

Points of View

A forum for sharing perspectives from across the Canadian Sheep Industry



CANADIAN SHEEP FEDERATION

APRIL 2008

VOLUME 2 • ISSUE 4

Myth: There's nothing that can be done to manage shrinking margins.

Shrinking margins affect everyone in the industry, from the producer to the retailer. Despite market forces that are driven by things out of our control, everyone has the opportunity to look at their own operation and seek out even greater efficiencies to ensure that profits are maximized. This is particularly true for producers. What can they do to manage the negative pressure on margins – in both the short term and the long term? What resources are available to help? What can they learn from other sectors in the industry?

"It might be the best kept secret that there's money to be made in producing lamb – providing you do it right. "

We've asked for feedback from producers about some of the efforts they've made to maximize their profits. What's worked, and what hasn't? What do provincial associations and government have to say on the topic? Are they in a position to help the producer who's looking for guidance? If so, how?

Have we been spoiled in the past? It might be the best kept secret that there's money to be made in producing lamb – providing you do it right. But can our industry continue on this path while our colleagues in other livestock sectors feel the pinch of even greater shrinking margins and face an uncertain future?

The response to these questions was not as strong as I hoped it would be. Perhaps it's because of the time of year – fair weather has everyone outdoors preparing for a busy and productive growing season. Or maybe it's that we collectively aren't as concerned about shrinking margins as I thought.

I doubt that's the case given what I'm hearing from various points in our value chain. Surely we should be motivated to engage in a dialogue on this critical issue. To avoid it puts us in danger of becoming complacent, and I suggest we can't afford to do that.

So if you still have something to share on this topic after reading this issue, please feel free to share them with us, and we'll print your contributions in the next issue.

Jennifer Fleming
Executive Director
Canadian Sheep Federation

P.S. The producer profile in this issue shows that there are those in our industry who have their eye on managing the bottom line and making their business as successful as it can be. Take a look and see if there's something you could be applying to your own operation.

Myth: There's nothing that can be done to manage shrinking margins.

John Hemsted

Sunningdale Farms Inc.

Do what you do do well at home! Optimizing is the goal!

When the pressures of shrinking margins are in place, it is an opportune time to first reflect on the strengths of the sheep industry in Canada and to value just what we have as an industry. At the same time, we should take on the challenge of reviewing our operations at home and look to greater streamlining.

As one looks at our lamb industry in relationship to other meat sectors, we can easily see the tremendous benefits that our meat industry has in having a strong domestic base with little reliance on the necessity of export trade to the U.S., unlike the other meat sectors in Canada which have been built to rely on significant exports. For the two major commodities, exports make up in excess of half of their production. This situation has clearly shown that international currency differences can dramatically affect trading patterns in a negative way. Not only do those industries have to deal with declining margins due to increasing costs of production, but they also have to deal with shrinking market access.

What does this mean to our sector? We are more insulated from the effects of foreign economies and their desire to control imports to help alleviate the effects on their domestic industries that are themselves suffering from the increasing pressures of declining margins. The fact that lamb is not traded as a general commodity maintains our position in the meat sector that allows us to be shielded from the effects of the elasticity of supply and demand that the prices of the "commodities" all respond to.

In relative terms, as beef or pork decrease in price, so too does the price of poultry. This clearly shows us what happens to products that get traded as general commodities and is a good example of why the sheep industry's leadership has worked hard to not allow the products of our industry to become general commodities. Fortunately for our industry, this has allowed our pricing to be established remote from other industries' pricing.

Here, at home in Canada, our immigration policy is supporting our industry. As we have seen from many reports from the CSF we will have an increasing domestic market demand over time as new Canadians are, for the most part, consumers of lamb. Delivering enough domestic lamb has been, and will continue to be, the apparent ongoing challenge to the Canadian sheep industry. So, our industry prospects should look fairly good especially in relation to others.

So what do we do and what steps do we take to help ourselves to be there to take advantage of the opportunities that seem to clearly exist? The sheep industry needs to continue to have and strongly support industry organizations both at the provincial level and our national organization. Now is not the time to look at these organizations as expenses to the industry but to view "our" organizations as positive assets to industry which will, with our direction, continue to develop the pathways that will lead to the future.

Continued on next page

Myth: There's nothing that can be done to manage shrinking margins.

John Hemsted continued

As an example, governments deal with organizations, not individuals, and if our organizations are not strongly supported and able to be present when it counts, then our governments usually take the position that if we are not there then we don't care and we will be left out of any opportunities that might have been.

