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CONTRACT vs. INDEPENDENT Egg Production and Marketing

*An Evaluation of Table Egg
Contract Agreements Used in
Alabama's Sand Mountain Area*



**AGRICULTURAL EXPERIMENT STATION
of THE ALABAMA POLYTECHNIC INSTITUTE**

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CONTRACTS—GOOD or BAD?

Millions of words have been spoken and written about contract farming, especially as it is being practiced in poultry and egg production. Opinions range from one extreme to the other—from highly desirable to completely unacceptable.

Results of the study reported here show that contracts for table egg production have both advantages and disadvantages.

Farmers operating under contracts were generally satisfied with provisions of the agreements and planned to continue operations. Contractors were receiving a fair return on their investment and were pleased with the business. However, most independent egg producers were not interested in shifting to operating under contract arrangements.

Less risk was the factor that influenced most poultrymen to accept a contract. Other reasons given included: A good way to get financial assistance, row crops were going out causing need for a new source of income, marketing was expensive, and markets hard to find.

Independent operators had strong reasons for not wanting a contract. They believed that greater profits could be made independently and they "wanted to run their own business."

Gross returns to poultrymen under contract ranged from \$1.00 to \$1.25 per hen per year. Independent operators said their return from the same rate of production would be about \$2.00 per hen. Contractors were getting a return of about 13 per cent on their investment. Low feed cost was an advantage enjoyed by the contractors, which increased their profits.

Based on this study, contract egg production was best suited for farmers with little or no poultry experience. They gained the advantage of low risk, plus experienced management help. However, their chances for profit were not as great as from independent production.

Whether the production and marketing of table eggs in Alabama continues the shift toward contractual arrangements will depend largely on decisions made by individual producers.

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CONTRACT vs. INDEPENDENT Egg Production and Marketing

*An Evaluation of Table Egg Contract Agreements Used in Alabama's Sand Mountain Area**

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CONTRACTS ARE CONSIDERED new developments in farming, but such agreements are characteristic of businesses. Contracts are essential in modern business, because it is almost impossible for one firm to operate independently of others. Freedom to contract is a basic part of the economic system.

Contract farming, as it has developed in recent years, differs a great deal from other business agreements. There is a greater degree of centralized control over allied activities performed in the production and marketing of farm products than is generally true of contractual arrangements in other businesses. Farm producers under contractual arrangements often lose much of the opportunity for independent action plus the opportunity of making unusual profits when costs and price conditions are favorable. In exchange, however, they often gain financial, managerial, and marketing assistance, plus a reduction in risks normally borne by the non-integrated (independent) operator.

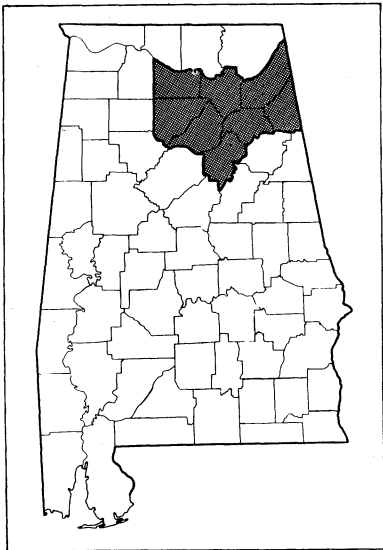
Successful contractual agreements result in a certain amount of "teamwork" among those involved. A producer, for example, may find himself involved with several teams during the course of his business operations. Agreements may be made with "hired hands," processors, distributors, suppliers, and buyers. When a team or group of teams acting together grows to a size that

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** Resigned.

enables it to influence the operations of other firms, the advantages and disadvantages of the new and larger team or teams should be evaluated.

An organization of this type and size is relatively new in the table egg industry in Alabama. However, it has developed during the past 5 years to the point that the entire industry is concerned about its scope, rate of development, and potential effects upon the industry. It is estimated that in early 1959, between 5 and 10 per cent of the table eggs produced in Alabama were produced and marketed under contract. Numerous questions need to be answered relative to changes in business organization, operation, and returns for the production and marketing of table eggs under contract versus other methods.



