

# THE NEW JERSEY EGG INDUSTRY:

Its Current Status

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## Plan for Future Development

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Report of

*Dept. of Agriculture,*  
THE NEW JERSEY POULTRY

INDUSTRY STEERING COMMITTEE,

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REPORT OF THE NEW JERSEY  
POULTRY INDUSTRY STEERING COMMITTEE

FOREWORD

To New Jersey Poultrymen and Members of Allied Industry:

The New Jersey Poultry Industry Steering Committee was appointed in 1962 by State Secretary of Agriculture Phillip Alampi.

The members of the original Committee did not hesitate to draw upon any talent capable of offering help in developing recommendations for restoring the economic health and strength of the egg industry.

Leaders of the egg production and marketing industry and business allies of the poultryman participated in the conferences and work sessions. Their names appear at the conclusion of this report.

Coordinator of the report was Francis A. Raymaley, Director, Division of Markets, New Jersey Department of Agriculture. Authors of specific sections were:

EGG PRODUCTION IN NEW JERSEY - John Bezpa, Extension Specialist in Poultry Science, College of Agriculture, Rutgers University.

POULTRY FARM FINANCING - Chester J. Tyson, Jr., State Director, Farmers Home Administration.

EGG MARKETING: THE CURRENT STATUS - Alan A. Meredith, Associate Research Specialist in Marketing, Department of Agricultural Economics, College of Agriculture, Rutgers University.

This report should be considered as the beginning of the Committee's work, rather than its conclusion. Implementation of the recommendations will be the objective of a continuing schedule of consultations with the business allies of the industry, and with the agencies engaged in education and services for egg producers and marketers.

It is the consensus of the Poultry Industry Steering Committee that poultrymen in the State of New Jersey who modernize their facilities, update their management practices, and take full advantage of their marketing potentials will be able profitably to meet the competition.

December, 1964

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## CONCLUSIONS AND RECOMMENDATIONS

### GENERAL

1. Some poultrymen believe that an orderly system of production control is both necessary and feasible. This view is not held by all. <sup>1/</sup>
2. Farmers complain about the buying practices of large food store chains and other large receivers. Investigation by the National Commission on Food Marketing, appointed by the President to study the price spread between the producer and the ultimate consumer, should result in clearing up this controversy and lead to corrections if inequitable practices are found.
3. Freight rates on feed components, as established by both the Interstate Commerce Commission and the Railroad Traffic Executives' Association, give an advantage to egg producers in one section of this nation over producers in another. Because feed is such a large part of egg production costs, an artificial economic advantage to producers in one area is bound to hurt the poultryman in a less fortunate area. New Jersey's egg industry has suffered in this situation. Recent reduction in rail freight rates on corn has given New Jersey producers some relief. The feed industry is trying to have similar reductions extended to other ingredients.

### PRODUCTION

1. New Jersey is well situated for the commercial production of eggs (pages 5 and 6).
2. New Jersey poultrymen, to remain competitive, must strive for high flock performance. Rate of production if increased by only a small per cent, and accompanied by better feed conversion (both possible on most New Jersey farms) can significantly improve farm income (pages 13 and 14).
3. All-pullet flocks are recommended. A few farmers may find small profit in keeping over old birds for extra egg size but the profit potential is very limited (pages 7, 15 and 16).
4. Average egg production per bird in New Jersey is too low (page 3). This is because of deviation from approved practices and other factors (pages 6, 7, 13, 14 and 15).

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<sup>1/</sup> Excess production of eggs is a national problem. Any control program would require Federal legislation and administration. The New Jersey Poultry Industry Steering Committee took no position on this issue.

5. Costs of all phases of the operation must be known and constantly evaluated by management (pages 14, 15 and 16).
6. The commercial poultry farmer whose resources are not fully employed should consider increasing his efficiency by converting to a high density housing system. The system selected should be geared to the poultryman's managerial ability, financial resources, size of operation desired, and ultimate objectives (pages 7 through 13).
7. Each housing conversion or new construction must be planned and executed as a complete unit if the system is to work properly. But, if capital is not available to do the complete job, the operator should elect to convert one building at a time. Insulation and ventilation are first steps toward any conversion system (pages 10 through 15).
8. Maintaining egg quality is everyone's job. It must start on the farm. It's easy for the farmer to blame the dealer or cooperative, and the dealer and the cooperative to blame the farmer, and all to blame the retailer. But, to repeat, all quality starts at the farm. Thereafter, you can only conserve quality, not add to it (pages 17 and 28).
9. Profit is the magic thing we seek. It cannot come in one big "swoop," but rather will accrue from numerous efficiencies on the farm (pages 14 and 17).

#### FINANCING

1. At present, most of the credit to poultrymen is extended by the allied industry, such as feed dealers and hatcherymen, who are forced to do this in order to sell their products (page 18).
2. Availability of credit is related to the economy of the poultry industry and the general economy. Yet, lack of adequate credit is not the main cause of the depressed economy of the poultry industry, nor will an abundance of credit solve all problems of the industry (page 18).
3. Major changes in the present system of financing the conversion of poultry farms to high density housing systems are needed if individual poultrymen are to survive (page 19).
4. In such conversions, farmers who are gearing their credit to their income will be able to remain in business. Rapid expansion without regard to proper capitalization is likely to drive additional farmers out of egg production (pages 19 and 20).

5. Poultrymen with high debt loads must enter into agreements with their creditors before converting to a high density housing system (pages 19 and 20).
6. The extensive use of the business instrument known as a "third party order" will be necessary if New Jersey egg farmers are to obtain the amount of credit they need (pages 20 and 21).

#### MARKETING

1. Chain stores and independent supermarkets will continue to be the most important market outlet for New Jersey eggs (pages 22 and 23).
2. The New Jersey Seal of Quality program has been successful. A way of increasing its scope and financial support, especially from wholesalers, is now needed (page 23).
3. In terms of volume, wholesale egg dealers are the most important type of egg marketing outlet in New Jersey. Cooperative marketing associations are next in importance. Nearness to market, freshness, and the opportunity for fast service to retailers must be exploited (page 24).
4. Southern producers will eventually be independent of northern marketers. Wholesalers will be forced to develop new procurement methods and sources for eggs (page 24).
5. Marketing cooperatives are plagued with inefficiencies often attributed to declining volume, but many still resist major change. They should consider consolidation and the radically different approaches to marketing which are evolving in competing regions (pages 24 and 25).
6. Bargaining cooperatives can most effectively represent large size commercial poultrymen following the same management programs. The future for bargaining cooperatives representing a small number of producers in a limited geographical area is not good. New marketing programs must now be implemented (pages 25 and 26).
7. Producers, marketing firms and states no longer can assume permanent marketing power or confidently rely on one or more unique characteristics (page 26).
8. There are smaller differences between farm prices of eggs in important poultry states. In recent years, New Jersey prices have declined relative to United States average prices, while prices in southern and mid-western states have increased (pages 26 and 27).

9. The wholesaler's margin for cartoning eggs (spread between paying price and selling price) has declined, while the retailer's margin has increased (page 27).
10. Most of the costs of cartoning eggs (i.e., cases, cartons, transportation, etc.) are fixed. The most variable costs, or those most susceptible to change, are procurement costs and overhead. Savings resulting from size of the cartoning operation, or from processing a larger volume of eggs must be exploited in order to stabilize cartoned egg prices and, thus, farm prices (page 28).
11. Eventually, all poultrymen who produce eggs for chain stores must choose between two marketing plans:
  - a. Sell on grade yield.
  - b. Market wholesale a graded pack which is comparable in every respect (quality and price) to eggs sold on yield.

Most New Jersey producers should be encouraged to convert to centralized grading (page 29).

12. A basic problem is a decline in per capita use of eggs. This "triggers" price decline which is an effect, not a cause. A stable demand or, better yet, an increase in demand for eggs with a lesser number of eggs available per farmer would aid price (page 30).
13. There is little confidence among producers in the present system of egg pricing. Additional research is needed to determine whether there are inequities and, if indicated, to develop alternative methods for pricing eggs (pages 30, 31 and 32).
14. Local egg-breaking facilities should be critically reviewed. Institutions and restaurants are now shifting from shell eggs to broken processed eggs (pages 31 and 32). Before numerous inefficient enterprises get started, this approach should be examined as:
  - a. A means of stabilizing price and surplus control.
  - b. A profitable business independent of the shell trade. Wholesomeness and quality of this important by-product must be controlled.
15. A number of involved problems in marketing eggs in New Jersey now require special treatment. Recommendations for the future are delineated and here restated around two basic considerations:

- a. The essentiality of specialization in all phases of egg production and marketing.
- b. The net returns to those engaged in marketing their own eggs are low or non-existent. Although the producer's income is derived primarily from production, all opportunities for profitable marketing must be studied and exploited where desirable. This will require five courses of action (pages 34 through 41):

First - Strengthen New Jersey's cooperative egg marketing associations (page 38).

Second - For the overall good of the industry, it would be desirable to discourage most New Jersey poultrymen from "on-farm" cartoning, and direct marketing to large users of eggs. However, there are many instances where the farmer can benefit by direct marketing to special markets and by retailing eggs (pages 39 and 40).

Third - Encourage centralized grading and grade-yield pricing (page 40).

Fourth - Develop and support programs for the orderly marketing of surplus eggs (pages 40 and 41).

Fifth - Increase financial support for the New Jersey Seal of Quality Program, and investigate the need for changes in the program's emphasis. New Jersey needs to exploit further the marketing advantages that nearness to retail outlets afford (page 41).

# ***The Egg Industry***

**By PHILLIP ALAMPI**

*Secretary of Agriculture of New Jersey*

ROSE-COLORED glasses are not appropriate, right now, for viewing the future of New Jersey egg farming. However, the prospects are brightening for those who survived the rough economic seas of recent years and for those newly entering the poultry industry with competence and capital.

