969.

It remains to be seen whether exit predictions of a long term nature are as accurate. To the question "How many

more years do you want to raise turkeys?", nineteen in 1968 gave answers in the one to five year range, 19 gave answers in the six to 40 year range, and 14 gave indefinite answers. The number of Missouri producers will apparently continue to sharply decline unless there is substantial recruitment of new ones. The number might decline more than the turkey population. Also, contractors have investments they will protect by recruiting more growers.

## Gross and Net Returns to Producers

**Gross Returns.** Gross returns to producers with production payment contracts can be fairly accurately determined by interview, although such information is occasionally refused or garbled. Of the 13 brooding contracts on which we had returns in 1968, there were eight contracts that paid either 19½ or 20 cents a bird, two at 22 cents, and one at 23—the higher rates were normally earned for low mortality. There was a contract that returned 15 cents and another returned 17½ cents. Thus, a brooder of 30,000 birds might have grossed about \$6,000 in 1968.

A return of 1.5 cents a pound, marketed weight, was the most common contract for grow-out. Among our 11 contracts, one extreme paid 3.0 cents (for toms in semi-confinement). The average return (unweighted) was 1.4 cents a pound. Thus, a grower of 30,000 birds might have grossed \$8,400 in 1968.

The average return (unweighted) for brooding and grow-out was 2.4 cents a pound. The lowest return was 1.5 cents and the highest was 3.8 cents, but most of the 17 returns were in the 2.0 to 3.0 cent range. Thus, a brooder-grower of 30,000 birds might have grossed about \$14,400 in 1968.

It should be emphasized that all of the gross returns given above were for production payment (usually piece wage) contracts only. Gross returns under such contracts are quite comparable among themselves, and are probably more useful than estimated net returns in evaluating contracts. Such gross returns are not comparable with those returns received by independent producers or those with floor price or marketing contracts.

Gross returns for those with production payment contracts were quite similar for 1967 and 1968. Most of the major contracts had only minor tightening in terms. A check of the gross receipts per bird brooded or per pound marketed for 18 producers, who produced for the same contractors both years and furnished returns data both years, indicated no change in average gross returns per pound and only a few slight variations in individual gross returns. However, weighing was sometimes moved to the plant in 1968, thereby increasing shrinkage and reducing total gross returns slightly.

Gross returns for those growers who owned their turkeys (independents, marketing agreements, floor price contracts) probably increased about 2 cents a pound on the average 1967

to 1968, although individual changes varied considerably, and the data leave much to be desired.

**Net returns.** Net returns are very difficult to estimate for any farm enterprise without a detailed analysis of good accounting records. Turkeys are no exception. The producers provided estimates of their operating expenses: fuel, electricity, litter, other supplies, use of equipment, hired labor, and miscellaneous costs. Feed, poults, and medicines were also expenses for those relatively few who took ownership of the birds. "Net returns" in this context were returns to family, operator labor, management, capital and land. These estimates for 1968 differed from 1967 estimates (Bul. 879) because:

- (1) the growers estimates of their own expenses were used this time rather than using standardized cost data from a previous record study as was done in 1967,
- (2) depreciation and interest weren't counted as expenses this time.

Net returns estimates were higher for 1968, but it appears that most of the difference was due to underestimation of 1968 costs due to the above causes. One lesson is that producers ought to keep better records and learn more about their own costs.

It can be presumed that average net returns for 1968 and 1967 were much the same for those with production payment contracts because of the similarity of average gross returns. The fact that producers would have much the same nets in the bad price year of 1967 and the somewhat better year of 1968 emphasizes that the production payment contract is designed to and does isolate the producer from price risk.

Net returns were very likely improved in 1968 compared to 1967 for those growers who owned their turkeys (independents, marketing agreements, floor price contracts). This result would follow from the higher gross returns already cited and the general stability of grower costs. The meager data on net returns also support this conclusion, but no quantitative estimate is possible because of the data and measurement problems mentioned. It should be added that net returns were generally very bad for these growers in 1967, so that a sizable improvement for 1968 doesn't necessarily indicate any great prosperity in 1968.