The shaded portion of the map is the area where contracts were most prevalent in Alabama in 1958.

To provide as many answers as possible, a study of contract versus independent production and marketing of table eggs in Alabama was begun during 1958. Results of this study are presented herein in question and answer form. Specifically, the study was designed to (1) compare contract versus independent producers as to their respective characteristics; (2) determine the nature of contractual agreements being used in Alabama; (3) compare provisions of various contractual agreements; and (4) evaluate the advantages and disadvantages of producing and marketing table eggs under contractual agreements currently in use in the State.

As a basis for making this study, all firms offering table egg contracts in Alabama were surveyed in July 1958. The contracts were of the "guarantee" type in which ownership of the hens remained with the contractor. Open account and other contractual arrangements were excluded.

Eight table egg contractors were found to be operating in the Sand Mountain Region of the State (see map). Two additional firms in adjoining states were found to be considering the

possibility of offering contracts in Alabama. Detailed questionnaires were completed by personal interview with 9 of these 10 contractors. One of the out-of-state firms was excluded because his operations did not influence contracts in Alabama. Since this survey was completed, contracts have appeared in scattered areas of southern Alabama.

During the interview with contractors, the names of all farmers under contract were obtained. This list of 77 producers represented all farmers who were under contract at that time. From this list, a random sample of 50 producers (contractees) was drawn and stratified according to number of contractees per contractor. For comparative purposes, an additional sample of 50 table egg producers who were not under contract was contacted. This group of independent producers was located near those under contract so that the same external economic conditions prevailed for both groups of producers. The same basic questionnaire was used by personal interview for the 46 contractees and 43 independents from whom usable records were obtained.

CHARACTERISTICS of CONTRACTORS, CONTRACTEES, and INDEPENDENTS

Who offered a contract?

Four of the nine contractors interviewed gave feed retailing as their major business and two gave this as an allied business. Other major occupations were hatcheryman, ginner, fertilizer dealer, and wholesale egg dealer.

Contracts were offered for various reasons. The major reasons were to sell feed and to increase business volume. The development of a dependable supply of eggs was mentioned by only one contractor.

How were contractees selected?

The basis for selecting contractees ranged from a quick subjective evaluation of character during an interview to a balance sheet confirmed by the man's banker. In general, contractors wanted a man with a good reputation and one who was reasonably close to an egg collection station. The greatest distance any contractee was from an egg collection station was 25 miles. Experience with poultry was not a requirement.

Contractors reported the number of applications received ex-

ceeded the number of contracts that they were willing and able to offer.

How many hens were under contract?

Data were obtained on approximately 204,000 hens, which represented the majority of those kept under contract during July 1958. This number has steadily increased since the first contract was offered in the spring of 1954, and is estimated to reach 400,000 birds during 1959.

How did contractees compare with independents in age and experience?

Contractees could be classified into two easily recognizable groups with respect to experience in producing table eggs. Producers in one group averaged 2.6 years experience, whereas an older and much smaller group averaged 28.2 years. Experience of independent producers was more uniform for the group and averaged 9.0 years. Fifty-two per cent of the contractees had no previous experience producing table eggs.

Age did not seem to be a factor in explaining inexperience of contractees. They were not predominately young people just starting out. There was no significant difference between ages of contractees and independents. The average age was 45 for contractees and 47 for independents.

How much formal education did contractees and independents have?

The average number of years of formal education for independents was 10.7, as compared with 9.4 for contractees. This difference could be attributed to the large group of independents who received a high school education or more. Forty-five per cent of the independents received a high school education or more, while only 27 per cent of the contractees had the benefit of such education.

What was the average size of farm and number of acres operated?

The average number of acres owned was 75 for contractees and 77 for independents. Despite the fact that size of farm was approximately the same, there was a difference in acres of land in operation. Land in operation included cropland and that in active use as pasture. Contractees had an average of 36 acres and independents an average of 57 acres per farm in operation.

How much and what type of off-farm work was done?

One explanation for the smaller acreage operated by contractees was the fact that a greater number of them had off-farm employment than did independents. Furthermore, the type of work done off-farm was significantly different for the two groups, Table 1.