Look to opportunities that are currently available with the interest in the local food movement, where facilities and geography permit. Not only are farms affected by higher operating costs but so are families as they try to reduce their dependence on costly fuel and they look to local solutions to acquire their daily needs including food. Take a more proactive role in the marketing of products from your farm. Try to develop relationships that will garner more dollars from the system.

It is now more important than ever to review the production costs of each of our farm businesses to try to determine any actions that will improve efficiencies. Over the years far too many producers have made significant business decisions based on cost of production figures offered by "someone" from "somewhere" and unfortunately the producer often doesn't really know how or if those numbers even relate to their own operation.

As dry as it can be, reviewing the business books or in fact, for some, creating a good set of business books is essential and I'm not referring to the income tax form, although that's a start. It is human nature that allows us to overlook what would appear to be the smallest changes because in times of rising margins those changes don't look to be that significant or beneficial.

"Over the years far too many producers have made significant business decisions based on cost of production figures offered by "someone" from "somewhere" and unfortunately the producer often doesn't really know how or if those numbers even relate to their own operation."

In a time of reducing margins, one should step back and look with a most critical view and implement changes over which we have direct control.

Some of the following actions, in my opinion, can make positive changes to the bottom line of the financial statement. Increase the level of culling from the flock. It is a very opportune time to cull rigorously from the flock when prices are fairly strong; the culled animals bring reasonable returns at the market and at the same time this action removes inefficient production units from the flock, win-win. It is not the time to scrimp and save on the nutritional components being delivered to the flock as the productive units that we keep at home deserve the best of feeding to optimize their productive capabilities, even though feed costs have risen dramatically.

Continued on next page

Myth: There's nothing that can be done to manage shrinking margins.

John Hemsted continued

The value of home-grown components and resources should be reviewed and reassessed. People need to change their perspective of how they look at home-grown resources from “just being there” to a view which reflects the real value that has always existed to those resources around us, especially pastures for the sheep industry. We have for years talked about the value of an efficiently used pasture, but now is the time to actually get around to doing something about it. The cost of fertilizer has, with its direct reliance on energy, risen dramatically, but so too should the value of the manure in the yard. It's available, is produced on a continuing basis and can be used in an appropriate manner for both pasture and crops. Taking it a step further, knowing the needs of the pasture by soil testing and knowing the nutrient value of the manure will allow for the best use.

For many of us, I have stated the obvious but, the obvious needs to be stated every once in a while when the situation around us is changing. Keep the big picture in mind and the long-term opportunities that appear to be present. Look to control those things that you can control which will help insulate you from the factors that you have no control over and do what you do do well at home!

Merrell Dickie Sunterra Meats

Yes I do still believe that there is money to be made at marketing lamb. Be thankful that you are not in the cattle and pig industries as they are losing money. There is no doubt that the Canadian consumer is hesitant to pay more for their groceries. But on the other hand they don't seem to scream too loud when the price of gas goes up. As producers you are now in the position of having to think outside the normal box, and I do not think that that is a problem – but it may be a great opportunity. It never hurts to be addressing your costs and how you do this and that. So take this opportunity and go for it.

Managing the Farm amid Shrinking Margins: A Profile of Producer Johanne Cameron

Like most sectors in agriculture these days, the sheep industry is currently facing shrinking margins and increased costs of production. Feed prices are up, returns are down and all the while, farm work still needs to be done. It is the reality of the industry and it is one that does not seem to be changing any time soon. Producers need to know the state of the industry and work towards adapting their operations to whatever situations comes their way. Improving efficiencies can help producers meet challenges like shrinking margins and rising COPs, and can also help maintain and increase profits.

The Situation

Johanne Cameron of 'Les Bergeries Marovine et Highlanders,' in St-Charles-sur-Richelieu, Quebec has been involved in sheep production most of her life. Along with her partner Martin Brodeur, she runs about 650 ewes on their farm that is not too far from Montreal. Cameron believes that running a profitable operation is the most important factor in the business. With negative pressure on margins and higher costs, being profitable may seem harder now more than ever, but Cameron and Brodeur continue to find ways to maximize profits and improve efficiencies on the farm.

The Opportunity

Cameron and Brodeur began using a Photoperiod System on their farm in 2004 to create greater efficiencies. The Photoperiod System was developed in Quebec and is a program that helps producers organize production, flock management, feed management, health management, and ultrasound scanning – to name a few. "The photoperiod schedule allows our farm to lamb 75 to 100 ewes every month," says Cameron. "This gives the best profitability by ewe and allows us to run our operation at its best. It also allows us to have a fertility rate of more than 95% each month, all year round, even with seasonal breeds like the Border Leicesters." The best part about the system, Cameron says, is that "it is not expensive and it gives really good results."