Certainly, we have the marketing potential. When we consider that the 15 Eastern states have one-third of the nation's consumers, yet produce less than one-quarter of the eggs, we need no spyglass to discern the market that is here and upon which we can capitalize. New Jersey is squarely in the middle of this population and market concentration.

Our egg industry has undergone startling, drastic changes. Farmers who have been able to respond and did respond to the economic pressures are handling greatly increased dollar volumes, but earning less per production unit, with little more net income. Dairymen who read this will see the parallel in their own industry.

Egg marketers and other business allies of egg farmers, especially feed distributors and equipment manufacturers, have also been caught up in the wave of economic and technical changes and innovations. Credit agencies, too, must adjust to the new set of conditions, revise their lending policies, re-evaluate their clients and, in general, think in terms of bigger capital for egg farming.

To chart a course for this newly emerging, restyled and retooled egg production industry in New Jersey, we now have an industry-wide, state-wide steering committee. We first brought together a dozen men with special competence in production, selling, quality control, economics and agricultural credit. All are experienced, either as participants or co-workers, with the egg industry through both its better and its bitter years. They are also abreast of the new techniques of production and marketing which have caused today's intense competitive conditions.

Several hard-working sessions have been quietly held, and the original group has brought in other specialists to supplement their own know-how. Their report will soon be issued.

The new efficiency of egg farming requires production units geared to the maximum capacity of the individual farmer and his managerial ability, and mechanization to handle a bigger flock and an increased volume of eggs and to offset the spiraling costs of manual labor. The all-pullet flock must be universally adopted to attain a high rate of lay and top quality eggs.

Marketing organization policies, as well as their physical plants and operations, must be overhauled. Farmers delivering high quality eggs must be rewarded by being paid on the basis of candling yield. The organizations must combine to concentrate marketing power, to increase sales volume, to reduce overhead costs, to improve salesmanship, to eliminate duplication and wasteful competition. The mergers will make possible the development of such enterprises as centralized egg breaking and freezing operations to provide a profitable outlet for under-grade eggs, which now depress our fresh egg market.

A brighter future belongs to New Jersey's egg industry if it produces efficiently and markets high quality eggs effectively.

## PART I

### INTRODUCTION

#### THE CURRENT STATUS OF NEW JERSEY'S EGG INDUSTRY AND A PLAN FOR FUTURE DEVELOPMENT

The objectives of this study are to determine the main problems confronting New Jersey's egg industry, and to recommend changes and solutions. The study is intended to serve as a basis for coordinating the efforts of the Poultry Industry Steering Committee, individuals, industry groups, the State Department of Agriculture, the College of Agriculture, and other agencies in their programs to assist this important segment of New Jersey's economy.

A brief review of the New Jersey egg industry's recent history is important because it reveals:

- (1) Current production and marketing trends.
- (2) The relationship of this one industry to the general and agricultural economy of the State.
- (3) The position of New Jersey relative to other major egg-producing states.

Data presented in Table 1 highlight major trends and indicate the industry's current status. These statistics show that the New Jersey's egg industry expanded at an extremely rapid rate during and following World War II, a rate of growth which far surpasses recent and current expansion in Georgia, Alabama, and other Southern states.

Many persons with nonagricultural backgrounds were attracted to poultry farming by favorable profits and the opportunity for self-employment. They were encouraged by businesses allied with the egg industry which were also inspired by the profit motive. Readily available financing from insurance companies, banks, feed companies and agricultural organizations resulted in the purchase of farms at inflated prices and the shouldering of debt loads, frequently far in excess of ability to repay.

By 1956-57, a cost-price squeeze had developed and was taking its toll of marginal poultrymen. Since those peak years, production has declined approximately 35 per cent, and nearly two-thirds of former poultrymen are out of business. <sup>1/</sup> Some former poultrymen could have continued farming profitably; however, other alternatives were more appealing to them. This important factor influenced many to obtain part-time or full-time off-farm jobs rather than to invest more money in egg production.

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<sup>1/</sup> From unpublished data, the number of New Jersey egg-producing farms was 12,800 in 1956, and 4,800 in 1963.

The economy of some New Jersey communities has become less reliant on egg farming and marketing enterprises. Consequently, a somewhat indifferent attitude exists among local government agencies, lending institutions, and businessmen. The loss to the total economy of the State through the effect of reduced income on the "agribusiness" <sup>2/</sup> complex may amount to as much as \$350,000,000.00.

New poultrymen in other states have learned from the experiences of New Jersey's egg industry, and have had the advantage of the most modern technology. Consequently, New Jersey's problem and the basic question considered in this report is: "How can poultrymen who make up a long established industry, with somewhat obsolete production facilities, adjust to current conditions so as to maximize returns on their investment and enjoy a satisfactory standard of living?"

Individual subcommittees working on this study agree that the profit potential is good and that ways and means are known for stabilizing and strengthening egg enterprises. A relatively few New Jersey poultrymen are successfully adjusting to these difficult economic conditions. However, many more will have to make radical changes in their production and marketing methods if they are to maintain or increase their incomes.

All references to poultrymen, poultry farmers and the poultry industry, in the pages which follow, mean producers of table eggs and the market egg industry.

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<sup>2/</sup> The term "agribusiness" is accepted to mean all business allied with agriculture, and not farming alone. Egg agribusiness includes farmers, feed distributors, building and equipment suppliers and contractors, breeders and hatcherymen, and many persons and companies providing professional and technical services for poultry health, and marketing firms and associations.

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Table 1 - Series in Trends in New Jersey's Egg Industry

Year	Average Number of Layers on N.J. Farms <u>1/</u>	Annual Rate of Lay Per Bird <u>2/</u>	Total Eggs Produced in N.J. <u>3/</u>	Deficit/Surplus States <u>4/</u>	N.J. Rank in U.S. <u>5/</u>
	<u>Thou.</u>		<u>Mil.</u>	<u>Percent</u>	
1940	4,653	173	805	69	19th
1945	6,271	172	1,079	61	19th
1950	11,382	185	2,110	112	10th
1955	12,899	189	2,433	123	6th
1956	13,712	192	2,629	129	6th
1957	13,068	195	2,553	126	6th
1958	12,532	194	2,433	120	7th
1959	12,101	196	2,377	114	9th
1960	10,409	193	2,012	99	11th
1961	10,014	194	1,941	96	11th
1962	9,720	192	1,864	91	12th
1963	9,267	196	1,815	87	13th

1/ The number of layers increased more than 100 percent from 1945 to 1955; it has been decreasing about 4 percent per year since 1956.

2/ The rate of lay increased sharply between 1945 and 1955. More high density housing and changes in management programs should increase the rate in future years.

3/ The trend in production follows changes in number of layers and rate of lay.

4/ About 87% of the eggs needed by New Jersey consumers are produced on New Jersey farms. The State is becoming more deficit because population is increasing and egg production is decreasing. The New York City-New Jersey-Philadelphia market has a population of over 20 million, and receives about 30 percent of its egg supply from New Jersey.

5/ Alabama, Arkansas, Georgia, Indiana, Mississippi, North Carolina, Ohio and Texas have moved ahead of New Jersey in egg production, thus accounting for the drop from 6th position in 1955-57 to 13th position in 1963.

Continued: -

Table 1 - Series in Trends in New Jersey's Egg Industry

Year	Cash Receipts from Marketing N.J. Eggs <u>6/</u>	Percent of N.J.'s Agricultural Income from Eggs <u>7/</u>	Average Annual Price for All Eggs <u>8/</u>	Average Annual Price for Farm Chickens <u>9/</u>	Egg-type Chicks Hatched <u>10/</u>
	<u>Thou.</u>	<u>Percent</u>	<u>Cents/doz.</u>	<u>Cents/lb.</u>	<u>Thou.</u>
1940	\$ 16,992	16	29.1	18.7	--*
1945	41,377	16	43.6	32.6	37,235
1950	86,250	25	47.4	27.6	38,500
1955	98,446	32	46.3	23.0	25,711
1956	100,804	30	43.3	19.9	24,610
1957	92,244	29	40.8	17.4	18,297
1958	90,600	29	42.0	17.8	22,260
1959	72,238	24	34.3	13.1	16,840
1960	71,167	23	40.4	15.7	13,430
1961	66,298	23	38.1	13.9	13,170
1962	59,824	22	35.8	12.7	12,995
1963	56,770	21	35.2	9.7	10,455

6/ Cash receipts, down 40 percent since 1956, is particularly important to allied business; the change is the result of declines in production volume and egg prices.

7/ The change in the importance of eggs relative to other agricultural commodities results from a decline in value and production, and an increase in certain fruits and vegetables.

8/ An average price for all eggs of approximately 35 cents is within 2 or 3 cents per dozen of the cost of production on many New Jersey farms and results in annual return of about 50 cents per layer.

9/ Leghorn fowl currently sells for 30 to 40 cents per bird or about 20 percent of the replacement cost rather than the 50 percent formerly received.

10/ New Jersey's hatching industry, which once produced a surplus of chicks for the Northeastern states is less than half its former size. Many chicks and started pullets are now hatched and raised in Pennsylvania and New York.

\*Data for 1940 do not differentiate between egg-type and meat-type chicks.

## PART II

### PRODUCTION OF TABLE EGGS ON COMMERCIAL EGG FARMS

John Bezpa, Extension Specialist in Poultry Science, College of Agriculture, Rutgers University.

#### 1. GENERAL SITUATION

During the last five years, the New Jersey poultry industry has experienced a rather turbulent period economically. The inability of our poultrymen to change with changing economic conditions has resulted in a substantial reduction of the industry, overall. The steady decline in egg prices, fluctuations in production, the imbalance between the size of operation and needed returns, and competition from other areas are just a few of the major factors responsible for these changes.

In evaluating the New Jersey poultry industry and comparing it with other commercial egg producing areas, one must bear in mind that in a mature industry it is more difficult to retool to meet existing economic conditions. A young and growing industry, on the other hand, can take advantage of the latest technological and scientific developments, and thereby appear to be better situated for today's conditions. Maturity and age have an advantage in that experience is a great teacher.