## Types of Contracts, 1968

Contracts are typically for one flock or a season. Of the 56 contractees, only five had a contract for the 1969 season in November 1968. This lack of future assurance increases the risks of the producer, complicates his financing of buildings and equipment, and reduces stability in the industry.

The major elements of eight types of contracts used in 1968 are summarized and classified to facilitate comparison. Each contract is indicated by a number—(1), (2), etc. While the major written contracts in use in the state are discussed, it isn't possible to discuss all written contracts nor to evaluate

oral agreements, nor to indicate individual variations of these eight contracts.

**A. Production Payment Type**—day old to market—contractor owns birds, furnishes feed and (usually) medicants.

(1) a. base payment of 2¢ per pound of live turkey marketed (passing government inspection) plus a feed conversion premium tied to a livability record.

b. if 87 percent or better livability, then a 10½¢ premium per turkey marketed for a feed conversion of 3.75 to 3.79 rising by 1½¢ steps to 36¢ for 2.90 and below. If livability is less than 87 percent, payment to grower will be reduced 2 percent for each percentage point drop in livability below 87 percent. A "standard performance" would pay 67¢ a bird or a flock total of \$11,528 for 17,600 marketed birds. An "unusually bad performance" would pay 26.4¢ a bird or a flock total of \$3,696 for 14,000 marketed birds. A "standard performance" is defined here, solely for purposes of comparability, as 92 percent livability for brooding and 88 percent to market with a feed efficiency of 3.27 and a 20 pound flock average at market. A flock of 20,000 birds is assumed to be placed in the house. An "unusually bad performance" modifies the standard performance by assuming that livability to market falls to 70 percent because of disease, storms, predators, etc. A flock of 20,000 poults is assumed to be placed in house but only 14,000 are marketed.

(2) a. base payment of 10¢ per bird placed in house.

b. payment of 7¢ per bird moved to range if 91 percent or less livability or 1¢ extra per bird for each percent livability above 91 percent, e.g., 10¢ for 94 percent livability.

c. 10¢ per bird marketed.

d. a livability premium varying from ½¢ per bird for 91 percent livability to 5¢ for 100 percent.

e. feed efficiency premium based on a complicated scale of livability, selling price and feed efficiency.

For example, for mixed flocks with livability of 90 percent or above and selling price of 18 or 19 cents, the premium goes by 1¢ steps from 3¢ for 3.56-3.60 feed efficiency to 14 cents for 3.01-3.05. Those same premiums are 2 cents less if selling price is below 18 cents and 2 cents more if price is 20 or 21 cents. A livability record of 85 percent to 89 percent will reduce the premium by 5 cents and a livability record of 80 percent to 84 percent will reduce the scale another 5 cents. A "standard performance" at an 18 or 19 cent selling price would pay 33.7 cents a bird and at 20 or 21 cents selling price would pay 35.7 cents a bird or a flock total of \$6,288 or 17,600 marketed birds. An "unusually bad performance" would pay 34.8 cents a bird or a flock total of \$4,872 on 14,000 marketed birds.

(3) a. base payment of 4 cents per pound marketed and passing government inspection. This payment can decline to 3½ cents or rise to 4½ cents, depending upon the relation of grower's flock cost of production to average costs of all similar flocks of the contractor. A "standard performance" at minimum rate of 3½ cents would pay 70 cents a bird marketed



or a flock total of \$12,320. An "unusually bad performance" would pay 70 cents a bird which would yield a flock total of \$9,800 on 14,000 birds marketed.

