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**COOPERATIVE EXTENSION**  
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# **Guidelines for Prospective Contract Hatching Egg Producers**



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Georgia ranks as the top broiler producing state in the United States, raising more than 8 billion pounds of chicken meat annually. The state's broiler industry has experienced impressive growth rates for most years since the early 1950s. The growth of this industry should continue as consumer demand for this high quality, low cost protein food remains strong. Whether or not the broiler industry grows at comparable rates in the future will depend on the strength of the U.S. and world markets. Regardless of future growth rates, Georgia will continue to be a major supplier of poultry meat for the United States and the world.

Producing more than 8 billion pounds of chicken meat requires the support of hatching egg producers. These producers maintain the breeder flocks for the purpose of providing integrators with fertile eggs for hatching. The day-old chicks produced from these hatching eggs are then placed on the broiler grow-out farms for meat production. Hatching egg production is a very different business from broiler meat production as it requires different management skills and greater labor commitments. Because of the uniqueness of the hatching egg business and the long-term investment demands for an operator, it is important that prospective producers understand the managerial and financial requirements before committing to this enterprise.

The information in this bulletin should help those considering hatching egg production as a new enterprise.

## Structure of the Poultry Industry

The poultry industry is a rapidly changing and highly technical business. It is "vertically" integrated, meaning that all or most production aspects – including hatching egg production – are owned or controlled by an individual company called an "integrator." Integrators usually own the breeder flocks, hatcheries, feed mills and processing plant, and contract out the meat and egg production flocks to farmers. With regard to hatching egg production, the integrator provides the contract producer with pullets for producing the eggs along with feed, medication and technical advisors to supervise farm production. Under this system, the company retains ownership of the birds and expects producers to manage their flocks under very specific programs to achieve maximum performance and efficiency. Company field representatives will visit farms on a regular basis to

assist producers with their management. It is in the best interest of both the integrator and the producer to achieve the best production performances possible from the flocks.

Vertical integration reduces product costs by coordinating and professionally managing each production stage. This approach allows the integrator to closely coordinate the number of breeder hens housed with the number of chicks needed for placement for the meat production goals of the company. Because production goals change with market demands and needs, poultry companies can respond more effectively and cost efficiently to these changes within this integrated system.

Poultry production is a very competitive business, and it is important that integrators have the ability and flexibility to plan for and respond to different market situations. In this system, the integrator is responsible for the hatcheries, feed mills, processing facilities and marketing activities crucial to the success of the business. For this system to work effectively, integrators and producers must work together as effectively and efficiently as possible.

## Hatching Egg Contracts

Hatching egg contracts are written agreements between integrators and producers defining the terms and conditions affecting producer payments for production of hatching eggs. In this contract system, the producer provides (1) land, (2) labor, (3) housing, (4) equipment, (5) utilities and (6) litter. In return for these production inputs, hatching egg producers receive a payment based on dozens of eggs produced. Usually these contracts provide bonus incentives based on feed conversion and hatchability numbers. **These bonuses are used to reward producers for above-average management and performance of their flocks.**

The contract system has advantages and disadvantages; however, one of the key advantages for producers is the shift of a significant portion of the production risk to the integrator. Contract hatching egg producers are somewhat insulated from price fluctuations in the market since they do not own the layers and have less capital at risk.

Once pullets are placed in the laying houses, they are usually in production for no less than 45 weeks. The contract producer will receive the contracted payment for the hatching eggs produced during this period regardless of the changes in demand or need

for the eggs. Should the production of hatching eggs exceed the projected need, the integrator absorbs the losses associated with the over-production. Prospective producers should, however, understand that there are risks involved in production. Variations in bird placements, flock performances and disease problems can cause fluctuations in producer income and profit. Although contract poultry production has historically provided a dependable and stable income for most farmers, there is no guarantee of success. Like any business, there are risks involved in poultry farming. The primary difference for contract poultry producers is that their risks are reduced as a result of the integrator assuming more.

## Financial Considerations

Investment costs for new housing – including site preparation, construction, equipment, wiring and plumbing – often exceed \$280,000 per house. It is common for a hatching egg operation to consist of two or more houses, so a producer can easily invest more than a half-million dollars in just housing and equipment. Breeder houses are more expensive to build than broiler production houses primarily because of the costs associated with the required nesting and mechanical egg gathering equipment. The development of the mechanical egg gathering systems for breeder houses has substantially reduced the labor requirement for managing these facilities and, as a result, all new production houses are built and equipped with these systems.

Prospective producers should understand that poultry houses are long-term investments. Although most construction and equipment loans are amortized over 15-year periods, the physical life of the poultry house structure can be as much as 30 years or more if it is well maintained. The life of the equipment in the house is shorter and equipment is replaced periodically as needed by the grower.

The history of the poultry industry is one of rapidly changing technology. Producers can expect that significant upgrades will be necessary during the life of the production facility. Staying current with new technology is necessary to maintain competitiveness and the long-term value of the facility. This is true not only for poultry but for most business ventures that are going to be successful over time.