The rapid decline in New Jersey's commercial egg farms appears to have tapered off, and it is hoped that the egg industry is nearing a point of stabilization.

When comparing the New Jersey poultry industry with the growing industry in other areas, one may question whether New Jersey can remain a major egg-producing state. The Committee contends that New Jersey poultrymen have certain advantages over distant competing areas.

By gearing production and marketing operations to present and projected economic conditions, New Jersey poultrymen can produce and market eggs of quality at a cost equal to or lower than competing areas.

#### 2. IS NEW JERSEY WELL SITUATED FOR COMMERCIAL EGG PRODUCTION?

Because of New Jersey's proximity to an almost unlimited market, it has always been a major egg-producing state. Today its position is being challenged. What are some of the pros and cons for commercial egg production in New Jersey?

##### Major Advantages

Climate - Climatic conditions in New Jersey are very favorable for the production of table eggs. Extended periods of extreme cold or heat do not prevail here as in some other areas of the country.

Nearness to Market and Market Demand - New Jersey poultrymen are located near the country's largest consumer market. Nearness to market and freshness are, in the minds of many consumers, almost synonymous terms. The slogan, "New Jersey Eggs are 'Fresher by Miles'" is, in reality, our greatest advantage, and a position that is envied by most poultry producing areas. New Jersey eggs can reach nearby markets in record time, therefore have longer lasting quality.

#### Major Disadvantages

Apathy - Because of the shrinkage in the industry in numbers of birds and farms, there naturally exists an attitude that New Jersey is rapidly losing its poultry industry. One should not lose sight of the circumstances under which our industry expanded. The impact of changing economic conditions has been severe because of the massive expansion in New Jersey during and following World War II. In planning a future industry, one should not lose sight of the effects that poor planning and rapid expansion can have on individual enterprises as well as on the industry overall.

Community Problems and Taxation - The rapid expansion of urbanization has a marked effect on farm taxes and labor, and results in community nuisance problems which plague the poultrymen. Although these problems exist, one should bear in mind that, when planning a future industry, poultry farms should not be located adjacent to cities or growing towns. Because New Jersey is a relatively small state and close to a high concentration of population, there are many areas in this state that are economically and sociologically suitable for poultry production.

Labor - Scarcity of farm labor would be considered a disadvantage, but with highly automated farms this problem is not as critical as may be believed. Large poultry operations are in the big business category, and will have to compete with wages in other industries.

Alternative Opportunities and Age of Poultrymen - Young men are not attracted to poultry farming because of the many alternative opportunities in other industries. The growth of the New Jersey poultry industry is dependent upon young people becoming interested in this way of life. Age of poultrymen is one of the most serious problems of the industry as far as a long-range outlook is concerned.

### 3. NEW JERSEY'S EGG PRODUCTION POSITION COMPARED WITH OTHER STATES

In spite of the fact that New Jersey is one of the oldest major commercial egg-producing states in the nation, it ranks 42nd in rate

of lay (1963). Twelve states reported a state average of more than 220 eggs per layer per year, the highest being 226. Only nine states reported a production of less than 200 eggs per layer. New Jersey's rate of lay was 196. The lowest state average reported was 186.

#### Major Factors Responsible for Low Rate of Lay

Old Birds - Over the years there has been a demand in the New York area for extra large or jumbo size eggs (27 ounces per dozen, plus). Many New Jersey poultry producers geared their production units to supply this premium market. By keeping birds over for the second year of lay, approximately 20 per cent fewer eggs were realized, but most of the total production fell into the large egg size category. This net return (premium for extra large eggs) was in many instances more profitable than returns realized from flocks that were producing more eggs but of smaller size. Because there have been changes in market demand, this practice of keeping birds over is not recommended for the industry generally. Individual farms catering to a specialized market may fare well by following such a practice, but the potential is limited. There are many other problems associated with keeping old birds over, thereby making the practice economically unsound.

Disease - Because of the concentration of farms, mismanagement and other factors, disease has played a major role in lowering New Jersey's average rate of lay.

Management - Deviation from recommended practices has played a major role in keeping New Jersey's egg production average down. Management has been and will continue to be an important factor in determining flock performance.

Feed - The misuse of drugs and feed additives and the insistence of many poultrymen for low price feeds with little regard for quality and feed performance are, without question, factors contributing to New Jersey's low state average egg production. The Committee believes that poultrymen should place more emphasis on feed performance with regard to the number of pounds required to produce a dozen of eggs rather than on the cost per ton of feed.

#### 4. CLASSIFICATION OF NEW JERSEY POULTRY PRODUCERS

The producers of commercial table eggs in New Jersey may be classified into three categories:

##### Farmer A

Situation:

- 3,500 to 8,000 birds.

- interested in remaining active for only the next five or ten years.
- part-time farmers, older age group.
- not interested in investing more money in the poultry operation.
- capital needs are to meet current expenses and to keep the operation going (this includes minimum expenses for repairs and maintenance).
- will bounce with economic conditions and is hopeful that the good years will outnumber the poor years.

Major Problem:

- efficiencies of production (includes obtaining maximum production, disease control, keeping production costs down) are his major concerns.

Recommendations:

Farmer A, in most instances, could not find another alternative of employment or an investment that would be comparable to the returns realized from his poultry operation. He should make every attempt to increase returns per unit output. This may be accomplished as follows:

- seek retail or semi-retail outlets to maximize returns.
- put into practice a continuous maintenance program to cut down on costly repairs and achieve maximum use of existing facilities.
- multiple hatches are recommended for uniform supply of eggs, but only one age of birds in each building.
- purchase strain of birds that produce an egg size the market demands.
- plan a replacement program and stay with it year after year. (Planning a replacement program on speculative egg prices is not recommended.)
- gear the production unit to market demands and area potential.

### Farmer B

#### Situation:

- 8,000 to 20,000 birds, plus.
- sees a future in the production of table eggs.
- younger age group.
- realizes that volume is necessary to make up for lower margins.
- feels that he can produce and market eggs at a cost equal to or lower than competition.

#### Major Problem:

In addition to everyday management (which is more critical as farms become larger) the success of Farmer B will largely be determined by the balance between:

- size of operation
- production output
- financial resources and limitations
- management ability.

Recommendations for Farmer B will be discussed under general recommendations on pages 11 to 17, inc.

The Committee would like to point out that a poultryman who can manage, for example, an 8,000-bird operation may not necessarily be capable of managing a larger operation. As the poultry enterprise expands, greater qualifications are needed in the field of decision-making and business management.

### Farmer C

#### Situation:

- 40,000 birds or more
- managerial responsibilities must be shared with others
- contracts and/or integration may become necessary because of size of investment and lack of financing currently available to these farmers.

Major Problem:

- to maintain high production and to keep investment in balance with realistic farm potential.

Recommendations for Farmer C will be discussed under general recommendations on pages 10 to 17, inc.

## 5. MANAGEMENT SYSTEMS

Conventional - Until recently, the conventional floor system (litter) was generally the only accepted way to keep chickens for commercial table egg production. Today, because of modern technology, and improvements in breeding, nutrition and engineering know-how, the poultryman has many alternative management systems to choose from. These new systems are known as high density systems.

High Density Systems - High density systems may be defined as any system which provides less than  $1\frac{1}{2}$  square feet of floor space per bird. Generally, such systems require fully controlled or partially controlled environment, and employ various degrees of automation.

The popular high density systems are:

- cages - 1 to 30 birds per unit.
- slats (raised floor).
- 2/3rd slats (raised floor), 1/3rd litter.

The trend is toward high density systems for the following reasons:

- more birds can be maintained per given area of floor space.
- lower investment cost on a per bird basis.
- greater labor efficiency.

When bird concentration is increased within a building, there is a greater need for better sanitation and flock management.

It must be pointed out that many systems that are in existence today were designed principally from an engineering standpoint and there are many problems yet to be worked out.

Regardless of the system selected, if a particular system is to function properly, the installation must be complete (meeting requirements prescribed for that system).

### Which System Is Best?

It is difficult to recommend any particular system. There is no one system which is trouble-free. It becomes a question of matching the system with the poultryman's

- managerial ability
- his financial resources
- size of operation desired
- objectives.

It is strongly recommended that before choosing any high density system, the interested poultryman visit as many different installations as possible (preferably those that have been in operation at least a year) to determine problem areas.

Many New Jersey poultry houses can be renovated, thus saving the poultryman the cost of construction. This possibility should not be overlooked.

Insulation and ventilation are the first two necessities in any high density system.

### Major Problems Associated with High Density Systems

Increasing bird density and size of operation is not without problems. Some major problems are:

- replacement birds - source, quality and payment.
- feed - financial arrangements.
- operating capital.
- egg processing facilities.
- manure.

### Manure Is No. 1 Problem

Manure removal and disposal may be classified as the industry's No. 1 management problem. Very often the importance of this problem is minimized when planning an expanded operation.

Manure coming from most high density systems contains approximately 80 per cent water, consequently is difficult to handle.

At the present time, the industry is exploring all of the possible methods for disposing of manure. Incineration, dehydration, lagoons, pits, spreading, and other methods have been tried, but today there appears to be no suitable solution to the problem. Liquid handling shows promise.

Consider that 10,000 birds will produce:

Daily - 1 3/4 tons of manure

Weekly - 14 tons or 3,000 gallons

Monthly - 56 tons

Yearly - 720 tons or 21,600 cubic feet.

#### 6. GENERAL RECOMMENDATIONS FOR FLOCK EXPANSION

Increasing bird numbers may not necessarily be the answer to the poultryman's problem. Added bird population must be related to added labor requirements, added costs, and potential net returns. A poultryman who is not capable of obtaining good production will not solve his financial problem with more birds.

Any poultryman with a good poultry house 30 feet in width (or wider) should consider the possibility of renovating the house into a high density system such as:

- cages
- full slats
- 2/3rd slats and 1/3 litter.