TABLE 1. NUMBER AND PERCENTAGE OF CONTRACTEES AND INDEPENDENTS, BY TYPE OF OFF-FARM EMPLOYMENT, 87 POULTRYMEN, SAND MOUNTAIN AREA OF ALABAMA, JULY, 1958

Type of work ¹	Contractees		Independents	
	<i>Number</i>	<i>Per cent</i>	<i>Number</i>	<i>Per cent</i>
Self-employed professional.....	3	7	3	7
Self-employed business.....	1	2	7	16
Skilled labor.....	10	23	1	2
Common labor.....	9	20	2	5
No off-farm work.....	21	48	30	70
TOTAL.....	44	100	43	100

¹ This classification is similar to the one used by the Federal Reserve System.

Independent producers working off-farm tended to be professional workers and self-employed business men, while contractees tended toward skilled and common labor employment.

What were the major farm enterprise differences and similarities?

A comparison of activities found on the farms of contractees and independents showed the two groups to have similar over-all farm operations. Independent egg producers were not specialized to the extent that all other crops and livestock were excluded. Flock sizes had remained small and on many farms the egg enterprise employed family labor that otherwise would have been idle or underemployed. Another reason for small flocks was that some independents chose to maintain small flocks and retail their eggs on consumer routes rather than expand to their production potential.

Contractors seemed to have followed local trends as to size of laying flocks. There was no significant difference in flock size on farms of contractees and independents, Table 2.

Corn, cotton, and truck crops were the major crops grown. Approximately equal proportions of contractees and independents grew corn and truck crops, and acreage averaged about the same per farm. A significantly greater proportion of contractees than independents grew cotton, and their allotments averaged 1 acre more per farm.

TABLE 2. NUMBER OF CONTRACTEES AND INDEPENDENTS WITH FLOCKS OF VARIOUS SIZES, SAND MOUNTAIN AREA OF ALABAMA, JULY, 1958

Size of flock	Contractees	Independents
	Number	Number
0- 999	5	9
1,000- 1,999	14	15
2,000- 2,999	16	10
3,000- 3,999	5	5
4,000- 4,999	5	2
5,000-11,999	1	2
TOTAL	46	43
Average size of flock	1,900	1,900

Common livestock enterprises included beef cattle, market hogs, and dairy cows. A higher proportion of contractees than independents kept dairy animals and market hogs, whereas beef cattle were kept by a relatively greater percentage of independents. Independents had larger livestock operations, with 2.5 times as many hogs and three times as many beef cattle marketed as from farms of contractees.

What use was made of credit?

Inability to obtain credit is often a major obstacle in economic development. It appears that this has been an important factor contributing to the increased use of contracts. In regard to past usage of credit, a majority of each group had used credit in their farm or poultry operations. Sources of credit, however, did not appear to have been adequate for contractees. A significant majority of contractees, but a minority of independents, thought that credit would be easier to get under contract. One contractee emphasized this situation by stating that he could not obtain credit for poultry housing until he had an egg contract.

In the opinion of contractors requiring financial statements, less than half of the people under contract could have financed an operation the size of their present one through other credit channels open to them.

What were the attitudes with respect to risk?

Contractees and independents were asked to evaluate risk involved in producing table eggs in terms of independent production, contract production, and for independent production versus that for other farm enterprises. They were also asked for their advice to friends who might be considering table egg production. On each of this series of risk evaluation scales, contractees ranked risk significantly higher than did independents.

What factors were associated with a safe-risk rating of independent egg production?

Independent egg production was rated safe, or slightly safe, to a significantly greater degree by contractees who had used credit before going on contract than by those who had not used credit in their farm or poultry operation. The use of credit before going on contract was the only factor found among contractees that was associated with their safe-risk rating of independent production.

Six factors were found in which independents, who rated independent production safe or slightly safe, were significantly different from those who rated it risky or relatively risky. Independents giving a safe or slightly safe rating (1) had more than 5 years experience, (2) owned more than 60 acres of land, (3) planned to increase flock size, (4) had some type of off-farm employment, (5) had more than 12 years of schooling, and (6) were under 46 years of age.