A hatching egg production house will normally house around 10,000 to 11,000 layers. Gross income will vary with production performance but should

exceed \$60,000 annually. Annual fixed and cash costs will range between \$45,000 and \$50,000 for an average producer depending on type of house, interest rate and management. Thus, cash returns to an average producer's land, labor and management per house are generally more moderate (\$10,000 to \$15,000 per year) during the debt retirement years. However, cash returns per house usually become larger once the facility is paid for and can be in the range of \$35,000 to \$40,000 annually. This is because much of the money that had been going to pay for the facility is returned to the producer, who then owns all the equity in the facility.

Many factors can affect the cash flow and profitability for hatching egg producers. Some producers will do better than others at times. In fact, it is not unusual for producers to do considerably better or worse than the figures presented here. Thus, the costs and returns presented are intended to be used only as guidelines to provide some perspective on what might be possible for an average producer to achieve. More detailed information on costs and returns for hatching egg operations is available through other resources (see recommended reading list).

## Steps Before Building

1. **Meet with poultry company personnel and other producers to discuss the business aspects of hatching egg production.** Study contracts carefully and be sure you understand all aspects of contract production. It is important to realize that you cannot depend on being an above-average producer for every flock. Flock performances vary even with good management, and individuals will sometimes need cash reserves to cover low pay periods. The financial fluctuations associated with contract poultry production are, however, generally less than for other agricultural commodities and represent one of the key factors in its stability.
2. **An agreement with a poultry company to produce hatching eggs will be necessary before financing or building of a layer house can begin.** Generally, companies require new production facilities to be in close proximity (25 to 35 miles) to complex operations such as feed mills and hatcheries. This reduces the costs of feed delivery to the farm and hatching egg delivery to the hatcheries. Experience with laying chickens is

not absolutely necessary for obtaining a contract, but certain producer characteristics may be essential (see summary).

3. **Meet with lending agencies to determine the availability of financing, interest rates and payment schedules.** Make realistic cash flow projections to determine the feasibility of meeting financial obligations. It is important that producers consider the consequences of below-average performances as well as average and above-average projections.
4. **All new construction must meet state and local laws regarding zoning and environmental impacts.** Discuss building plans with appropriate authorities before proceeding. Poultry buildings must conform to industry and company standards. House designs and equipment recommendations vary by integrator preference and will be provided by a company representative. It is recommended that a plan be developed for utilization or disposal of manure/litter material prior to commitment of construction. In some areas, lenders may require a nutrient management plan as part of the loan approval process. Local county Extension agents can provide assistance with the development of nutrient management plans.
5. **In some cases, purchasing an existing production farm is a good way to enter the business.** This approach, however, needs careful consideration before making a commitment. Location of the farm, condition and age of housing and equipment, and purchase price of the farm are all very important. Potential buyers should obtain the contracting company's thoughts on the future and productive potential of the farm and what improvements, if any, would be necessary for the company to continue contracting with the operation. Potential buyers should keep in mind that cash flows from the poultry facility may not be enough to support the purchase of non-poultry related assets such as dwelling house, barns, trucks, tractors, etc.

## Management and Flock Care

1. **Poultry companies have very specific management programs that producers are expected to follow as part of their contractual obligation.** To ensure proper management, poultry companies provide field service representatives to work

closely with producers on a regular basis. Producers and company representatives work together to implement best management programs and achieve the highest flock performance levels possible. This benefits the company as well as the producer.

2. **Maintenance for buildings and equipment is a constant job.** As houses and equipment age, maintenance requirements for production facilities generally increase. This is particularly true for egg collection and processing equipment in breeder house facilities. Improper operation or maintenance of this equipment can cause considerable loss of eggs and can significantly affect a producer's payment. It is important that a producer handle as much of this maintenance and repair work as possible, since hiring out this work can be expensive and can substantially increase the cost of the farm operation. Preventive maintenance on ventilation, feeding, watering, egg collection and egg processing equipment is essential for extending the productive life of these systems and must be done routinely.
3. **House preparation prior to receiving pullets is a very important management activity,** as the birds need to be introduced to a clean, disease-free environment to ensure maximum egg production. Such preparation includes removal of old manure/litter, cleaning and disinfecting the house and equipment, spreading new litter, and making sure the feeding, watering, ventilation and egg gathering systems are working properly.
4. **Once pullets are placed in the laying house, a considerable amount of time will be required for flock management activities** such as (1) collecting and packing eggs, (2) collecting and disposing of mortalities, (3) keeping flock records, (4) monitoring feed, water and environmental control systems, and (5) observing for possible health problems. Producing hatching eggs is more management intensive than growing broilers and requires particular attention to lighting, feeding and egg gathering programs. Appropriate lighting and feeding programs are critical to achieving maximum egg production, body weight and feed efficiency levels. Frequent egg gathering during the day is necessary to ensure optimum egg hatchability. Although the adoption of mechanical egg gathering systems has resulted

in significant reductions in labor requirements per hen house (about 50% reduction compared to the old hand-gathering systems), it is not unusual for hatching egg producers to spend 6 to 8 hours per day in the management of each house. It is also important to understand that managing a hatching egg operation is a 7-day-a-week job when the layers are in the house; and once they are in the house, they are going to be there for at least 45 weeks.