The conventional system of poultry raising ( 3 square feet per bird) is not feasible in a large operation for the following reasons:

- too much labor
- disease factor
- high costs of housing on per bird basis
- higher maintenance costs
- greater feed intake on per bird basis.

Conventional 30-foot poultry houses can be converted to a high density system for less than \$1.50 per bird.

High density houses should always be filled to capacity to gain maximum effect of the ventilating system.

All conversions or new construction of a building must be a complete unit if the system is to work properly. If capital is not available to do the complete installation, the project should be delayed until it is available.

Proper insulation and ventilation are the prime major requirements for any high density system.

With any expansion program consider:

- source of replacements
- source of feed
- source of capital
- egg markets
- egg handling facilities.

Flock health is the first consideration in planning utilization of automated equipment. Length of building is also very important when automation is being considered. To get maximum utilization of power drive equipment, the unit should be utilized to its maximum potential, but not at the sacrifice of bird health.

Equipment and the complete system should be designed so that it can safely be depreciated in a period of 10 years.

Poultrymen should investigate the grade-yield program of marketing in order to lessen the labor load on the farm and eliminate costly egg processing equipment and operational costs.

As farms become larger, contract farming and integration may increase because of financial limitations of independent operators.

## 7. SPECIFIC RECOMMENDATIONS FOR FLOCK EXPANSION

### Production

Farm potential should be based on realistic production figures. Good production (224 eggs hen-housed, minimum) is necessary at this time (1964) in order to remain competitive. In planning a new or expanded operation, realistic production figures should be used in determining repayment schedule, extent of investment, and all other debt factors.

Based on reports from various Random Sample Tests, farm production records and reported state averages, it appears that the widely used figure of 240 eggs is a good objective to aim for but is not sound in

figuring the poultryman's capability of repayment, duration and extent of loan, and anticipated net returns.

New Jersey poultrymen, to remain competitive, must strive for top flock performance. Increasing production by only a few per cent and obtaining good feed conversion, which is possible on most farms, can have a significant effect on total farm income as illustrated in the tables which follow:

---

NET RETURNS PER BIRD

<u>Dozens</u>	<u>Eggs</u>		<u>Net Return Per Dozen</u>					
			<u>3¢</u>	<u>4¢</u>	<u>5¢</u>	<u>6¢</u>	<u>7¢</u>	<u>8¢</u>
15	180	NET PER BIRD	\$ .45	\$ .60	\$ .75	\$ .90	\$1.05	\$1.20
16	192		.48	.64	.80	.96	1.12	1.28
17	204		.51	.68	.85	1.02	1.19	1.36
18	216		.54	.72	.90	1.08	1.26	1.44
19	228		.57	.76	.95	1.14	1.33	1.52
20	240		.60	.80	1.00	1.20	1.40	1.60

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FEED COSTS PER DOZEN EGGS

\$70.00 PER TON OR \$.0350 PER POUND

<u>Pounds Per Dozen</u>	<u>Feed Cost Per Dozen</u>
6.0 lb.	21.0¢
5.5 lb.	19.2¢
5.0 lb.	17.5¢
4.75 lb.	16.6¢
4.50 lb.	15.7¢
4.25 lb.	14.8¢

(One pound reduction in feed conversion results in a 3.5¢ per dozen reduction in cost.)

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A 3.5¢ differential in feed cost per dozen eggs based on 18 dozens produced per bird may result in an expense or saving of more than \$6,300 for each 10,000-bird unit.

### How to Increase Production Efficiency

To increase production and for greater economic returns, the following recommendations are offered:

#### Strain of Birds

Select a strain of birds that produce the egg size the market demands. The various Random Sample Tests publish reports relative to strain performance. Observations of performance of the different strains in your area should also be taken into consideration in selecting a strain for your farm. Multiple strains, particularly on large farms, are considered desirable as they minimize losses which may result from disease such as leukosis, and other undesirable characteristics peculiar to a particular strain. It must be emphasized, however, that where there are different age groups and strains on a farm, these groups must be separated, good sanitation must be practiced, and a sound immunization program followed.

#### All-in, All-out Flock Replacement

Economic conditions and market demands in most instances do not make it practical to have only one age of birds on the farm. It is strongly recommended, however, that automatic feeders and waterers should serve only one flock. Where there are multiply hatches or different age groups, strict sanitary measures must be put into practice to lessen the chance of disease problems. Flocks should not be kept beyond 15 months of lay.

#### Feed Conversion

Feed conversion (pounds of feed per dozen eggs) is the best single indicator of flock performance. The price of feed is no way to determine the economics of one feed over another. The number of pounds of feed required per dozen eggs, flock health and the feed cost per dozen eggs are, in combination, the best indicators for gauging feed performance.

#### Management

The alertness of the poultryman and his production managerial abilities are key factors in determining flock performance. The little things that are often overlooked and de-emphasized (cleaning waterers, feed wastage, feed conversion, immunization program, lice and mite control, sanitation, etc.) will contribute more to the poultryman's future income than any immediate foreseeable change in our marketing program.

## Egg Quality

If New Jersey poultrymen are to compete with the production of out-of-state eggs, they must make every attempt to produce and market only top quality eggs.

Maintaining egg quality is everyone's job. The poultryman, the egg receiver, the processor, and the retailer all play a vital role in a quality control program.

An egg quality program starts at the farm. It is imperative that all New Jersey poultrymen follow the proven recommendations advocated for the proper handling and washing of eggs, which include refrigerated egg rooms on all farms.

As the production unit expands, on-farm egg-breaking becomes an important phase of the total egg processing operation. Poultrymen must realize that they are part of the food industry. Environmental conditions and sanitary practices for on-farm egg-breaking must be proper in order to produce a high quality product that meets State, Federal and Public Health Service requirements. Negligence in this area can prove costly to poultrymen and to the entire industry.

Once again, the Committee believes that if New Jersey is to remain a major egg-producing state, the industry must change to meet changing economic conditions.

Much of the profits in the poultry business will come from the accumulation of efficiencies of production.

## PART III

### POULTRY FARM FINANCING

Chester J. Tyson, Jr., State Director, Farmers Home Administration.

New Jersey poultrymen have relied heavily on credit since the commercial poultry farm became important to the industry. The use of credit reached a peak in 1956 and has been declining ever since.

Because of the severe adjustments experienced by the industry, lending institutions absorbed heavy losses in recent years. Many farms were turned over to lenders to settle the debts against the owners. Other poultrymen found bankruptcy as the only solution to their problem. As a result, some lenders, especially insurance companies and most banks, have withdrawn completely from direct financing of poultry farms.

Availability of credit is related to the economy of the industry. Lack of adequate credit is not the primary cause of the poultry industry depression, nor will an abundance of credit solve all problems of the industry.

#### 1. PRESENT SOURCE OF CREDIT

Because of the instability of the industry during the past few years, most lending institutions, with the exception of the Farmers Home Administration and Cooperative Farm Credit System, have withdrawn from direct financing of poultry farms. Most of the credit now being extended to poultrymen is by dealers who are compelled to participate in order to sell their product. Because of their own capital arrangements, most credit extended by dealers is of a short-term nature, and is not geared to the individual needs of the poultryman.

The Cooperative Farm Credit System is continuing to extend short-term, intermediate-term and long-term credit to their borrowers. Earning capacity and available security are the primary factors affecting credit from this source.

The Farmers Home Administration finances mainly family-type farms. The F.H.A. system of credit plus supervision of farm operations is widely used throughout the egg-producing areas of New Jersey.

#### 2. FINANCING CONVERSION TO A HIGH DENSITY SYSTEM

The poultry industry, unlike most other forms of agriculture, is at present forced to amortize major capital improvements over short periods of time. This is the result of past instability in the industry resulting in lack of confidence on the part of the long-term lender.

A poultryman converting from conventional systems of poultry farm management to cages would need to spend up to \$1.50 per layer for equipment and cages alone. Although most financing plans require payment for these conversion costs over periods of three to five years, in most instances the realized net income will not permit repayment of an additional 30 to 50 cents per layer over this short period of time. Net income per bird on most farms cannot support this extra expense.

Major changes in the present system of financing conversion of poultry farms to a high density system is needed if the industry is to survive.

### 3. SOLUTIONS TO CAPITAL PROBLEMS

The obvious solution to the problem of financing a conversion of poultry farms is to encourage lenders to extend longer term credit for the major building changes. To date, there has been little interest among lenders in long-term investment because equity is lacking on most poultry farms.

Another problem faced by lenders in extending long-term credit for poultry equipment is related to the probable life of the equipment. Although there is, at present, no data to prove the useful life of cages or slatted floor systems, many believe that five years is the maximum period.

Obsolescence is also a problem. Some believe that, with such rapid strides being made in poultry farm technology, the present high density systems are likely to be outmoded within five years. For these reasons, most loans for conversion costs are repayable in three to five years.

Poultrymen with cash to pay at least part of the conversion costs, and poultrymen with equity in their real estate available for long-term financing will be in a position to absorb some of the cost involved in converting to a high density system. Unfortunately, most New Jersey poultrymen are not in a position of having cash or even equity in their farms to contribute toward the costs of conversion. In these latter cases, complete conversion of the farm should be delayed until the farmer can secure credit on terms he can repay. Conversion of one building at a time is being practiced on some farms. Farmers who are gearing their credit for conversion to their income will be able to survive. Too rapid expansion without regard for credit terms is likely to drive additional farmers out of the poultry industry.

### 4. NEED FOR DEBT MANAGEMENT

Many poultrymen who are contemplating the conversion of their plants to a high density system are already faced with unmanageable debt

structures. Their present debt repayment schedule is greater than can be met. To add more debt would be fatal. Debt adjustment in these cases will be necessary before any lender would consider further financing.