COMPARISON of CONTRACT PROVISIONS

What were some common provisions of contracts and how well were they accepted?

A frequent criticism of contracts is that provisions are too restraining, and that contractees do not willingly accept some of the provisions. Some provisions of contracts and the degree of acceptability by independents and contractees are given in Table 3.

There were a few distinctions associated with some of the provisions. Although eight contractors said they did not require a full-time poultryman, all would prefer full time attention by the producer if as many as 4,000 to 5,000 layers were involved. Feed bins were not required by five of the contractors, three of which were supplying feed bins at their own expense. Four contractors required the producer to furnish his own feed bin.

Two of the five contractors who specified refrigeration in their contracts were not enforcing this provision. Two of the four who did not require refrigeration indicated this may be a provision in the future.

The four contractors who had not specified the type or size of house reported that, if a contractee should build a new house, they would specify the type and size to be built. This feeling

TABLE 3. PROPORTION OF CONTRACTORS REQUIRING CERTAIN PROVISIONS AND PROPORTION OF INDEPENDENTS AND CONTRACTEES WILLING TO ACCEPT THE PROVISIONS, 89 PRODUCERS, SAND MOUNTAIN AREA OF ALABAMA, 1958

Contract provision	Contractors requiring provision	Producers willing to accept each provision	
		Independent	Contractees
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
Maintain all-weather road.....	100	100	100
Use specified brand of feed.....	100	92	98
Change lighting in house.....	100	91	98
Use special equipment to gather eggs.....	100	84	96
Specified litter and sanitary practices ¹	100	79	98
Gather eggs a specified number of times per day.....	100	77	87
Have an insulated egg room.....	78	74	83
Specified type and number of nests ¹	78	35	78
A set time for gathering eggs ¹	67	77	91
Have refrigerated storage.....	56	51	59
Specified size and type of house ¹	56	30	68
Install bulk feed bins.....	44	70	80
Furnish labor to catch old hens ⁴	44	16	43
Cull out low producers.....	22	59	56
Use egg cleaner or washer.....	11	79	78
Be a full-time poultryman.....	11	37	50
Grade and carton eggs.....	0	14	22

¹ There was a significant difference between independent and contract producers in their willingness to accept these provisions.

was also voiced by the five who specified the type and size of house.

Provisions of contracts, proportion of contractors requiring each provision, and the frequency of acceptance by contractees and independents are listed in Table 3. Characteristics most likely to be found among those not accepting the provisions are given in Table 4.

What characteristics were compared with the provision?

Apparently two factors, lack of capital and unwillingness to assume risk, were major reasons why farmers accepted contracts.

Size of flock appeared as an indicator of capital position, since a majority of the contractees had to borrow or use their savings for new houses when accepting a contract. Whether the contractee or independent thought housing or equipment loans would be easier to get under contract indicated if capital was a problem to the individual.

Whether a person says that a situation is risky depends on his

TABLE 4. INDIVIDUAL CHARACTERISTICS¹ THAT WERE IMPORTANT IN THE NON-ACCEPTANCE OF CONTRACT PROVISIONS, 89 PRODUCERS, SAND MOUNTAIN AREA OF ALABAMA, 1958

Provision	Characteristics of independents	Characteristics of contractees
Maintain all weather road.....	--	--
Use specified brand of feed.....	--	--
Change lighting of house.....	1	--
Use special equipment to gather eggs.....	1	--
Specified litter and sanitary practices.....	--	--
Gather eggs a specified number of times per day.....	1, 2, 3	3, 2, 4
Have an insulated egg room.....	1	5, 2, 7
Specified type and number of nests.....	--	5, 6
A set time for gathering eggs.....	1	5, 1
Have refrigerated storage.....	--	5
Specified size and type of house.....	6	--
Install bulk feed bins.....	1	--
Furnish labor to catch old hens.....	--	--
Cull out low producers.....	--	8, 7
Use egg cleaner or washer.....	7, 2, 1	5, 2
Be a full-time poultryman.....	--	--
Grade and carton eggs.....	--	--

¹ Key to characteristics: 1—age 46 or older; 2—less than 2,000-bird flock; 3—more than 4,000-bird flock; 4—5 or more years of experience; 5—less than 12 years of schooling; 6—12 years of schooling or more; 7—thought credit would be easier under contract; and 8—less than 5 years of experience.

knowledge of the probable outcome. Age, experience, and years of formal education were major factors affecting risk-knowledge.