5. **Disease prevention and control are important flock management factors.** To safeguard the flock, limit access to poultry houses to authorized personnel only. Avoid visiting other poultry farms and eliminate any contact with other poultry, especially hobby and backyard flocks. Decisions related to medication of flocks for disease problems or vaccination programs for disease prevention are company responsibilities and are done only as prescribed by company representatives.
6. **Producers are responsible for disposal of all dead birds according to state-approved methods.** In Georgia, several disposal options are available to producers. The more common methods include burial pits, incineration and composting. Company representatives or local county Extension agents can advise producers on the most appropriate methods for their situation.
7. **Producers are responsible for maintenance of grounds and access roads around poultry houses.** Keep weeds and grass mowed to reduce rodent and other pest problems. Areas around houses need to be well drained, and roads should be maintained for easy access to feed bins and loading areas.
8. **Do not use chemicals, pesticides, herbicides, insecticides, vaccinations or medications in or around poultry houses without company approval.**

## Other Considerations

1. **Consumer demands and market conditions can change company production and marketing strategies.** Changes in company strategies can cause changes in layer placements and variations in producer income. The risk here is not as great as with broiler production because of the length of time layers are in the house once they are placed. It is not easy for companies to adjust

breeder numbers, so market fluctuations are more often handled through changes in broiler placements rather than breeder placements. Nevertheless, many management and bird health factors can cause considerable producer fluctuations in income.

2. **Environmental management practices related to manure utilization, air and water quality, dust, odor and pest control are very important aspects of maintaining a viable poultry operation.** Current management practices can generally handle these concerns on most farms, but poultry producers should understand that environmental pressures on agriculture will likely continue and may lead to increased costs of business for both producers and integrators in the future. Breeder houses in Georgia produce about 220 tons of manure a year. Most of this material is used as fertilizer and soil amendment. Producers are encouraged to develop nutrient management plans before building houses to ensure environmentally sound application or disposal of this material. **A nutrient management plan should be part of the overall management program for a poultry farm.**
3. **Additional equipment such as a tractor with a front end loader, a manure spreader, a truck or other specialized equipment may be necessary,** depending on the size of operation and the type of management plan employed. Additional expenses for these pieces of equipment may need to be factored into budget projections.
4. **Vacations and time off have to be scheduled around production cycles.** Once breeders are placed in the houses, they require constant care and management. Achieving good flock performance levels and above-average payout requires attention to details and constant management. Operating a breeder house requires a time commitment of at least 45 weeks for a typical egg production cycle, plus 3 to 4 more weeks between flocks for clean-out and preparation for the next flock.

## Summary: Implications

Contract poultry production has been a good business for many Georgia farmers. Producing hatching eggs, however, is not for everyone. Before deciding to become a contract hatching egg producer, find

out whether or not you possess the attitudes, commitment and capabilities to be a successful producer. **A producer should have the following attributes:**

- A desire to raise chickens.
- The financial capability to build and operate houses.
- Adequate land for placing the house and a plan for disposing of manure.
- A commitment to the time and labor necessary to be successful.
- A willingness to meet contractual obligations.
- A mind for business.
- An open mind to accept technological changes.
- A willingness to work within an integrated approach to production.

Once you decide you are interested in contract hatching egg production, contact companies in your area to determine if they are interested in adding new producers. Get copies of the companies' specifications for buildings, equipment, scheduling and contracts. Discuss hatching egg production with company representatives. Do not invest in land, buildings or equipment until you have a written assurance from an integrator that you will be provided a contract.

### **Talk with Current Producers**

It is a good idea to visit producers who are currently contracting with the company in which you are most interested. If possible, work with an experienced producer for a few weeks to determine if you are suited for the type of work and hours involved. Before building, design a manure utilization and dead bird disposal plan for your farm. Talk to your neighbors about your decision. Do you have their support or will neighbors become a major problem?

### **Local Regulations — Financing — Advising**

Talk to local authorities regarding any zoning restrictions or ordinances that might affect your decision. Discuss your plans with lending agencies to determine potential for financing. Visit and discuss your plans with your county Extension agent and Extension poultry scientist. Obtain copies of Extension publications on hatching egg production and management from your local county Extension office

or the Department of Poultry Science, The University of Georgia (see recommended reading list).

Making a good decision on hatching egg production farming depends on obtaining as much information as possible. The more people you talk to, the more knowledge you will have. Hatching egg production requires more management and time commitment than most other poultry production enterprises, but it also can be more financially rewarding. It represents a major commitment to a life style and can be an enjoyable and rewarding business if the decision is made with the appropriate knowledge.

### **Recommended Reading List**

*Broiler Production Systems in Georgia: Costs and Returns Analysis.* Department of Poultry Science, Extension Publication B-1240, Athens, Ga.

*Poultry Mortality Composting Management Guide.* Department of Poultry Science, Extension Publication B-1266, Athens, Ga.

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