A carefully developed plan of operation would indicate the amount of money available for debt payment each year. Arrangements can be made with creditors for orderly repayment of the debts over a period of years. The poultryman who plans to continue doing business with creditors after the conversion takes place may be able to obtain a moratorium on current debt payments under the condition, of course, that he would pay cash for all future purchases.

#### 5. THIRD PARTY ORDER

Large amounts of cash or credit will be required to convert conventional poultry systems to the high density system. For instance, the poultryman with a present capacity of 8,000 layers who wishes to convert to a 20,000-bird plan will need close to \$50,000.00, either cash or credit, to alter his buildings and provide the additional layers. Any lender who supplies that much capital will require safeguards to assure repayment of the debt.

"Third party orders" (assignment on egg income) have been found necessary to assure repayment of debts. Where a third party order is used, the receiver of the eggs pays the lender an agreed amount at specified intervals.

The payment of a fixed amount per dozen eggs sold seems to be most suitable. Where a lender is providing credit to pay for the cost of raising the replacement flock, for instance, an assignment of 10 cents per dozen, to start when the new flock comes into production and to continue until the debt is paid, would be sufficient to repay the loan prior to disposal of the flock. To determine the amount of the assignment on egg income, this formula is used:

$$\frac{\text{TOTAL AMOUNT} \div \text{ANNUAL PAYMENT}}{\text{AVERAGE NUMBER OF LAYERS}} = \text{AMOUNT OF ASSIGNMENT PER DOZEN EGGS}$$

RATE OF LAY IN DOZENS

For example, a lender providing \$10,000 credit to raise or purchase 5,000 pullets which should average 20 dozen eggs per year (25 dozen eggs in 15 months) would figure the egg assignment thus:

$$\frac{\$10,000 \div 5,000 \text{ layers}}{25 \text{ dozen eggs}} = 8\text{¢ per dozen eggs}$$

A creditor who has secured a loan with a financing statement and security agreement covering the layers can have a lien on eggs produced. In this case, the egg assignment can be enforced.

The extensive use of the third party order plan is necessary if poultrymen in New Jersey are to obtain the amount of credit they need. Farmers who require credit should recognize that more extensive use of third party orders is a necessity.

Dealers must realize that their cooperation in the use of assignments is required if their producers are to supply them with desired quantity of eggs.

## PART IV

### EGG MARKETING: THE CURRENT STATUS

Alan A. Meredith, Associate Research Specialist  
in Marketing, Department of Agricultural  
Economics, Rutgers University.

#### 1. MARKETING DEFINED

Marketing includes all processes, services and institutions involved in the movement of eggs from the poultryman to the consumer. Basically, it deals with three separate but related problems:

- consumers' demand for eggs
- the price system which reflects or transmits consumers' demand back to egg dealers and marketing cooperatives, and to poultrymen
- getting the physical product from producer to consumer in the form, time and place desired.

#### 2. MARKETING PROBLEMS

There is no one single marketing problem confronting New Jersey's egg industry. Individual poultrymen, wholesalers and retailers are often rendering completely different marketing services. What might be a critical problem for one enterprise conceivably is a competitive advantage for another. As an example, wholesalers are interested in buying eggs at the lowest cost; they play one supplier against another so as to get the best possible deal. Poultrymen have the exact opposite goal -- selling for as much as possible to obtain the highest return from their investment of labor and capital. The many allied firms doing various marketing services are concerned with the profitability of their particular business enterprise and are also confronted with unique problems.

Each one of the many services, operations, and enterprises could justifiably be analyzed in minute detail. However, because of the nature of this particular study, greater emphasis will be placed on the more common problems relating to the poultryman's involvement with the marketing system.

#### 3. MARKET OUTLETS

Eggs produced in New Jersey are either:

- packed in the top-line cartons of chain and independent stores and sold in supermarkets
- sold to institutions and restaurants
- retailed directly to consumers on egg routes or at farms.

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- packed in the top-line cartons of chain and independent stores and sold in supermarkets
- sold to institutions and restaurants
- retailed directly to consumers on egg routes or at farms.

Supermarkets are by far the most important market outlets, accounting for 50 to 85 per cent of all retail sales, depending on the cities or areas. The current trend is for supermarkets to continue increasing their share of total retail egg sales to consumers.

Competition among wholesalers for this large-volume supermarket business has increased. Reasons for this increase are: (a) expansion in southern states, (b) improvements in the quality and quantity of eggs from other areas, and (c) chain stores' recent, more flexible policy of buying eggs from many parts of the country.

Much of the competition among cartoned egg suppliers is based primarily on price. As a result, the bargaining power has shifted from egg producers and wholesale marketing firms to chain and independent store buyers. Bargaining power will be discussed later in this report.

The market for various types of broken-out or processed eggs has been expanding. Institutions and restaurants have been the most recent to change from shell eggs to processed eggs. Historically, this market outlet has been served by processors located in the Midwest. More recently, breaking plants have been established in the South and to a limited extent in the Northeast. Many of these are salvage operations run in conjunction with candling plants. Some are experimenting with manufacturing various types of egg products.

The consensus is that chain and independent supermarkets will continue to be the most important market outlet for New Jersey eggs.

#### 4. PROMOTION CREATES CONSUMER MARKET

The Seal of Quality program has developed a relatively small, though stable, consumer market for New Jersey eggs. Demand for New Jersey Seal of Quality eggs was created during a period when chain stores actively promoted consumer preference for their own brands of eggs.

Although a large potential market exists for Seal of Quality eggs, the efforts of the New Jersey Poultry Products Promotion Council have been limited by decreasing funds. Producers' financial support of this program -- New Jersey's only statewide marketing program -- amounts to about 1/20 of a cent per dozen eggs produced.

The consensus is that the Seal of Quality program has been successful. Ways of increasing the scope of the program and financial support, particularly among wholesalers, should be considered.

#### 5. MARKETING CHANNEL

For many years, New Jersey eggs have been marketed through the same channel or system. The eggs move from producer to wholesaler (dealer or cooperative), to retail stores. The flexibility resulting from this simple, direct system and the nearness of farms to wholesalers and retail stores present an opportunity for New Jersey to develop a

competitive advantage over poultrymen and wholesalers in distant states who cannot give as rapid service.

The number of wholesale egg marketing firms -- dealers and cooperatives -- has decreased slightly in recent years. Some of this decline was caused by financial problems, and some resulted from mergers. However, wholesale egg dealers of one type or another still market the largest percentage of our eggs. Only a few firms limit themselves to marketing New Jersey eggs rather than eggs from other states.

Wholesale egg dealers are the most important type of marketing service in New Jersey. Cooperative marketing associations are next in importance. Nearness to market and the opportunity for fast service to retailers should be studied and exploited, the Committee advises.

#### 6. DEALERS AFFECTED

To date, most southern eggs are shipped on grade-yield to northern receivers, or are cartoned in the South and distributed in the North by dealers. Each of these systems necessitates extra handling operations and higher costs.

The main threat to the future of wholesale egg dealers is the desire and plan among shippers in the South to market cartoned eggs directly to chain stores in the metropolitan areas. When some of the present physical problems are overcome, many shipments of eggs from the South may completely bypass wholesale marketing firms. The likelihood of such developments has prompted several New Jersey egg dealers and cooperatives to consider various ways of obtaining a larger, more reliable supply of local eggs.

The Committee believes that southern producers will eventually be independent of northern marketers. Wholesalers will be forced to develop new procurement methods and sources of eggs. More wholesalers will operate their own farms or become integrated in some other way.

#### 7. COOPERATIVE MARKETING - AUCTION TYPE

Local marketing cooperatives have been most severely affected by changes in the egg industry. Historically, these cooperatives resisted the trend toward candling and cartoning. This delay in developing full scale cartoning programs has placed them at a disadvantage which they are still trying to overcome.

At present, there are three New Jersey marketing cooperatives -- excluding Agway, Inc., (formerly GLF) a regional cooperative -- which are geared to serve large farmers and retailers. The Vineland Egg Auction and VINE-CO operate in the same small, well defined geographical area. They subtly or openly compete for the eggs from a decreasing number of South Jersey commercial poultrymen. The Flemington Agricultural Market serves a section of the state where modest expansion is

taking place and where farms are of a more homogeneous type. All three organizations provide essentially the same services, have similar physical facilities, and are staffed by professional management. The cooperatives in Mt. Holly, Wayne and Hackettstown are considerably smaller and sell to routemen, independent stores, and restaurants rather than chain stores.

Marketing cooperatives are confronted with increasing per unit processing costs resulting mainly from declining volume, and plant and management inefficiencies. Automated egg-handling equipment has partially offset increasing costs, but has not solved the problem of declining volume. As a result, most cooperatives are operating at rates well below the capacity of their equipment and labor force, and are not able to take advantage of economies resulting from size or volume.

Many suggestions have been made to the effect that cooperatives in an area, state, or region should merge and that two or three strong regional cooperatives should be organized. Presumably, these alternatives have been studied by management and directors and rejected for one reason or another. As a result, the future possibility of merging cooperative marketing organizations while they are financially sound is unlikely. In the past, many mergers of cooperatives have resulted only out of sheer desperation or when no other alternatives existed. In spite of resistance to date, particularly among management and directors, consolidation appears to have many advantages which will not be available to relatively small, competing organizations.

The Committee finds that marketing cooperatives are plagued with inefficiencies often attributed to declining volume, but many still resist major changes. They must consider consolidation and the radically different approaches to marketing which are being developed in other regions.

#### 8. COOPERATIVE MARKETING - BARGAINING TYPE

Cooperative bargaining associations are involved in many producer-wholesale egg dealer transactions. However, changing conditions in New Jersey and in the nationwide egg industry have reduced the effectiveness of this type of marketing organizations. Bargaining associations were most effective when they represented hundreds of New Jersey poultrymen and negotiated pricing arrangements with a relatively small number of egg dealers. These dealers depended on the eggs controlled by bargaining associations, their sole source of supply.