By analysis, each of the characteristics was compared with each of the provisions.¹ As shown by the data in Table 4, several characteristics were significantly associated with the non-acceptance of contract provisions.

How was management assistance made available to contractees and independents?

Three of the nine contractors had field men employed full-time. These men were major sources of technical and managerial assistance for contractees. Seventy-six per cent of the contractees listed field men, or part-time salesmen acting as field men, as their principal source of advice. Seventeen per cent indicated the contractor himself was responsible for the field work. The remaining 7 per cent either received no advice or mentioned journals and magazines as their most important management reference.

Few independents, 7 per cent, received technical advice from a field representative or salesman for a feed company. Forty-

¹ Significant difference at the .07 level of probability by the chi-square test.

nine per cent said their main source of technical advice was from their feed dealer, 12 per cent named their county agent or assistant county agent, and 19 per cent said they relied on their own experience or magazines and poultry journals.

Were contractors willing to extend credit to contractees?

Contractors reported they were willing to make both poultry housing and equipment loans, but were much more willing to lend for equipment purchase. Six out of nine contractors were willing to make an equipment loan, while only four out of nine would make poultry housing loans. Only one of the six making equipment loans required a chattel mortgage as security for the loan; the remaining five made arrangements to deduct the cost of equipment from weekly, bi-weekly, or monthly checks for egg production. The number of outstanding equipment loans was not ascertained. Five poultry housing loans were outstanding, four by one contractor. One of the four contractors willing to make a poultry housing loan required a real estate mortgage when such a loan was made.

Did contracts require security that flocks would not be neglected or abandoned?

No contractor required such security. Eight out of nine contractors reported they would not attempt legal action to hold the contractee to his agreement if he decided to relinquish control of the flock before the end of the agreement. One contractor was not sure what he would do in this instance but did not expect it to be a problem.

What was age of birds furnished to contractees?

Seven contractors were offering started pullets ranging from 10 to 20 weeks of age. One contractor furnished 1-day-old chicks with no additional pay for brooding. Data were not available from one contractor.

Contractees and independents were asked what age pullets they would prefer to receive. Twenty-two per cent of the contractees and 28 per cent of the independents said they would prefer 1-day-old chicks if they were paid as much as 1 cent per chick per week for brooding to the age of 10 weeks.

Disregarding those who wanted to brood their own birds, the average ages of pullets desired by independents was 19 weeks and by contractees 17 weeks.

How often was payment made to contractees?

The interval of payment ranged from 1 to 4 weeks, with the average being 2 weeks.

Contractees and independents were asked what interval of payment they preferred. A large majority of independents, 70 per cent, indicated that they would like to be paid weekly. Forty-six per cent of the contractees expressed a preference for weekly payments and 35 per cent said they would be content with monthly payments.

What was rate of payment?

One of the most important contract provisions to the farmer is the rate of payment. Rates of payment in the various contracts varied. In general, the rate increased as size of eggs marketed increased. The average price per dozen was 7.0 cents for large, 6.3 cents for medium, and 5.3 cents for small, Table 5.

TABLE 5. PRICES PAID PER DOZEN FOR EGGS BY NINE CONTRACTORS, BY SIZE OF EGGS, SAND MOUNTAIN AREA OF ALABAMA, 1958

Contractor	Rate per dozen paid by various contractors			
	Large eggs	Medium eggs	Small eggs	Dirty, pee wee, and cracked eggs
	Cents	Cents	Cents	Cents
A.....	8	6	4	¹
B ²	9	5	5	¹
C.....	6	6	6	3
D.....	7	7	5	¹
	8	8	5	
E.....	6	6	3	3
F ³	6	5	5	2
G.....	8	8	8	¹
H.....	6	6	6	¹
I.....	6	6	6	4
AVERAGE.....	7.0	6.3	5.3	3.0

¹ Left on the farm for home consumption.

