
Abadilla Contract Growing: A Life With So Many Chicks

15 missed calls ...

25 unread messages ...

That's what Marc saw when he looked at his phone. But he could not return the text messages nor the missed calls. He knew that with his sixth failure, his father would be furious, and he would repeat the sermon Marc had been listening to for the past several months. His father kept on telling him that he should be hands-on in the operations of the poultry farm and not just rely on his employees. His father kept on reminding him that the contract growing business had been assigned to him because he had his full trust and confidence in him. Marc could not bear the pressure anymore. He needed to make sure that the succeeding growing season would be better and more productive. He needed to know the root causes of the problems he was facing and act on the solutions immediately. He returned his phone in his pocket.

Phone vibrates ...

PAPA calling ...

Humble Beginnings

Marc Edward Abadilla was the eldest of Eddie F. Abadilla and Wilfreda M. Abadilla's four children. He was born February 7, 1986 at Solsona, Ilocos Norte, Philippines. As a child, he was expected to take care

of the household chores because his parents were working. Moreover, instead of playing like the other kids, he had to look after his siblings. He studied at Central Elementary School and Divine Word College of Laoag for his elementary and secondary degrees. He finished his Bachelor's degree in Business Administration at Northwestern University.¹ Marc got married in 2009 to Althea Castro and was now blessed with one vibrant and intelligent young boy named Yuan Miguel.

Marc grew up in a loving family. Once he was 15 years old, he was working at his father's businesses, particularly his poultry business. Though he was the son of the owner, he was not given easy access to promotions. His father made sure that he learned every piece of the businesses' operations. First, as a recorder, he was responsible for making sure that all transactions were documented. After this, he became the liaison officer; his main responsibility was to ensure that all deliveries were made on time. He also joined in the distribution of dressed chicken¹ at different supermarkets. After several years, his father entrusted with the role of operations manager.²

The Start of the Abadilla Chicken Empire

Eddie was employed at Purefoods Corporation as a salesman in the company's chicken department after graduating from college. While there, his interest in poultry began to grow. He learned the ins and outs of managing the business, and when his immediate boss decided to resign due to the company's acquisition by San Miguel, he too decided to get out of the company. With his Php 15,000 (323 USD)ⁱⁱ buyout, he began the Abadilla chicken empire. He used the money to purchase a motorcycle and a side car, which he used to deliver his first batch of chicken to a client who sold dressed chicken. His profit was not that high, and with a number of competitors, problems arose such as fluctuating demand and a lack of loyal customers. To solve these problems, Eddie used the family savings for the consignment at the integrator,ⁱⁱⁱ Vitarich for the live chickens. With increasing orders and production, Eddie and Wilfreda decided to formalize their operations. On April 17, 1997 they formed the Marc Edward Marketing (MEM) company with two employees and Php 2,000 (43 USD), which was used to purchase 20 chicks.

MEM faced difficulties with transportation and freight. To work through these difficulties, one truck was purchased for the consignment of live chickens to be dressed by MEM. However, when Eddie saw that there was an opportunity in selling live chickens, he diversified and became the exclusive distributor in Ilocos Norte. Expansion of the business happened almost overnight; MEM captured the markets of Ilocos Sur and Cagayan. With this expansion, MEM purchased another two trucks, and Eddie formed a second company in 1999, Abadilla Express, primarily to ship poultry products. With just three employees and Php 250,000 (5,396 USD), Abadilla Express began its operations.

In 2002, with his life revolving around the processing of live and dressed chicken, Eddie got a Php 5 million (107,897 USD) bank loan and invested in a lot in Barangay Payas San Nicolas and converted it to a processing plant, which he named EFA Dressing Plant.

As of 2015, MEM had seven employees with a business value of Php 2 million (43,173 USD), Abadilla Express had 22 employees with a capitalization of Php 3 million (64,760 USD), and the EFA Dressing plant had 50 employees. In 2016, the dressing plant had a capitalization of Php 12 million (259,042 USD).

i Dressed chicken refers to chicken that has been cleaned in preparation for eating (feathers and guts removed).

ii 1 Php = 0.02 USD as of April 20, 2016.

iii The integrator provides the birds or animals, the feed, the medicine, and management directions.

