

# Broiler Farms' Organization, Management, and Performance

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## Introduction

As the number of chickens produced in the United States continued to increase over the past several decades, the structure of the industry changed dramatically. Since mid-century, the industry transformed from a backyard industry, which fed the immediate family and local markets, to specialized hatchery and broiler operations which produce more than 900 million birds for meat and 72 billion eggs yearly, mostly under contract. Poultry farming went from largely a sideline to big business in just a few decades (Madison and Harvey, 1997; Manchester, forthcoming). Today, the chicken broiler industry is one of the most tightly coordinated of the major commodity subsectors in the U.S. food and agricultural sector (Schrader, 1981). A 1994 *Feedstuffs* editorial stated, "The increasing use of contracts is changing everything we know about agriculture—growing commodities, shipping them, selling them, and using them."

The traditional economic model used to analyze agriculture is the perfectly competitive model that includes buyers and sellers, diffused market power, and no control over price. The market's operation hinges on the entrepreneurial farmer who provides the day-to-day management, makes the decisions, controls the marketing of the products, and owns and controls the inputs (Paul, 1974). Contracting alters the parameters of farmer entrepreneurship by separating ownership, management, and labor. These changes, however subtle, result in changes in the way that returns are distributed (Harris).

Few industries have enjoyed the success of the poultry industry in gains in production and marketing efficiencies (Lasley, 1983). Contracts are an essential ingredient in that change. Recently, however, the sparkle of sure returns from contract poultry farming has been tarnished by reports of slimmer margins for

farmers and complaints about the process of determining returns to farmers (Morison, 1996a; Russell, 1996; and Strain, 1996).

Several things have happened to bring on this discontent. Record-high corn prices in 1995 raised the cost of chicken feed, while the competing cattle industry was liquidating herds at low-cycle prices. Domestic per capita poultry consumption has been flat since 1995, after growing steadily for more than a decade. Exports were imperiled as China proposed a 100-percent tariff on top of its 45-percent levy on U.S. poultry. In 1996, Russia temporarily banned chicken imports while threatening to impose more lasting quotas. More recently, the European Union delayed imports of poultry from the United States after disputes over poultry inspection and processing methods (California Poultry Industry Federation, 1996). Broiler production has increased about 5 percent per year, and exports continue to rise. Still, Morison (1996b) and Lee (1996) assert that flagging domestic demand required that contractors cut back on their placements, and/or lower their payments to farmers producing broilers. Recent perceived declining returns to farmers raising poultry generated complaints about the nature of contracting in broiler production (Morison, 1996a and 1996b; Guebert, 1996; Russell, 1996; National Contract Poultry Growers Association).

As the channels of production from farmer to consumer are realigned, the distribution of earnings will change. The poultry industry is often cited as a model of the organization that may characterize most of U.S. farming in the future. This report provides a unique look into broiler farm structure, management, and financial performance. This report, the first study about broiler farms to incorporate farmer responses from a nationwide survey, provides the following:

- An overview of the poultry industry;
- An overview of contracting, with special attention to broiler contracts that account for 62 percent of all poultry receipts;
- A presentation of the financial structure of broiler operations with sales of \$50,000 or more;
- A comparison of the financial returns to broiler operations generating sales of \$50,000 or more with other farming enterprises with no poultry;

- Management characteristics of farmers producing broilers, including who makes the farming operation management decisions; and
- Household and operator characteristics of broiler producers.

Such information contributes to our understanding of the broiler industry and of a possible future for some other segments of agriculture. It provides an empirical analysis that integrates the farm-side structure of broiler production with the returns to farming and the well-being of broiler farm operator households.