² Bonus to the farmer if the contractor makes a "profit" on the flock.

³ Incentive payment based on high production.

The price paid per dozen has followed a downward trend during the past 5 years. One of the first contracts paid 12 cents per dozen for large and medium eggs. Reports have been received that contracts now offering 6 cents for large and medium eggs will offer 4 cents during 1959. In addition to this base price, a bonus provision is sometimes offered.

What was basis for paying a bonus?

It is generally recognized that some incentive furnished by the contractor results in more effective management. There is a distinct difference between a payment for labor and a payment for management, and if a contractor wants a superior management program, he must expect to pay for it.

Data in Table 6 are representative of the three factors most likely to be used in computing a bonus. These provisions were part of an actual contract used during 1958. The limits are subject to change, however, as better feed and better breeds are produced.

TABLE 6. RATE OF BONUS PAYMENT AND LEVEL OF PERFORMANCE REQUIRED UNDER A TABLE EGG CONTRACT AVAILABLE TO POULTRYMEN IN THE SAND MOUNTAIN AREA OF ALABAMA, JULY, 1958

Amount of bonus per dozen eggs	Performance level required for bonus payment		
	Flock mortality, per cent	Egg production per hen per year, number	Feed consumption per hen, pounds
	<i>Less than</i>	<i>Greater than</i>	<i>Less than</i>
½ cent.....	30	220	130
1 cent.....	25	230	125
1½ cents.....	20	240	120
2 cents.....	15	250	115

The maximum bonus payment possible was 6 cents per dozen. This was in addition to the original contract payment of 6 cents per dozen for all eggs produced.

The contractee's flock would have to produce more than 250 eggs per hen on less than 115 pounds of feed, with a flock mortality of less than 15 per cent, to obtain the maximum payment of 12 cents per dozen for all eggs produced.

What provisions were there for liquidating the old flock?

All contracts contained provisions whereby the flock could be moved at any time desired by the contractor. Contractors were undecided about the normal length of time a flock would be left on the farm. Twelve to 15 months was mentioned most. Only one case was found where a flock was moved because of an unsatisfactory contract agreement. This does not mean that all flocks were replaced. The manager of the firm with the longest history as a contractor estimated that approximately 10 per cent of the growers were dropped each year. In no case was there a guarantee that the flock would be replaced.

How long was the laying house empty?

One of the difficulties encountered under contract arrangements was the duration of time that the laying house was not occupied by a laying flock. This was especially true of contractees who had relatively little experience and who were operating with only one house. This house was frequently needed to raise 10-week-old pullets to laying age and for a laying house. Contractees with less than 5 years of experience reported that there was an average of 9 weeks during 1957 that their houses were not occupied by a producing flock. Contractees with more than 5 years of experience with poultry had partly compensated for this problem by building more houses. Their laying houses were empty an average of 4 weeks during 1957. An additional problem involved was that contractors did not always have replacements available when producing flocks were liquidated.

Independent producers were doing a better job of maintaining a producing flock throughout the year than were contractees. Those with less than 5 years of experience had laying houses that were empty an average of 1 week during 1957, while those with more than 5 years of experience had no producing flock an average of 2 weeks.

What reasons did contractees and independents give for accepting or not accepting a contract?

Contractees gave less risk as the factor that influenced them most in going on contract. This accounted for 30 per cent of the reasons. Three reasons ranked approximately equal in importance. Contracts were (1) a good way to get financial assistance, 14 per cent; (2) row crops seemed to be on the way out and additional income was needed, 12 per cent; and (3) markets were hard to find and marketing costs were too high, 14 per cent. Other factors ranked by the number of times given were: available labor, cost too high on his own, a good way to get experience, decided to change from broilers, age and health, and insistence of a contractor.