The reduced effectiveness of bargaining cooperatives is not necessarily the result of poor management. Rather it is attributed to the decrease in the volume of eggs they control, increased surplus egg production in the South, and the resulting increase in potential wholesalers anxious to serve the New York market.

Even though their position has been weakened, bargaining cooperatives continue to perform a service to the state's egg industry by helping to establish regional prices between producers and wholesalers. While several bargaining cooperatives have had unsuccessful experiences with various types of marketing programs, they are continuing to explore and develop programs which meet the needs of their members as well as wholesale egg receivers.

Bargaining cooperatives can most effectively represent large size commercial poultrymen who follow the same management programs. New marketing programs must be studied and developed, the Committee concludes.

#### 9. BARGAINING POWER

The strong bargaining power formerly held by New Jersey poultrymen has practically disappeared. Main reasons for this change are:

- retail store buyers place little or no importance on geography (state where eggs are produced), and greater importance on their own private brands.
- expansion in the South, the increased number of potential suppliers of all types of eggs for major eastern markets, and the accompanying severe price competition.
- increased surplus egg production in many states.

Although New Jersey lost much of its bargaining power, this does not mean that other states have assumed this power. In past years, bargaining power resulted when a state had a unique advantage such as superior quality, longer shelf life, large volume, good service, or favorable price. Most of the new commercial egg-producing states attempt to offer these advantages to wholesalers and retailers who, in turn, expect them as essential to doing business.

The Committee believes that producers, marketing firms and states can no longer assume permanent market power or confidently rely on one or more of the unique characteristics which formerly created such power. New advantages are continuously being developed and exploited in order to gain a temporarily stronger position in the market.

#### 10. FARM PRICES

Net farm prices received by poultrymen in New Jersey historically have been among the highest in the entire United States. High prices were justifiable because of low transportation costs and relatively high-yielding packs.

Since the late 1950's, this price advantage has gradually declined as poultrymen in distant states improved the quality of their product and provided better services. Eventually we will have one national

market with one basic market price. Regional price differentials will result from variations in handling and transportation costs. In fact, in many instances today, the differential between New Jersey farm prices of eggs and prices in distant states just about equals the cost of transportation. Occasionally, distant producers receive higher farm prices for exceptionally high quality eggs.

There are smaller differences between farm prices of eggs in important poultry states. In recent years, New Jersey prices have declined relative to United States average prices, while prices in the southern and midwestern states have increased.

#### 11. PRICE SPREADS

The marketing margin for eggs has not changed significantly in recent years. Approximately 70 per cent of the retail price of eggs is returned to producers and 30 per cent goes to the various marketing firms.

However, of the 30 per cent for marketing, about 13 per cent goes to the wholesaler (dealer, cooperative, or producer-marketer) and 17 per cent to the retailer. This is a noteworthy change from the mid-1950's when most of the cartoned eggs were sold by wholesalers for 11 cents per dozen over market. Under this condition, about 17 per cent of price paid by the consumer went to the wholesaler and 13 per cent to the retailer.

The wholesaler's margin for cartoning eggs (spread between paying price and selling price) has declined while the retailer's margin has increased.

#### 12. CARTONED EGG PRICES

To meet increasing competition, wholesalers have gradually reduced their margins for cartoned eggs. The price reductions have been accomplished by making the following types of adjustments:

- increasing the volume of eggs processed, particularly those purchased on grade-yield.
- buying eggs from producers who consistently market a high yielding pack.
- buying more eggs from out-of-state suppliers when a price advantage can be gained.
- substituting capital for labor in the form of electronic egg handling and grading equipment.

- reducing paying prices to local poultrymen and those in distant states.
- absorbing some of the price decline in the form of lower net returns.

Further opportunities for reducing the price of cartoned eggs -- now being sold by some efficient New Jersey wholesalers for 7.5 to 9 cents over market -- appear nominal, and very difficult to accomplish without further reductions in farm prices.

Most of the costs of cartoning eggs (cost of cases, cartons, transportation, etc.) are fixed or stable. The important variable costs, or those most susceptible to change, are procurement costs and overhead. The Committee recommends that economies resulting from size or from processing a larger volume of eggs must be exploited in order to stabilize cartoned egg prices and farm prices.

### 13. CENTRAL GRADING

Centralized grading and yield-pricing have been adopted slowly and, in some instances, reluctantly by poultrymen. Less than 10 per cent of New Jersey's total egg production is marketed on yield. Main reasons for resistance to this program are:

- necessity of shipping all eggs to one receiver rather than retailing or selling jumbos, extra large, or other sizes in seasonally short supply to several receivers who pay premiums over normal wholesale prices.
- the severe price penalties for undergrades and small eggs.
- lack of confidence in grading reports, particularly those of wholesale egg dealers.
- necessity of limiting the period of lay and of making certain physical changes in storage and handling methods.
- the large number of small wholesale egg dealers who do not have central grading facilities and are anxious to continue buying wholesale graded eggs.
- the contention that dealers have not modernized their egg-handling practices by using refrigerated trucks, making daily farm pickups, and rigidly controlling humidity and temperature in their plants.
- insufficient volume to realize significant savings by eliminating on-farm cleaning and grading.

Although these and many more reasons are given for not selling on grade-yield, an increasing number of the larger poultrymen are satisfied with this arrangement. Conversion to high density production systems usually has been accompanied by a change to centralized grading.

The Committee believes that, eventually, all poultrymen who produce eggs for chain stores will either: (a) sell on grade-yield, or (b) market a wholesale graded pack which is comparable in every respect (quality and price) to eggs sold on yield. Most New Jersey farmers should be encouraged to convert to centralized grading.

#### 14. OTHER BRIEF CONCLUSIONS AND OBSERVATIONS

Adjustments Inevitable - Many poultrymen have survived recent difficult economic conditions in the egg business because of:

- absence of stringent, compulsory marketing agreements and contracts.
- flexibility which results from being near to market.
- the large number of retailing and wholesaling firms of all sizes in the greater New York market.

In effect, flexibility has enabled them to postpone making production and marketing adjustments which inevitably must be made.

Integration - A relatively few poultrymen, breeders, feed manufacturers, hatcherymen and egg marketing firms have attempted to integrate vertically by undertaking various production and marketing operations. Others have taken a critical attitude toward all types of integration or feel that integration would eliminate the family farm. In spite of past failures and present resistance, a few are realizing that there is convincing economic justification for integration and are considering various programs.

"Status Quo" Programs - Many marketing programs have been proposed by poultry organizations, particularly cooperatives, which do little more than maintain status quo among the majority of poultrymen. They have failed to recognize that no single marketing program or organization can effectively serve all producers or members. Generally, the needs of large and small producers and buyers are quite different.

Unified National Effort Lacking - The egg industry is suffering because of the absence of a strong nationwide trade association embracing producers and allied industries. As a result, unified effective action on sudden problems and legislation is virtually impossible. Failure to enact certain poultry legislation, recent problems with railroad rates for grain, irresponsible reports linking eggs with health, and the erratic way which may southern poultrymen or wholesalers have been

marketing eggs in the Northeast are a few indications of the need for greater state, regional, and industry-wide cooperation.

#### NATIONWIDE EGG MARKETING PROBLEMS

##### 15. DECLINING PRICES

Problem: Egg prices have declined consistently since reaching a peak in 1951. During this period United States egg production increased 9 per cent, and population increased about 22 per cent.

The decline of egg prices is partially the result of shifts in producing areas, a decline in production costs, a reduction in the seasonality of production, and a general struggle for markets, particularly among surplus egg-producing states.

More important, however, is that consumers are eating fewer eggs. This factor is substantiated by the conditions just stated. Population is growing more than twice as rapidly as egg production, yet prices are lower. If the demand for eggs was increasing, or at least stable, the smaller number of eggs available per person would result in higher prices.

Thus, the problem of declining egg prices is an effect rather than a cause. A basic problem is the declining per capita use of eggs, and the resulting decline in egg prices. Average prices during the next few years should remain at approximately their present level unless there are radical technological changes in production and marketing, or unless supply and/or demand change.

If a slight increase in the price level occurs in any given year, it is a certainty that production will increase almost immediately and that significantly higher prices will be of short duration.

##### 16. FLUCTUATING PRICES

Problem: Short-term price fluctuations (daily, weekly, and monthly changes) continue to confuse and anger producers. More important than these emotional problems are the increased financial risks and costs of marketing eggs which result from erratic short-term price changes.

The underlying reason for wide price fluctuations -- disregarding maneuvers by wholesalers, retailers, speculators, etc. -- is that consumers tend to purchase essentially the same number of eggs from week to week. Therefore, if the supply should increase slightly, a sizeable drop in prices is necessary to induce consumers to buy this increased volume of eggs. Conversely, if supply decreases, it results in a sizeable increase in price before consumers decide to buy fewer eggs. In essence, consumers do not respond to price changes until these changes -- either increases or decreases -- become severe.

One alternative to moving surplus supplies of eggs without drastic price reductions is to encourage increased consumption by means of advertising, promotion, and education. Chain stores use this approach when they advertise specials or sales of eggs in plentiful supply. Even though done mainly for their own benefit, it also relieves surpluses by inducing consumers to use more eggs. Promotions such as these -- often encouraged or arranged by the Poultry Promotion Council -- are more of a stabilizing influence on the egg industry than leader-type promotions. Without this assistance from retailers, prices would fluctuate more widely than they do at present.

Methods now used to stabilize egg prices are state and institutional promotion programs, diversion of surplus egg into Federal purchase programs such as foreign aid, school lunch, and assistance to low-income families. Regardless of the approach used to achieve price stability, it must be undertaken at the industry-wide level rather than by a state or region.

#### 17. MARKETING SURPLUS EGGS

Problem: The rapid development of the South into one of the nation's major surplus egg producing regions has created a need for better information relating to price and distribution so that more intelligent marketing decisions can be made. Marketing eggs which are in surplus supply, rejected by wholesaler or retailer, or off-quality requires sound judgment and consideration of the influence such surpluses might have on prices of eggs marketed in the normal manner.