Vertical Integration of Marc Edward Marketing (MEM)

In 2007, Eddie decided to vertically integrate into contract poultry growing. He tapped Marc to manage the business and entrusted its operations to him. Marc immediately accepted the responsibility and invested his hard-earned savings into the poultry contract growing business.

Marc had Php 900,000 (19,423 USD) to start Abadilla Contract Growing. The capital was used for the purchase of equipment such as tube feeders, linear feeders, a galloner,^{iv} basin, fluorescent bulbs, water pumps, fish nets, laminated sacks, and straw. A portion of the capital was also used for the advance payment of rent for the building. The farm had a capacity to grow 15,000 chicks. When the contract growing started, the farm was located at an agricultural zone in San Nicolas Ilocos Norte and the nearest residential house was about 1 kilometer away, making the farm conducive for poultry growing. The location was also near a creek so there was an abundant water supply.

The Business of Poultry Contract Growing

Chicken had been the second most popular meat in the Philippines. Research on meat production worldwide indicated that poultry was the fastest growing livestock sector in developing countries like the Philippines. The chicken industry in the Philippines had been developed through the improvement of the retail sector with the rise of supermarkets and hypermarkets. The industry was divided into three kinds of poultry farming: egg production, egg hatching, and broiler production.

Integrated contract broilers or growers are those that grow chicken under a contract. For example in the case of San Miguel Corporation — it has several companies like Monterey and Magnolia that supply Chicken all over the Philippines. It is a must that they hire contractual poultry farms to manage chickens more efficiently and to provide chickens that are safe and well-maintained. In the Philippines, the large integrators are San Miguel Corporation, Bounty Fresh Food Incorporated, and Charoen Pokphand Foods.

These integrated contract broilers are either technology based or traditional. Technology-based contract growing is the type of poultry growing that uses technology and tunnel ventilation. Temperature is controlled and robotics are used to attend to feeding and medicine administration. On the other hand, traditional contract growing uses conventional methods such as manual feeding and medicine administration.³

The term “contract farming” generally refers to situations in which a farmer raises or grows an agricultural product for a vertically integrated corporation. For example, tens of thousands of farmers nationwide were growing broilers^v under contract farming arrangements for major poultry-producing companies. Contract farming arrangements were also becoming common in other kinds of poultry production, such as eggs, hog production, and fruit and vegetable production.

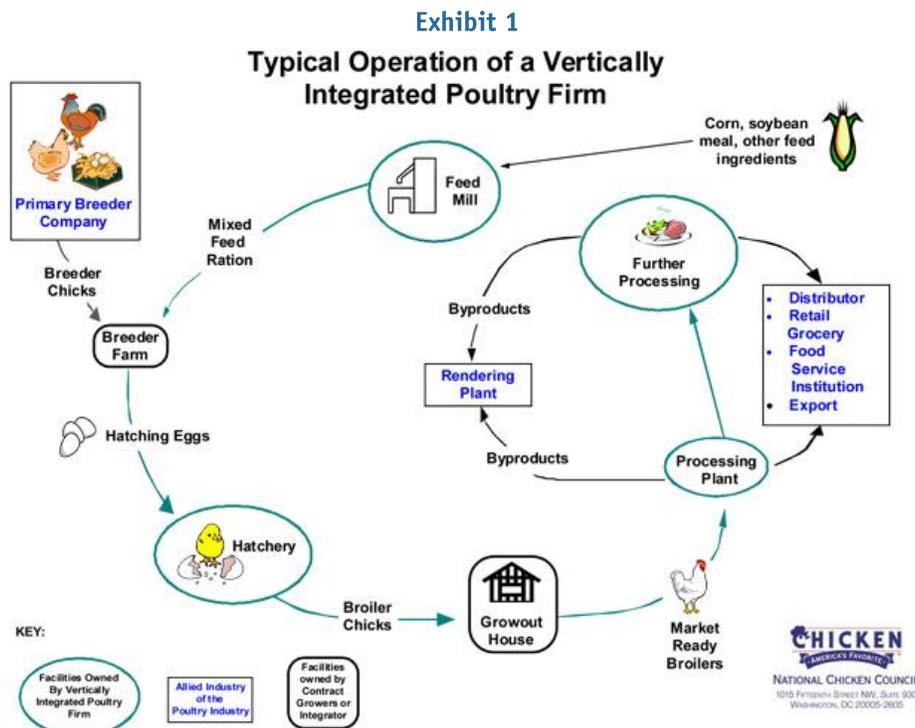
There were two parties in a typical contract farming arrangement: the grower and the integrator. Generally, the grower provided the land, the buildings, the equipment, and the labor. The integrator provided the seeds, birds or animals, the feed, the medicine, and management directions. Through the contract growing system, processors^{vi} reduced uncertainties in production and marketing by controlling