Independents gave three reasons of almost equal importance for preferring their present system of operation over the existing contract plans. Sixteen per cent said contracts did not pay enough, 16 per cent said they could make more money on their own, and 19 per cent said that the personal value of running their own business was worth more than present contracts could offer. Other reasons, ranked by their relative importance, were:

contracts are just as risky as independent production, 12 per cent; want a chance to make as much money as possible, 9 per cent; dislike the idea of contracting so much that I would quit before accepting one, 7 per cent; make as much money retailing eggs as producing them, 5 per cent; do not know enough about contracts, 2 per cent; and, do not think contracts will be successful, 2 per cent.

In addition to those who would not accept present contracts, 12 per cent of the independents said they would definitely consider a contract plan. About half of these said they could get about the same return with less risk. Other reasons were given, such as the ability to get specialized management assistance, the lack of a suitable market, and because they believed contracting was the coming thing.

POTENTIAL RETURNS

What were the returns to contractors?

Under average conditions, contractors were receiving a return on investment of 13 per cent. Low feed cost was a factor contributing to the profit of the contractor. There is a possibility that returns to contractors can be increased with expanded marketing activity. A majority of the table eggs produced under contract were marketed through local egg buyers.

The practice of these buyers was to operate a regular pick-up route among independent producers and at the same time pick up eggs from the contractees.

Only two contractors were primarily engaged in marketing activity.

What were returns to contractees and independents?

Average production of hens under contract was about 60 per cent. This means that contractees received gross returns ranging from \$1.00 to \$1.25 per hen per year. Independent producers in the same communities estimated that their returns, when calculated on the same basis, would amount to about \$2.00 per hen. The difference in returns went to the contractor as payment for capital furnished in the form of hens, feed and medications, and for managerial supervision and risk-bearing.

IMPLICATIONS

Only 12 per cent of the independent producers expressed interest in the contract program. This program was sought most by those adjusting to change and by those who were looking for new opportunities. Fifty-two per cent of the contractees had no previous experience producing table eggs.

At present, the contract program as a low-risk enterprise requiring little capital is best suited for beginning poultrymen. However, returns from contract production are not equal to potential returns from independent production.

Any conclusions drawn from a comparison of contractee and independent farm activities should be related to total changes that have been taking place in Alabama agriculture. Cropping systems of the two groups of farmers were very similar, but independent producers had the more concentrated livestock program. A greater number of contractees had cotton allotments. The combined farm operations of independents were more in accord with present conditions. Farmers in the State have, as a group, turned increasingly to livestock or poultry in the continuing adjustment process that is taking place in agriculture. Contractees seem to have lagged behind in making a shift to a more intensive livestock or poultry program, either from lack of credit or managerial ability, or both. Contracts are affording a means of making adjustments in a changing agriculture.

Information obtained indicated that volume of eggs produced under contract agreements will increase in the future. A majority of contractees were well satisfied with their present contracts and did not feel that any of their rights as individuals had been trespassed upon by contractors. Contractors were also well satisfied and optimistic about plans for expansion. Their plans were to increase the number of hens on contract by 40 per cent in the near future. Contractees indicated they were willing to take this many and more if they were made available. In addition, the potential return on investment will attract additional contractors as it has since July 1958.

The first independent producers in the Sand Mountain Area likely to be affected seriously by contract egg production and marketing are those with flocks averaging between 1,000 and 4,000 hens. It was found in this study that the majority of these producers sold their eggs at wholesale prices. Owners of both large and small flocks had found premium market outlets. Own-

ers of large flocks were selling in large lots to cafes, hotels, chain stores, and large independent stores. Premiums gained by owners of small flocks came as a result of carton and bulk sales on retail routes. Independents reported that these routes were difficult to obtain, but increased marketing activity by contractors will create competition in the markets of large independent producers long before it affects small independents with established retail routes.

The over-all effect promises to be one that provides better quality eggs and lower prices to consumers. This in turn means that only the most efficient producers will remain. Whether a producer accepts the contract return for his services will be entirely dependent on the value *he* places on performance of the agreement. Freedom to contract is basic to the American economic system. Because of this basic freedom, the answer to the contract question can be given only on the basis of choices made by individuals.