

Direct Marketing Profit\$

Agdex FS 450/821-1

... business performance tools in an Alberta direct market poultry enterprise

Business Summary

This factsheet provides specialized information on establishing and operating a direct market poultry enterprise. This information was generated by a group of producers/marketers who arrived at a consensus of opinion on investment, production, marketing requirements, costs and revenues associated with developing a viable poultry enterprise.

This information is intended as a business planning tool. Managers will have to assess all the key production and financial variables that would influence the success of their enterprise.

Production Basics

The enterprise would produce and direct market pasture raised chickens. The chicks would spend three weeks in the brooder house and six weeks on pasture, attaining a liveweight of eight pounds and a carcass weight of 5 to 6 pounds.

This start up enterprise would allow individuals to test their production capabilities and market potential on a small scale. Initial target markets would be direct sales through family and friends, moving towards farmer's markets with increased production and market development.

Production Targets

Projected Mortality ¹ Rates		
	Best case	Most likely
Year 1	5%	30%
Year 2	5%	15%
Year 3	5%	10%

Financial Benchmarks

	Year 1	Year 2	Year 3
Gross operating profit ²	(\$341)	\$1,056	\$5,817
Return to management ⁶	(\$383)	\$ 435	\$4,974

Capital Investment

	Year 1 Start up	Year 2 Expansion	Year 3
Land (.1 acre)			
Improvements			
Utilities (1% share)	\$ 50		
Additional fencing		\$ 200	\$ 200
Facilities			
Brooder house	\$ 100		
Improved brooder facility		\$ 7,000	
Additional shelters (9)		\$ 2,700	\$ 2,700
Equipment			
Lamps & bulbs	\$ 68		
Waterers	\$ 12		
Feeders	\$ 15		
Shelter	\$ 300		
Predator fence	\$ 20		
Fencer	\$ 135		
Feed storage	\$ 100		
Crates (optional)			
Heater with tanks and hoses		\$ 400	\$ 400
Used bell waterers		\$ 200	\$ 200
Feeders (5)		\$ 75	\$ 75
Water tank & system for pasture watering		\$ 1,000	
Vehicles			
Delivery van/truck (1% share)	\$ 150		
Total Capital Investment	\$ 850	\$11,575	\$ 3,575

Market Basics

Marketing activities should build a reputation as a reliable supplier of a good quality product. First year marketing activities would be directed toward gaining word of mouth endorsements. Key activities would include:

- Developing and printing brochures
- Mail out brochures, telephone contact and follow up
- Developing and printing business cards
- Stall rental and travel costs to farmers markets
- Developing display items for farmers market stall
- Promotion activities
- Providing sample products to family, friends and potential buyers

Skills, Abilities and Strategies Direct Market Poultry Enterprise

Capabilities

New entrants to poultry production for direct marketing should assess their personal capabilities with managing a direct market poultry enterprise and developing a market for their unique product.

Personal Capabilities Required for Developing a Direct Market Poultry Enterprise

- People skills
- Willing to learn production and marketing skills
- Have clear goals and objectives for the enterprise
- Be food producers rather than commodity producers
- Must like poultry
- Have capacity to adjust to dynamic environment

Key Marketing Activities/Capabilities for Developing a Direct Market Poultry Enterprise

- 1 Develop a market strategy and gain a market presence
- 2 Determining what consumers value
- 3 Identify target markets
- 4 Be able to articulate description and benefits of product
- 5 Have an obsessive approach to marketing
- 6 Educating consumers about differentiated products
- 7 Develop market demand to match seasonal nature of production

Regulatory Considerations

- Supply management quota limits restrict producers to 2,000 broiler and 300 turkeys per year without quota.
- Processing for resale must take place in either a provincial or federally inspected plant.
- There are Provincial Health Authority regulations impacting storage and transportation of the processed birds.

Development Strategies

Effective strategies for developing a direct market poultry operation must consider market development, production capabilities and risk. Generally, production capabilities and the market should need to take place simultaneously rather than one preceding the other. New entrants should test both their production capabilities and the market with a small scale start-up of one shelter housing 60 birds and having 42 birds to market or give to friends and family as product promotions.

Development strategies also need to consider how fast to grow in the second and third years of operation. One strategy is to increase production and develop markets slowly. This risk adverse strategy would involve doubling production to two shelters (120 birds) and marketing 96 birds in the second year of operation then doubling production again to producing 240 birds and marketing 192 birds in the third year of operation.

A more aggressive strategy for developing production and markets would be purchasing 1,000 birds and achieving 850 marketable birds in the second year and doubling production to 2,000 purchased birds and processing 1,800 marketable birds in the third year of operation. This approach will also require the development of infrastructure in terms of arrangements with processors and truckers. Factors to be considered in making this decision include risk exposure, viability of the operation and market potential.

Promotional samples are an important marketing tool. Some portion of the first year's production (maybe even 100%) could be distributed as promotional samples to gain market presence and valuable feedback about the quality of the product marketed. In this fact sheet, family consumption and samples are as follows: 21 head (year 1), 30 head (year 2), 50 head (year 3).