iv A galloner is a piece of equipment where the drinking water of the chicks is placed.

v Broilers are young chickens that can be roasted, grilled, or barbecued.

vi A processor is a third party involved in poultry contract growing, who is responsible for dressing the chicken for commercial use.

the quality and quantity of their products, and they diversified their operations to better meet consumer demand. **Exhibit 1** provides an example of the vertical integration of a poultry business.



Source: The National Chicken Council. "Vertical Integration: What it is — and Why it's Good for the Chicken Industry ... and You." 2012. Accessed 12 Apr. 2016. <<http://www.nationalchickencouncil.org/industry-issues/vertical-integration/>>.

Since Marc's family had been in the poultry business for quite some time and his father had been known by integrators, Marc's entry into the business of contract poultry growing was not difficult. His father introduced him to Integrator D. The owner of Integrator D and his father had been close partners in the poultry business for quite a long time since many of the dressing contract accounts of EFA dressing plant were with Integrator D. Marc immediately got a contract with Integrator D. For the initial growing season for the year 2007, Marc decided to test 10,000 chicks with two employees. Each employee was responsible for 5,000 chicks. His two employees did not have any formal training in poultry growing, but Marc selected them because he trusted them, since they had been serving the family for several years.⁴

As is typical, Marc and the integrator agreed upon contract terms, which were usually signed before the beginning of each growing season. The terms outlined the division of responsibility between the grower, namely Marc, and the integrator.

The agreement between Marc and his integrator specified that Marc needed to meet three parameters. The parameters were: feed conversion ratio (FCR),^{vii} average-live-weight^{viii} (ALW), and harvest recovery.^{ix} For his chickens, Marc needed a 1.75-1.90 FCR, a 1.50-1.90 kilo ALW, and a harvest recovery of 95%-98% to realize positive returns.⁵

vii FCR is a measure of a chicken's efficiency in converting feed mass into the desired weight of the chicken.

viii ALW is the weight of the chicken before it is dressed.

ix Harvest recovery is the percentage of a live chicken for harvest to total number of chicks delivered.

Operating the Farm

Three weeks before the start of each growing season, Marc and his employees cleaned the poultry farm's buildings. They had to make sure that each building was disinfected so that the chicks would not get any disease and to ensure that they met all the parameters stated in the contract. Chicks arrived directly from the integrator's hatchery and were delivered from the hatchery to the farm within 24 hours or less after the eggs hatched. The feed was delivered every week and was sufficient for 10,000 chicks. Lastly, medicines were delivered upon loading the chicks. A veterinarian was provided by the integrator and was called upon when needed. Even though he was also a full-time professor at one of the universities in the province, Marc made sure that he went to the poultry farm every day at exactly 7 a.m. to 8:30 a.m. and later at 4 p.m. until 7 p.m. He did this from the start of the growing season until the end of the growing season.⁶

Marc's poultry contract growing business was connected to his father's businesses, and decisions were made in consultation with his father. Marc's chickens were delivered to the EFA dressing plant and were distributed by MEM.⁷

Marc had been happy with the results from 2007-2013. He was able to successfully reach the parameters, and had, in fact, exceeded all three parameters in the years 2011-2013. He was averaging 1.82 for his FCR, 1.87 ALW, and a harvest recovery of 97%.⁸