Improved transportation equipment and highways have made it physically possible and profitable to ship eggs longer distances without seriously affecting egg quality. Thus, producers and wholesalers in distant surplus production areas follow prices at many wholesale markets and adjust their shipments to these markets in an attempt to get the best prices. These continuous adjustments together with the other uncertainties of production and marketing cause temporary surpluses and deficits which, in turn, result in price fluctuations. Admittedly, this phenomenon is not new; in fact, one of the main functions of price is to influence or regulate distribution.

For price to be more effective, however, shippers and receivers must be better informed on hour-to-hour conditions of supply and demand in the important, highly sensitive surplus market such as New York. The USDA Market News Service and Urner-Barry Publications reports provide general factual marketing information which the trade must interpret.

Since 1953, North American Poultry Producers Cooperative, in New York City, has been successfully advising its members when and where to ship eggs -- particularly surplus eggs -- so as not to cause market gluts and severe price changes. These efforts to encourage more

intelligent and efficient marketing through closer cooperation of producers and shippers in major egg-producing states, particularly those shipping to the greater New York market, are benefiting the entire egg industry. However, programs are needed whereby more wholesalers, particularly dealers, may be encouraged to use better judgment when marketing surplus eggs.

The development of a larger egg-breaking industry in the New York-New Jersey area would provide a larger market outlet for distressed eggs and, conceivably, help to stabilize prices. In the long run, however, it is doubtful that a large deficit egg market will ever be more than a salvage operation which relies on cartoning plants and distressed eggs as their main sources of supply. It would seem more economical to locate breaking plants in the South near a prime source of supply rather than ship eggs, a perishable product, 800 to 1,000 miles for eventual processing.

#### 18. PRICE DETERMINATION

Problem: Radical changes have taken place in the structure of the egg industry. Most apparent, from the standpoint of pricing, have been the by-passing of New York and other prominent central markets throughout the country, and the decline in number of wholesalers operating in these markets. In spite of these changes the quotation system of pricing eggs has remained virtually the same for many years.

There is widespread dissatisfaction within the industry, particularly among producers, with the methods used for price determination. Their main concern is that New York quotations do not reflect the conditions throughout the total egg industry.

Because this problem has been so widely discussed in various types of meetings and publications, further comments here seem unnecessary, other than to restate the egg industry's need for a price-determining system more consistent with present and anticipated marketing conditions. As profits from farming and marketing decline, the need for an accurate, efficient pricing process becomes even more acute.

Concern over the present egg price-determining process is so great that a comprehensive study may soon be started. The study would be coordinated by the United States Department of Agriculture and involve many research agencies throughout the country.

#### NEW JERSEY EGG MARKETING PROBLEMS

#### 19. DECLINING PROFITS FROM MARKETING

Problem: The egg marketing operation (processing eggs for chain stores -- New Jersey's prime market outlet) is becoming less profitable and, under certain conditions, has been unprofitable or barely self-sustaining.

Because of the complexity and the many technological changes, marketing requires a large capital investment and great competency of management. The result is that producers can no longer rely on the marketing operation as a source of significant income.

Perhaps the first indication that processing eggs for sale to supermarkets was an unprofitable or nominal-profit operation occurred when chain stores, one by one within a few years, closed all of their cartoning plants. This trend began when cartoned eggs were being sold by wholesalers for 11 to 13 cents per dozen over market. Presumably chain stores were working on approximately this same markup. Since then, the price has declined to 7.5 to 9.5 cents over market.

Main reasons for the decline in cartoned egg margins are: price cutting by processors and shippers in distant states, lower farm prices in distant states, lower processing costs resulting from higher quality eggs, more efficient cartoning plants, and lower profits received by processors.

Integrators in the South have a different approach to marketing. The mainstay of integrated egg enterprises is the feed manufacturers. Their returns from farming come from operations related to the production and sale of eggs. They have learned from costly experiences the necessity of controlling their eggs throughout the entire marketing system. Consequently, integrators are rapidly -- although sometimes reluctantly -- becoming more involved in egg marketing to avoid or minimize losses which occur when the operation is done by another firm. In effect, this is a defensive adjustment. However, most integrators are confident they can eventually operate as efficiently as northern wholesalers, and possibly realize a nominal profit.

The need for changes in the way many egg dealers and marketing cooperatives have operated in the past is obvious. They no longer can afford to buy all of a farmer's wholesale graded eggs, pay him prevailing or premium prices, process the heterogeneous shipments, sell cartoned eggs (store brands) to chain stores at competitive prices, and realize a profit. Consequently, central grading is gradually replacing the wholesale grade method of marketing.

Direct marketing by producers is developing concurrently with central grading. Generally, poultrymen have a minimum of 20,000 layers before they undertake a full scale candling and cartoning program. Producers' motives for going into direct marketing are security and profits. Each of these goals is feasible, but only when optimum conditions exist. These goals are also attainable by marketing through an efficient, specialized marketing cooperative. Scattered experiences indicate that poultrymen are faced with many risks when they market direct. A recent study of on-farm candling and cartoning revealed wide variations in costs, which ranged from 6.8 to 13.0 cents per dozen.

In the future, attempts at cooperative marketing and central grading by producers will be motivated less by the prospect of profits from marketing and more by a desire for reliable market outlets which will handle a poultryman's total egg production throughout the year. This motive in itself -- a reliable year-round market outlet -- is a sound justification for a marketing enterprise.

Thus, the criteria for a successful cooperative marketing enterprise will be one which: (a) does not lose money, (b) returns prevailing or top farm prices, and (c) provides members with a reliable year round market outlet for all eggs produced.

Besides the cooperative's obligation to its membership, producers must also assume the obligation of constantly shipping a specific volume of eggs and improving on-farm holding conditions and handling practices. In short, successful cooperative marketing requires the mutual understanding, confidence and loyalty of members and management.

It further means that almost all of a poultryman's profits must come from the egg production enterprise -- a phase of the total egg business which receives about 70 per cent of retail egg prices as opposed to the 13 per cent received for the wholesale marketing operation (candling and cartoning).

## 20. SPLIT AND DIRECT MARKETING

Problem: Some New Jersey poultrymen make the major part of their income from marketing eggs directly to consumers on retail routes or from selling to peddlers and hucksters rather than from the farm or production enterprise. Regardless of the current success, the long-term future of commercial poultry farming in New Jersey does not lie in either types of marketing methods.

The immediate future of retail route selling by small poultrymen is promising; in fact, for many it is much more promising than poultry farming. Research studies indicate that there is a larger potential market than is now being served by producers and other routemen. However, past experiences indicate that smaller poultrymen often make two or three times as much money from retailing as from farming. When this is so, they eventually go out of the poultry business and buy eggs for their retail routes.

Split marketing, or the selling of certain sizes of eggs on an occasional, seasonal, or regular basis to several buyers -- generally for cash -- is a common practice among large and small poultrymen located close to market. Although profitable to certain producers, split marketing causes shortages among cooperatives and dealers, and often forces them to refuse retail orders or go into the open market to buy eggs at inflated prices.

The significance of these two marketing practices (retail selling and split marketing) to the egg industry is:

- they have been the source of additional income for producers during years when income from egg production was steadily declining.
- they have enabled producers more or less to maintain their level of income without expanding their poultry enterprises, changing their management practices, or making large capital investments.

As a result, while much of the nationwide egg industry has adjusted to changing conditions and increased competition by becoming more specialized, many New Jersey poultrymen have actually diversified. They have resisted central grading, yield pricing, marketing agreements, all-pullet flocks and other production-marketing programs common to most commercial egg-producing states for the simple, understandable reason that these programs would eliminate their temporarily profitable marketing activities.

However, it must again be emphasized that retailing and split marketing are only temporary solutions to the problem of profitable farming. Ultimately, producers who choose to stay in the poultry business must decide on one of several alternatives, such as:

- expand their farm operation and produce eggs consistent with the requirements of wholesale and retail marketing firms.
- develop their retail enterprise to a size which will justify buying all eggs, or, in effect, become an egg wholesaler and retailer.

## 21. PRODUCT DIFFERENTIATION

Problem: New, expanded, and more intensive programs of product differentiation are needed to counteract price competition.

Preference among wholesalers and retailers for eggs from a specific producer, state, or geographical region is based on price, quality, and service; and, to a lesser extent on volume of supply and consumer preference. Because of the narrow spread between production costs and farm prices, poultrymen cannot afford to engage in all-out price competition. Furthermore, they do not need to resort to price competition as long as opportunities exist to differentiate our product and service.

Various approaches to product differentiation should be studied and, in some instances, are being studied to determine their feasibility. These include:

- evaluating the 7-year history of the New Jersey Seal of Quality program to determine: its impact on consumers, opportunities for increasing financial support, particularly from participating wholesale marketing firms, and if changes should be made in procedures or requirements for issuing cartoning rights.
- developing marketing and promotional programs in conjunction with and tailored to the specific needs of major individual marketing firms including both wholesalers and retailers.
- conducting basic research on the decision-making process and buying motives of consumers in the greater New York market to determine how and why they purchase eggs.
- studying the promotional value, physical problems and economic feasibility of offering and promoting: (1) 24 or 48-hour farm-to-retail store service; (2) immediate or almost hourly service to retail stores when inventories run low; and (3) other services made possible by New Jersey's proximity to market.
- developing marketing and promotional programs for routemen who market New Jersey eggs directly to consumers or through other types of premium markets.

It is generally recognized by poultrymen that egg marketing is highly competitive. Eggs from a certain state no longer have an obvious advantage over those from other states in the way that California dominated the New York egg market in the 1930's and New Jersey in the 1950's. What is not recognized, however, is that many states are capable of shipping good eggs into this area, and that wholesalers are more aware of certain characteristics and services which a few years ago were of minor importance. In short, we must develop and exploit services -- even the seemingly minor ones -- which cannot immediately be duplicated by producers in distant states.

