



from North Carolina State University at Raleigh / Extension Poultry Science

Contract Commercial Egg Production

Egg production contracts are common among North Carolina poultrymen because of increased capital requirements and complex marketing problems. Estimates are that 85 percent of the egg production in North Carolina is under a production contract.

The typical egg production contract specifies that the producer furnish labor, housing, equipment, and utilities. The contractor furnishes pullets, feed, medicants and supervision, agrees to market the eggs and spent hens and pay the grower on some basis for his contributions.

Types of Egg Contracts

The four types of egg contracts in North Carolina are:

1. Guaranteed payment per dozen eggs produced. A bonus may be provided, based upon feed conversion, rate of lay, and/or egg grade out.
2. A percentage of sales is paid to the grower. A bonus may be based upon feed conversion.
3. Fixed payment per bird per week and a share of the profit.
4. Fixed payment per bird per week, usually with incentive payments.

Making the Decision

The decision to construct facilities or to change an established independent operation to produce eggs on contract requires serious and thorough consideration. It should be based upon economic considerations as well as whether an individual has the interest and ability to make the operation successful.

The producer should first estimate the costs and returns of a production contract. When calculating egg production costs, here are a few things to keep in mind:

- Each hen should lay about 240 eggs during 12 months of production.
- New housing and equipment costs, in mid-1978 when this guide was prepared, were in the range of \$4.50 to \$4.75/hen for curtain-side housing and \$4.75 to \$5.50/hen for environmental housing.
- Interest costs should be obtained from lending institutions. This will vary due to a lending institution's policy. Depreciation schedules should be selected to fit the needs of the producer.
- Don't forget to figure in all costs. Some items that are often excluded in determining production costs include: wells, roads, electric service, and waste disposal.

A convenient budgeting guide is outlined in "Budgeting for Contract Egg Production," (PS&T Guide No. 25). This guide will help you to analyze your financial position when considering going into the contract commercial egg business. It will also help to evaluate which contract offers the best

alternative to meet the financing requirements of the lender.

After the estimated costs and returns have been determined, some questions about the outcome should be answered:

- Do I have the necessary capital or can I secure credit to supplement my own capital?
- Will I be satisfied with the returns budgeted, keeping in mind that this is a long-time commitment?

Contact Terms

Understanding the terms of the contract is essential. Some of the questions that need to be answered include:

- At what age are pullets housed; and, if pullets are placed in the house early, is there any compensation?
- Will the flock be forced molted and what is the contract payment during rest period and during the succeeding production period?
- At what age or level of production will the spent hens be removed from the house?
- Who owns or will dispose of waste?
- Who furnishes labor for putting hens in cages, catching spent hens, medication and vaccinations?
- Who pays material costs for insecticides and rodent control?
- Will payment be made on the number of eggs that leave the farm or eggs processed (if paid per dozen basis)?
- On what basis are gross sales based (if paid on percentage of sales basis)?
- What are the egg grading standards?
- Is the feed incentive paid on the basis of 50% Hen Day production for 12-14 months?
- When will producer payments be made? When will bonus payments be made? Is the contractor reliable and can he afford to meet his obligations?
- What is the turn-around time between flocks?

Personal Decisions

Probably the most critical part of making a decision of this nature is determining whether you (your family) really have the interest and desire to make contract egg production a successful venture. Questions that need answering or consideration include:

- Will I be satisfied to enter into contractual agreement with another person or firm?
- Will I accept someone else's decision as to when to start and sell the flock, as well as other management practices?
- If the hens and feed belong to someone else, will I manage the flock to the best of my ability?
- Will I be happy with a venture that will be a seven-day-a-week responsibility?
- A producer should recognize that each flock may differ in production and livability which affects the returns from a flock. For example, if one flock lays 240 eggs per hen in a 12-month period and another 228 eggs, the difference is \$3,000 for a producer with 50,000 layers on a 6¢/dozen contract.

Contract Check Points

Before contract is finalized, both partners should study the contract carefully. The following are a few of the points that should be checked:

1. *Parties and Addresses.* - Is the correct identity of each party stated? Is the name and address of each party correctly stated?

2. *Execution of Contract.* - Is it signed by all parties? Is it properly acknowledged and witnessed? Is the date of execution stated? Is the address of execution stated? Does each party have a copy?

3. *Contract Duration.* - Is the length of the contract stated? Are the options for renewal clearly stated? Are both starting and terminating dates stated?

4. *Relationship of Parties.* - Is the general relationship between the parties clearly stated? If the contractor takes over the commodity while in production, are the rights and obligations of the contractor and grower clearly stated? Does either party have the right to cancel the contract? What are the stipulations for cancellation?

5. *Facilities Used.* - Is there a legal description of the facilities to be used? Do both parties agree on the facilities to be used in performance of the contract? Is there a minimum size flock stated?

6. *Insurance and Taxes.* - How much and what type of insurance must each party have? Who is responsible for payment of taxes on real estate, inventory, personal property, sales, and income?

7. *Arbitration of Disputes.* - Are there provisions to settle disputes?

Summary

A person considering constructing facilities to produce eggs under a contract arrangement should consider and study all the implications of such an agreement. The consideration and study should include: a review of your potential financial position, a thorough study of the contract so that all of its terms are fully understood and an evaluation of whether you have the interest and desire to make the project successful.

Prepared by

Thomas A. Carter, Extension Poultry Specialist
Gary F. Vocke, Assistant Professor of Economics and Business

Published by

THE NORTH CAROLINA AGRICULTURAL EXTENSION SERVICE

North Carolina State University at Raleigh, North Carolina Agricultural and Technical State University at Greensboro, and the U. S. Department of Agriculture, Cooperating. State University Station, Raleigh, N. C., T. C. Blalock, Director. Distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. The North Carolina Agricultural Extension Service offers its programs to all eligible persons regardless of race, color, or national origin, and is an equal opportunity employer.

PS&T Guide No. 12

(Revised)

10-78-1.5M