The Problem Years

The last growing season in 2014 had been quite unremarkable. Though the parameters were all met, Marc noticed that there had been a huge fallback in the numbers. His FCR went down to 1.75. Furthermore, the usual 1.87 ALW went down to 1.54, and his harvest recovery was only 95%.⁹

Marc assumed that he just experienced a bad growing season. So he was more cautious in the succeeding growing seasons in 2015. However, his assumption was proven wrong because these growing seasons proved to be even worse than those of 2014. He was not able to meet any of the parameters. In the last quarter of 2015, he decided to investigate.¹⁰

He first noticed that several residential houses were being constructed in his neighborhood. The nearest residential house was no longer a distance of 1 kilometer away but was now just about 200 meters away. He also noticed that the creek that was usually full of water even during summer was half empty.¹¹

He checked his records as well, and that he learned that there had been inconsistencies in the delivery of feed. He noticed that feed was not delivered every week but every other week, which required him to buy feed in the market. He counted how many times that this happened and recorded four times for the past growing season.¹²

One day, he decided to go to the poultry farm earlier than his usual routine. He went there at 5 a.m. and saw that some of the feed was missing. He remembered that the night before he was able to count 55 bags of feed, but now, just one day later and before his people had started feeding the chicks, he was able to count 52 bags only. He further investigated the matter and found out that one of his employees had two pigs in his house. He asked his two employees about the discrepancy, but they both denied that they were getting feed from the farm.¹³

One thing that he also noticed was that for the past four growing seasons, there had been an inconsistency in the size of the chicks. He asked his veterinarian and the veterinarian said that it was due to the fact that the integrator was testing different formulas of broilers, so the sizes of the chicks were inconsistent.¹⁴

The Father-and-Son Talk

One late afternoon in December 2015, Eddie called for his son. Marc immediately went to his father's office and they had an intimate conversation regarding the status of the Abadilla Contract Growing business.

"The business has not been good for the past couple of growing seasons. What's happening?" Eddie asked to his son. Marc explained that he suspected his employees were getting feed and medicines from the farm.

"But these two have been with us for so many years, why only now are they doing this?" Eddie uttered.

"Maybe they need extra income so they had to put up their own piggeries. That is my suspicion," Marc replied.

Marc also told his father that the delivery of feed to the farm had been inconsistent and the sizes of the chicks delivered to his farm had varied. He also mentioned to his father that the location of the farm might have contributed to the negative results of the growing seasons for the past couple of years.

"I trusted you. As my son my full trust and confidence had been with you. Now look what is happening. I want you to give me good results in this growing season," Eddie commanded his son.

Marc left the office anxious and weary. He did not want to disappoint his father again. He had to do everything he could to make sure that this growing season he would have positive results.

Urgency of the Dilemma

Marc received the report from the integrator. This was the sixth consecutive failure in a growing season. His father had been calling and messaging him. He knew that quitting this business was not an option for him nor for his father. But what should he do to improve his succeeding growing seasons? Should he look into the possibility of pilferage by his employees? Should he change location? What should he do to ensure that the chicks delivered to him are consistent in size? Lastly, what should he do to make sure that feeds are delivered on time? He knew he had to do something.

The phone vibrated...

PAPA calling ...

See **Appendices A-D** for further insight.

Appendix A

The outside view of the poultry farm



Source: The author of the case.

Appendix B

A Building at the Poultry Farm



Source: The author of the case.

Appendix C

Feeding the Chicks



Source: The author of the case.

Appendix D

A Sample Chick



Source: The author of the case.

Endnotes

- 1 Abadilla, Marc Edward. Abadilla Poultry Contract Growing. 11 Apr. 2016.
- 2 Abadilla, Marc Edward.
- 3 Abadilla, Eddie F. MEM Incorporated. 11 Apr. 2016.
- 4 Abadilla, Marc Edward.
- 5 Abadilla, Marc Edward.
- 6 Abadilla, Marc Edward
- 7 Abadilla, Eddie F.
- 8 Abadilla, Marc Edward
- 9 Abadilla, Marc Edward.
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- 14 Abadilla, Marc Edward.