To maximize profits, Cameron and Brodeur also focus on feed. "We try to feed a quality product, but at a low cost," she says, emphasizing the importance of producing forage that contains a good amount of energy and protein. To reduce some of the costs associated with feed, plans are in the works to complete the construction of a new 20 x 80 silo this summer. The overall goal, Cameron says, is to "reduce the cost of feeding and to improve our feeding management. This means spending less time feeding the sheep and dedicating more time to the lambs. It also means spending less time on labour and having more time for ourselves." A Total Mixed Ration (TMR) will be brought into the operation as well this summer. "A TMR will give good results because the feed will meet all of the sheep's nutritional needs and it allows us to use by-products and this means lower costs," Cameron says.

continued

The Challenges

When asked what challenges she faces on the farm, Cameron says, "I think it's the same problems that every producer faces – feed costs and the price of gas!" To overcome these challenges Cameron and Brodeur have a number of plans in mind. Firstly, she says "it will be important to limit the amount of petroleum that is used on the farm, something we need to think about right now because the cost of gas will never go down," Cameron says." To do this, the farm will store humid corn, dry corn naturally and use a good culture rotation.

In two years time there is also a plan to build a new barn with natural ventilation, which will help reduce the amount of electricity used on the farm; another way to cut costs. The barn is also meant to improve the farm's work around lambing, as it will be designed especially for that purpose.

"In the future," Cameron says, "we will need to be more effective, not only producing more lambs per ewe, but producing lamb of really good quality." To achieve this, Cameron says "focusing on the genetic quality of the animal will be essential." A breeding program has been developed to meet these criteria. "I think it will be important to select sheep that can make gains and grow fast even with a small amount of grain," Cameron says. "So we need to select sheep that can use forage easily and keep this in mind when it comes to breeding."

Key Success Factors

For Cameron, the key success factor is simple. "You need to think about profitability first and foremost," she says. "And everything on the farm needs to be done to realize that goal. We know the sheep business is hard, so our thinking always has to be around making more money. In 2008, you cannot raise sheep for fun and think you can make money. To stay in this business, you need to think like a businessman. You need to be a businessman. This means you need to know where you are going, what you are doing, what are your problems, where you can be better and mostly you need to pay attention to future opportunities. When you produce with efficiency and profitability, you are so proud of it!"

Learning Experience

Listen to professionals and keep yourself well informed of every new technology. This is the ultimate learning experience for Cameron. "Researchers are there to help us," she says. "Listen to the advice of the best professionals who really know the industry – they are there to help. Keep your mind open and expect to change the way you have always produced your lambs. It's just the reality of the industry."

Your feedback is essential!

The dialogue has started, but we need to hear more about what you think in order to keep this forum going. Its success depends how much everyone in the sheep industry weighs in with their own perspectives and suggestions for change.

Tell us:

- What you think about “Points of View”
- If you had a strong reaction – either good or bad – to the contributions or letters in this issue
- If you want to contribute to an upcoming issue
- If you have a topic you’d like to see addressed
- If you have a story that would make a good case study for others to learn from

Few people get the opportunity to have their opinions heard. This is yours.

Send your comments, suggestions and questions to pointsofview@cansheep.ca or contact Jennifer Fleming directly by phone at 1-888-684-7739 or by email at jennifer@cansheep.ca.

In the next issue...

Myth: RFID technology will never be implemented across the Canadian Sheep Industry

There’s been a lot of discussion lately about whether or not the Canadian sheep industry should implement mandatory RFID technology. The debate usually focuses more on the whether or not sheep producers have the ability to afford RFID tags. Yet, there has been little debate about whether or not full-scale traceability (i.e. animal identification, animal movement) can be accomplished without using RFID tags. Can it?

What is the cost though of not having traceability? Are there management benefits for using RFID technology? Is there value for sheep producers with smaller operations? What’s the cost-benefit scenario?

More importantly, as demands for traceability and food safety increase, what would the response be if RFID technology was made mandatory for anyone raising sheep? What would it mean for our industry, and for individual producers?

We’d like to hear your opinion – whether you’re a producer or someone in a different sector of the industry that sees the opportunity this technology provides. Please send us your thoughts as we’d like to include them in the June 2008 issue of Points of View. Get in the dialogue – your opinion matters! Send your comments to pointsofview@cansheep.ca, or contact Jennifer Fleming directly at 1-888-684-7739 or jennifer@cansheep.ca.