(4) a. brooding payment of 19½ cents per bird delivered to contractor or to range. This payment can fall to 16 cents or rise above 19½ cents depending upon the relation of brooder's flock costs of production to average costs of all similar flocks of the contractor. b. growing (range) payment of 1½ cents a pound for all turkeys marketed and passing government inspection. A "standard performance" at average brooding costs would pay 50.4 cents per bird marketed or a flock total of \$8,868. An "unusually bad performance" would pay 55.6 cents a bird or a flock total of \$7,788. (5) a. payment for brooding of 18 cents a bird delivered to contractor or to range. b. 35 percent of "net profits" but not less than one cent per pound marketed. c. .01 cent premium per each .01 pound of feed saved under 3.25; .02 cent penalty per each .01 pound of feed consumed over 3.75. d. penalty of ½ cent per pound for failure to provide sufficient feeders and waterers. e. other minor penalties. A standard performance without any profits share above the one cent a pound would pay 38.8 cents a bird marketed or a flock total of \$6,832. An "unusually bad performance" would pay 43.7 cents a bird or a flock total of \$6,112.

**Comments:** In the market place, economic alternatives can be compared quite accurately and usually quite simply. In a contractual economy, the alternatives become more complicated. It is surprising that contracts with such differing gross returns can continue to co-exist (Table 4). Either net returns are poorly correlated with gross returns, or competition among contractors is very limited, or producer knowledge about contract alternatives is very poor. The dispersion is a bit smaller than it first appears because one contract was seldom used. Contract number 3, which was superior for both a standard and unusually bad performance, was seldom found in the sample—perhaps because the contractor found it to pay the producer too well.

**TABLE 4**

Total Gross Returns to Producers  
for a Beginning Flock of 20,000 Poults

Various Production Payment Contracts	Standard Performance	Unusually Bad Performance
(1)	\$11,528	\$3,696
(2)	6,288	4,872
(3)	12,320	9,800
(4)	8,868	7,788
(5)	6,832	6,112

Contracts do differ considerably as to gross returns. Differences in net returns may or may not be as much depending upon the above or below-standard performance of the flock

and upon other costs. Flock performance is affected by factors in addition to producer management. Feed efficiency can be affected by its quality and the extent to which late deliveries may leave birds without feed for a day or two. Mortality is related to the quality of poults, feed, and medicine and to the competence of the fieldman as well as to the management of the producer. However, it is believed that grower costs are generally quite similar.

Producer knowledge of terms of other contracts was found, on the previous survey, to be rather limited (see Station Bulletin 879). Even more significant in explaining the big variations in contract terms is the limited competition among contractors. There's no simple index for measuring such competition. But, the small number and the geographical dispersion of contractors, the interview with producers, the limited amount of voluntary producer shifting among contractors, and the lack of bargaining power of most producers all point to limited competition among contractors.

Contract number one may be ranked second to fifth by growers depending upon their performance expectations and attitudes toward risk. However, contract number 4 is superior on both performance counts to number 5 which, in turn, is superior on both counts to number 2. Contracts numbers 1, 2 and 4 were encountered most frequently in the 1968 survey.

The production payment contract was defined earlier as *sharing the production risks* between producer and contractor. These five production payment contracts indicate the large variations in how these risks are shared. The producer's returns are greatly affected by production results in contract 1 but only slightly affected in contract 5.

#### B. Floor price - day-old to market

- (6) a. payment of floor price of 21½ cents a pound of live marketable turkey hens and 19 cents a pound for toms.  
b. the first two cents of any excess of market price over floor price goes to grower and half of any above two cents goes to grower.  
c. this payment, however, is subject to six cents a pound deduction for all pounds of "undergrade" turkeys. "Undergrade" is defined as any hens not Grade A and all toms in excess of 10 percent not Grade A.

#### C. Firm Purchase - day old to market

- (7) a. grower (dealer) buys poults at 60 cents each.  
b. selling price is totally unrelated to market price. It is set in relation to feed price as billed to the producer by a complicated formula.

For example, at feed price of \$70.00 to \$70.99 per ton, selling price of toms is 20.15 cents. For any change in feed price of \$1.00 either way, the price of toms changed 0.17 cents. Hens are priced 1.0 cent above toms.

c. The Grade A base is 80.0 to 82.9 percent for toms and 85 to 87.9 percent for hens. There is a .04 cent premium or penalty for each full percent the turkeys grade above or below this base.