## 22. SPECIALIZED MARKETING FIRMS

Problem: In order to meet increasingly strong competition, marketing firms in New Jersey are faced with two problems which demand immediate action. First, they must reduce their in-plant costs of cartoning. Second, they must specialize so as to serve more effectively the needs of specific producers and buyers.

The large number of relatively small marketing firms today is the result of conditions in the egg industry prior to the mid-1950's. These include: the small capital investment which was needed to start and operate a marketing business; the large volume of wholesale graded eggs which were sold to chain store grading plants; and, in the case of some cooperatives, problems resulting from personalities and public issues. Marketing programs consisted primarily of assembling eggs from many producers and selling to chain and independent retail stores or to other wholesalers who did the candling and cartoning.

Recent changes in the structure of the egg industry have resulted in two trends: first, a gradual, although slight, reduction in the number of cooperatives and wholesale egg dealers; second, the separation of marketing firms into a relatively small group which has the equipment, volume, and services needed to sell to large retailers; and another group which caters to smaller producers and buyers.

It is absolutely certain that egg marketing will become more competitive and that current methods will be changed. In anticipation of these changes, poultrymen, directors of cooperatives and egg dealers must do the following:

- (a) Determine the precise requirements of all types of markets outlets, and determine adjustments in production and marketing methods which must be made to serve effectively the outlets with the greatest potential.
- (b) Determine who should be doing the marketing operation -- producer, cooperative, or dealer. Determine the economics of: doing the marketing independently of other poultrymen or firms; marketing their eggs cooperatively along with other producers of a similar size and type; and paying a wholesale egg dealer to market their eggs.
- (c) Objectively study opportunities for integrating the marketing operation with egg production and/or feed manufacturing.

Each of these changes implies producers and marketing firms must become more specialized or market-oriented; they must produce and process eggs to meet the requirements of the specific wholesale and/or retail market outlets which they select. Those who determine they are best suited to market their eggs through cooperatives should continuously consider changes in methods and organization, mergers and other means of reducing costs, increasing volume, and obtaining greater bargaining power.

If sections of New Jersey are not presently being served by efficient cooperatives, consideration should be given to the formation of new organizations designed to serve just the needs of large commercial poultrymen. These organizations should have the specific equipment, volume, quality, service and management needed to sell to appropriate market outlets.

#### SUMMARY OF RECOMMENDATIONS FOR NEW JERSEY

In summarizing this section on marketing, two important points are reemphasized. The first is that specialization in all phases of egg production and marketing is absolutely essential. This applies particularly to cooperatives and other marketing firms which continuously come face-to-face with alert, anxious producers and shippers in the South, and also with sharp discerning retail store buyers in the greater New York area.

Secondly, the marketing margin for eggs is small, and net returns to producers from marketing are low or often non-existent. In spite of these limiting conditions, we need sound marketing programs in order to compete with other areas. In short, although a poultryman's income is derived primarily from the farm operation, opportunities for profitable marketing must be studied and developed.

Many other conclusions and suggestions are contained in the main text of this section on marketing. The following recommendations are restated because they relate to the most critical marketing problems confronting New Jersey poultrymen.

(a) Strengthen New Jersey cooperative egg marketing associations.

Two ways a poultryman can theoretically realize a profit from the marketing operation are: first, to do some or all of the marketing services himself. These services might include candling, cartoning, breaking and freezing, transporting, and selling directly to retailers and consumers. The second way is to sell through a cooperative. In reality, however, some cooperatives have recently been losing money or barely breaking even.

Under the most ideal conditions, neither of these alternatives will give commercial poultrymen profits which are as large as they should make from the production or farm operation. However, because profits per bird or per dozen of eggs produced are down 50 per cent or more, it is essential that poultrymen attempt to get as much income from marketing as possible.

Wholesale egg dealers apparently operate profitable marketing enterprises, though admittedly their profits per dozen are small and considerably less than they were five years ago. There is no valid reason why New Jersey egg marketing cooperatives can't operate equally

or more profitably. To match the success of egg dealers it is obvious that either new cooperatives are needed, or present organizations must make drastic changes. Such changes are certain to hurt many members, but ultimately benefit those who are willing and able to adjust to today's more competitive egg industry.

Generally speaking, cooperatives must: specialize in the type of producers and retailers serviced; increase their volume so as to reduce processing and overhead costs; and contract for a steady year-round supply of the volume and type of eggs required by their retail store accounts.

Recent experiences in New Jersey indicate the difficulties a cooperative encounters when trying to make major changes. Perhaps these changes might be more easily accomplished if they were initiated by a group of producers who have the same long-range plans to continue farming, and who operate the same type and size of farm.

(b) Discourage most New Jersey poultrymen from on-farm candling, cartoning and direct marketing.

Most poultrymen should specialize in farming rather than attempt to combine farming and marketing. The basic reason for this recommendation is that each enterprise is highly complex and totally different from the other -- each demands completely different skills. Very few poultrymen have the ability to manage profitably two enterprises unless they are run by a family or a partnership, thereby making possible a complete division of responsibilities.

Contrary to this recommendation, the trend is towards more direct marketing. In all likelihood many poultrymen would not have undertaken their own marketing venture if cooperatives, particularly those in the Monmouth-Ocean County area and in South Jersey, had developed programs to meet their specific needs.

In the future, the job of running a profitable marketing enterprise will be much more difficult. Only large processors will be able to justify efficient, but very costly, automated egg-handling equipment. As more producers get involved with marketing, they will be competing among themselves and among shippers in distant states for retail store business. This will soon lead to weakened bargaining power among poultrymen, more power among retail store buyers, and a decline in the marketing margin and profits.

A solution to New Jersey's problem is large, strong, specialized cooperatives. However, the same benefits could result from a marketing corporation made up of a limited number of large poultrymen. Either type of marketing organization -- providing producers have a financial interest, a responsibility and security -- is better than a large number of farmers trying to outdo each other in the marketing game. In short,

the one thing which New Jersey does not need -- more small, competing marketing firms -- will continue to happen unless cooperatives provide better programs and producers become less independent of each other.

There are always exceptions to any recommendation. In this case, the poultryman who candles and cartons eggs at his farm and sells to a premium type store or restaurant at higher than normal prices should certainly continue this profitable practice. The same holds true for the farmer who profitably retails eggs to consumers. However, opportunities for expanding these types of businesses, particularly wholesaling to stores and restaurants, are very limited.

(c) Encourage centralized grading and grade-yield pricing.

In the foregoing recommendations (a) and (b), the need to specialize was stressed. Centralized grading and grade-yield pricing is the shifting of a marketing service from the farm to a specialist -- the wholesaler. Not only does the wholesaler do this service at a lower cost, but it is done in a standardized, closely supervised manner, and to his particular specifications.

From the producer's standpoint, the transition to central grading has not always been smooth or satisfactory. The first point of contention is usually the price. Generally, centrally graded eggs are priced one-half cent to 1.5 cents per dozen less than farm graded eggs. Justification for this lower price is the elimination of on-farm egg room labor. The second conflict is the interpretation of egg quality. Because central grading is a precise accounting of the contents of a case, most producers are surprised and alarmed at the number of undergrades. Very often, changes in management methods and physical conditions on the farm must be made to correct these quality problems. Another fault with central grading -- one not readily admitted by producers -- is that wholesalers generally insist on receiving either all of a producer's eggs or a specified weekly volume. This eliminates the possibility of profitable, although erratic, cash sales to hucksters and other wholesalers.

In spite of these so-called problems -- pricing, quality, and steady volume -- New Jersey poultrymen who plan to remain in the egg business and produce eggs for chain store trade must sooner or later make the switch to centralized grading. Experiences to date indicate that even those producers who reluctantly go on this program eventually make the necessary adjustments and become satisfied.

(d) Develop and support programs for orderly marketing of surplus eggs.

New Jersey producers and wholesalers are particularly aware of the influence that surplus and distressed eggs have on New York wholesale market prices. In many instances, price fluctuations can be avoided or minimized if marketing firms diverted these eggs to some other market or type of outlet.

Cooperatives have a ready-made opportunity to practice better marketing through the North American Poultry Producers Cooperative. One or two New Jersey associations have faithfully supported this program. However, better programs are needed whereby shippers in distant states and local egg dealers are encouraged to use better judgment when selling eggs in New York City. The New Jersey State Poultry Association should study opportunities for publicizing this problem, and for enlisting the help of other state, regional and national poultry groups.

The egg-breaking operation in particular should be studied to determine if it is justifiable in New Jersey, either as a means of removing surpluses and stabilizing prices, or as a profitable enterprise independent of the shell egg business. If it is determined that the future is promising, further study should be given to the number, size and corporate structure of plants needed before an excessive number of inefficient enterprises develop.

(e) Increase financial support for the New Jersey Seal of Quality Program and changes in the Program's emphasis.

A fairly common opinion among wholesalers, retailers and consumers is "an egg is an egg regardless of the state in which it is produced." This belief is basically true providing nothing is done to differentiate one egg from another. In fact, this same attitude would exist towards vitamins, gasoline, salt and hundreds of other products purchased by consumers if it were not for product differentiation.

There is no single or patent approach to product differentiation; it varies from appealing to some consumers' almost blind loyalty for all products from New Jersey, to a very strict quality control program involving poultrymen, wholesalers and retailers. All approaches require extensive planning, supervision, coordination, promotion and advertising.

New Jersey's program carried out by its Poultry Products Promotion Council should be continued and expanded. In fact, with lower net returns from both production and marketing, New Jersey's egg industry needs this program now more than ever before.

Some details of this recommendation are contained in Part IV, page 35 "Product Differentiation." Particularly important is the need to increase financial support -- possibly by involving allied industries -- and to consider ways of developing and exploiting our locational advantage. It might also be advisable for the Council to invest some of its funds in research on these and other opportunities for making the program more effective.

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