Projected Revenue and Expenses

Direct Market Poultry Enterprise

Projected Revenues	No.	Price (\$/lb)	Revenues			Your Snapshot
			Year 1	Year 2	Year 3	
Bird sales (5 pound birds)	21	\$2.75	\$ 289			_____
	820	\$2.75		\$11,275		_____
	1,750	\$2.75			\$24,063	_____
Total Projected Revenues			\$ 289	\$11,275	\$24,063	_____
Projected Direct Costs		\$/chick				
Chicks		\$1.00	\$ 60	\$ 1,000	\$ 2,000	_____
Feed (brooder & pasture)		\$2.80	\$ 168	\$ 2,800	\$ 5,600	_____
Cleaning supplies		\$0.02	\$ 1	\$ 20	\$ 40	_____
Freight (chicks to yard)		\$0.10	\$ 6	\$ 100	\$ 200	_____
Freight (farm to processor)		\$0.46		\$ 391	\$ 828	_____
Power			\$ 20	\$ 20	\$ 40	_____
Propane		\$0.10	\$ 6	\$ 100	\$ 200	_____
Bedding (shavings)		\$0.11	\$ 7	\$ 110	\$ 220	_____
Vehicle operating				\$ 100	\$ 250	_____
Labour to load birds		\$0.15		\$ 128	\$ 270	_____
Processing		\$1.25	\$ 53	\$ 1,063	\$ 2,250	_____
Bagging		\$0.60	\$ 25	\$ 510	\$ 1,080	_____
Weighing		\$0.15	\$ 6	\$ 128	\$ 270	_____
Freezing		\$0.15	\$ 6	\$ 128	\$ 270	_____
Boxing		\$0.36		\$ 306	\$ 648	_____
Sorting		\$0.05		\$ 38	\$ 90	_____
Condemning		\$0.01		\$ 8	\$ 18	_____
Transport to freezer				\$ 160	\$ 300	_____
Storage costs (3 months)				\$ 400	\$ 800	_____
Marketing costs						_____
Conferences					\$ 350	_____
Telephone			\$ 150	\$ 150	\$ 150	_____
Brochures, newspaper ads				\$ 100	\$ 350	_____
Marketing skills development					\$ 150	_____
Interest on operating ³			\$ 18	\$ 281	\$ 594	_____
Total Projected Direct Costs			\$ 527	\$ 8,044	\$16,968	_____
Projected Indirect Costs						
Depreciation ⁴ of facilities & improvements			\$ 8	\$ 674	\$ 877	_____
Depreciation of equipment			\$ 95	\$ 233	\$ 401	_____
Total Projected Indirect Costs			\$ 103	\$ 937	\$ 1,278	_____
Total Projected Direct & Indirect Costs			\$ 629	\$ 8,981	\$ 18,245	_____
Gross Operating Profit			(\$ 341)	\$ 1,056	\$ 5,817	_____
Interest on Investment ⁵						
Facilities & improvements			\$ 8	\$ 503	\$ 650	_____
Equipment			\$ 36	\$ 119	\$ 194	_____
Total Interest on Investment			\$ 43	\$ 622	\$ 844	_____
Total Projected Economic Costs			\$ 672	\$ 9,603	\$ 19,089	_____
Return To Management ⁶			(\$ 383)	\$ 435	\$ 4,974	_____

Sensitivity Analysis

The profitability of a direct market poultry enterprise will be strongly influenced by the price per pound received for birds and the cost per pound marketed. The table below shows the effect on return to management of the changes in the market prices for birds based on 1,750 birds marketed.

Cost per pound marketed	Price Per Pound Marketed		
	\$2.00	\$2.75	\$3.50
\$1.75	\$2,188	\$8,750	\$15,312
\$2.00	\$ 0	\$6,562	\$13,125
\$2.25	(\$2,188)	\$4,375	\$10,937
\$2.50	(\$4,375)	\$2,188	\$ 8,750
\$2.75	(\$6,563)	\$ 0	\$ 6,563

Labour Requirements

The estimated labour requirements for the start up year are presented in the following table.

	Hours
Placing chicks	10
Management in brooder	10
Management on pasture	21
Processing	10
Marketing	10
Total Hours	61

Definitions

¹Mortality: Death loss.

²Gross operating profit. The amount remaining after direct and indirect expenses have been paid.

³Interest on operating: The interest on an operating loan, calculated at 7.25% for 6 months.

⁴Depreciation: The reduction in the value of an assets over its lifetime.

⁵Interest on Investment: The cost of investing in capital assets rather than in a financial investment. Valued at 10% on all asset categories.

⁶Return to Management: An amount left to compensate the owner-operator for risk and management.

Management Strategies

Key management strategies that will contribute to the production and economic performance of the enterprise:

- Communicating with other producers.
- A clear and effective business philosophy that balances respect for the birds, the importance of family and the need for economic returns.
- It is **ok** to be a small direct marketer.
- Individuals must be prepared to learn on a continuous basis.
- When considering strategies for expansion, managers should thoroughly investigate the opportunities for different market weights for birds.
- Managers should investigate other opportunities for marketing turkeys, organic poultry and other unique products.
- There is a significant level of market development required to become established.
- New entrants will need to thoroughly assess the market, the regulatory environment and find a fit for their individual capabilities and resources.
- Producers should expect a range in weights due to factors such as feed, the sex of the birds, weather and the amount of daylight while on pasture.

For more information, contact:

Alberta Agriculture, Food and Rural Development
Production, Marketing, Economics and Business Planning & Development - Contact the Alberta Ag-Info Centre at 1-866-882-7677 or visit our website at: <http://www.agric.gov.ab.ca>

Publications

“Pasture Poultry Industry” Ag Ventures, 2000
 Agdex FS450/830-1

“Why Grassfed Is Best” Jo Robinson
 This book is available at: www.eatwild.com

“The Stockman Grass Farmer”

A newsletter devoted to the art and science of turning grass into cash flow. Subscriptions are available at: www.stockmangrassfarmer.com

The following people contributed to the preparation of this factsheet:

Dennis Dey, Farm Management Consultant, Olds

Rod Carlyon, Business Development, Westlock

Dean Dyck, P. Ag., Financial Business Analyst, Red Deer