#### D. Marketing Agreement - day-old to market

- (8) a. contractor agrees to dress, grade, pack, ship and market all marketable turkeys up to a specified number. Grower owns turkeys and agrees to market such turkeys at certain approximate dates.
- b. contractor charges 7.40 cents a pound oven-ready weight on large turkeys and 8.15 cents per pound on smaller ones for all processing through first month's storage.

Comments: It is difficult to visualize entirely comparable conditions in which these last three contracts might be compared fairly with one another or with the production payment types. To the extent that some producers face both production uncertainty and lack of information on which to base price and cost estimates, then the production payment types may have particular appeal to them.

## Summary and Conclusions

This follow-up study of the 1967 survey reported in Missouri Station Bulletin 879 describes some of the important changes in the situation of sample turkey producers in Missouri from the low prices of 1967 to the somewhat better season of 1968.

(1) Of the sample of 87 producers in 1967, 22 (or 25.3 percent) did not produce in 1968. This exit rate was presumably high because of the low turkey prices in 1967, and also the ensuing financial difficulties of one contractor who drastically reduced operations in 1968.

(2) Exit is often assumed to be due to inefficiency, but exit was more often due to inability to obtain a contract than to low grower earnings. Those quitting were similar to other producers as to size of operations, years in turkey production, and average age.

(3) Sixteen of the 22 drop-outs began placing more emphasis upon other farm enterprises rather than taking non-farm jobs or retiring. Only two of the 22 raised turkeys in 1969, so their exit seems to be permanent.

(4) At least eight more producers did not produce in

1969, so the turnover remains substantial. One of the justifications cited for contracts is greater industry stability, but stability for those who are producing has not been obtained. One of the important contributions to instability is the single season contract, which provides no long run assurances to the producer. Another is that returns were below expectations.

(5) The percentage of contractees versus independents remained almost unchanged—86.2 percent contractees in 1968 compared to 85 percent in 1967.

(6) The percentage of contracts in which the contractor takes risks (price or production) rose to 97 percent from 91 percent in 1967. Production payment contracts continued to be the dominant type at 84 percent of all contracts. Profit sharing clauses within various contracts became more numerous. Most producers kept the same type contract in 1968 as they had in 1967.

(7) Contracts were reported with 14 different contractors, but half the birds were with two contractors. Voluntary switching by producers among contractors was small—the opportunity was probably lacking.

(8) A surprising diversity was found in potential returns among various firms writing the same type contract—the predominant production payment type. Gross returns to a producer starting with a flock of 20,000 poults under assumptions of "standard performance" ranged from \$12,320 to 6,288. A fundamental problem with present contract practices is this tremendous variation in gross returns. Differences this large are not found in well-informed competitive markets.

(9) Producers need better cost records and particularly better concepts of their annual costs of capital. They also need to become better informed as to contract alternatives and they need to find means to obtain more equitable returns.

(10) Gross and, probably, net returns to producers on production payment contracts averaged much the same for 1967 and 1968. Gross and net returns to producers owning their birds and assuming price risks improved somewhat in 1968.

(11) The average number of turkeys produced fell slightly for those producers producing both years. However the total 1968 production of the sample fell 29.1 percent—mainly because 25.3 percent of the producers dropped out.

## FOOTNOTES:

1. Missouri Station Bulletin 879, p. 4.
2. Missouri Station Bulletin 879, p. 4
3. Missouri Station Bulletin, p. 6.
4. There were a few more "contracts" than types of contracts for reasons indicated in Table 2.
5. See section, "Types of Contracts, 1968," for one version of a firm purchase contract.
6. Producers who dealt with more than one contractor one or both years, and switched so that they did not deal with exactly the same set both years made a "partial switch."
7. Poults brooded and poults grown-out are totaled together, so the totals exceed the number of birds marketed for processing.
8. Also includes breeder-growers and a brooder-breeder enterprise.
9. See a similar finding for broiler contracts of a few years ago in Arkansas. See *The Broiler Industry*, a Staff Report of the Packers and Stockyards Administration, USDA, August 1967.