

Points of View

A forum for sharing perspectives from across the Canadian Sheep Industry



CANADIAN SHEEP FEDERATION

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Myth: Sheep producers have good knowledge of their cost of production and use this information to increase profitability.

In reality, only a small percentage of producers know their full cost of production (COP) and use it effectively to help manage for profitability.

COP data has been and will continue to be extremely important for the sheep industry. Ultimately, COP can help individual enterprises, as well as the sheep industry as a whole increase profitability and sustainability. Nationally, we need more producers who are aware of their COP so that we have the ability to communicate as an industry. For example, currently COP data is helping CSF communicate with government regarding the costs producers are currently incurring to meet traceability program requirements (i.e. tags, taggers, labour, etc.), as well as the anticipated additional costs (i.e. computers, software, readers, and labour for additional reporting, databases, etc.) as we move towards mandated traceability for the sheep industry.

Even though current lamb prices are high and we expect they may remain high due to tight international supplies, it's important for producers to be as efficient and profitable as possible. Here COP can play a vital role, helping equip producers for times when prices may not be as high as we see today.

COP is also important for a number of other reasons: it helps our industry know and understand why producers are entering and exiting our business; it helps identify where you can increase profitability and address profit leaks within your enterprise; and it helps you increase production to meet demand without increasing

costs. When you combine knowledge of COP with performance tracking you have a truly dynamic operation -- one that gives you the ability to influence both inputs and outputs with a focus on profitability.

CSF agrees that COP is extremely important and we're working to give producers tools to help gather, understand and utilize COP information. For instance there is a tool on our website to help you identify your COP: <http://www.cansheep.ca/cms/en/Resources/CoP/CoP.aspx>. This includes a Balance Sheet Tool and an Income Statement Tool. As well, there are websites listed that provide additional tools and information to help in calculating your COP. CSF has also been using the Flock Snapshot program, developed in Alberta, as part of its National RFID Pilot Project.

Please check out our case study interview with sheep industry veteran Tony Stolz on pages 3-5 to learn more on how knowing your COP can enhance farm management and profitability.

There's still time to send in your thoughts on COP. We'll publish any remarks you have on this issue in the next Points of View. Please send your comments to pointsofview@cansheep.ca, or contact Barbara Caswell directly at 1-888-684-7739 or barbara@cansheep.ca.

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Letters to the Editor

Comments in response to the "How the Canadian Sheep Identification Program Works" case study (March 2011 Points of View)

" Our operation, 2000 ewes, is getting significant farm management benefits from the Farm Works software and Radio Frequency Identification(RFID) implementation. The benefits will be substantially greater when we receive input from our customers." - Patrick Smith

Patrick Smith
Manitoba

Our operation, 2000 ewes, is getting significant farm management benefits from the Farm Works software and Radio Frequency Identification(RFID) implementation. The benefits will be substantially greater when we receive input from our customers. Unfortunately, the feedback represented in the March, 2011 Points of View reflects the typical problems with government regulators. While their objective is to create regulations, the producer's objective is to build a fiscally sound business. These two objectives are almost always at odds and even more so with small producers. Notice the emphasis in your case study on fines for non-compliance, but very little emphasis on value to the small producer.

If you add new regulations on manure management, health and safety, inter-provincial trade barriers, and DEF diesel fuel additive to the RFID mandates is it any wonder than we feel micro-managed by inner city regulators who would never think of visiting a real farm to understand the implications of their regulations.

We have detailed production records and are very aware of production costs and yields, but I wonder if I'd even consider starting this business today given the barriers created by government. In Manitoba, we sometimes feel the department of agriculture prefers that Manitobans follow a vegan diet.

Cost of Production: A management tool for sheep producers

Tony Stolz, Project Coordinator, Alberta Lamb Traceability Project

Knowing your cost of production (COP) is a powerful tool for managing your business. The Canadian Sheep Federation recently talked to Alberta sheep industry veteran Tony Stolz about the benefits of shepherds tracking and establishing their COP. As Project Coordinator, Alberta Lamb Traceability Project (LTP), Stolz has worked with hundreds of lamb producers and has seen many situations where COP knowledge boosted, or could have enhanced, farm management and profitability.

Why is knowing COP important for sheep producers?

"The reason is the same for sheep operations as for any business – ***you need to know your costs to know how to make your business profitable.*** Ultimately, you can't manage what you don't measure. One of the things you can measure is your costs. When you have a good understanding of your costs, you can compare them year-to-year, and if you have the right tools, you're able to compare against other farms. In order to manage effectively, you need to be able to measure where you're at and where you should be. For example, it's great if you know your feed costs, but do you know what they should be for your operation to be profitable?"

"Any business also needs to know where they can improve – they need targets. What do we mean by targets? One of the powerful tools we've been able to develop in the LTP is benchmarks. Knowing what other similar businesses are achieving is a benchmark – a target to aim for."

How does knowing your COP improve management?

"It gives producers the ability to act upon their costs. When you know your costs, you get to know which ones matter most and you can start to manage them." "For instance, when you realize that feed is your biggest cost, you realize you need to calculate the nutritional requirements of your animals for each stage of production. Then you start buying your feed based on nutrient needs and feed quality. You see the value in sending your feed in for analysis to see what's in it instead of just throwing any hay into the feeders. Those steps allow you to really fine-tune your feed costs. Savings can be significant. We've seen feed costs on some operations 50% higher than they need to be simply because they had no idea what they were feeding."

"The other thing that people often overlook is labour, which is typically the second highest cost on a sheep farm. One thing we've asked people to do on the LTP is calculate how they spend their time. What we found is most labour is spent in the lambing barn and on feeding. Once you realize this, you can evaluate how you spend your time in the

CASE STUDY

lambing barn and how you feed your sheep. Suddenly you have information you can work with to set targets to try to reduce labour and its costs. Labour is a wildcard – it can be anywhere from two to six hours per lamb marketed. If you calculate a minimum of \$15/hr for farm labour – that's a significant difference."

What impact can knowing your COP have on your bottom line?

"There is too much variability between farms to set an average return, but it wouldn't be unusual to see some producers improve their returns by \$10 to \$20 per lamb – that's including money saved and extra money earned by recording and understanding costs, setting targets, and by acting on this information."

How do you determine your COP? What are the key factors to consider?

"Cash flow is "money in" minus "money out" equals "money left over." Costs are "money out." This can include cost of goods sold, operating expenses (including depreciation), interest and taxes. "Knowing cost of production is only part of it. It's also about flock performance – it's your cost against your performance (productivity = money in) that really matters."

Are there factors in a producer's COP that cannot be changed, or are more difficult to change than others?

"Like other businesses, some costs are more fixed – you have less ability to adjust them – than others. Sheep need to eat (this is the biggest single cost), and some years feed costs more than others. That said, costs can be controlled through ration balancing and selecting the best feed for the price in any given year. The same goes for any other cost. Even fixed costs such as tractors can be spread out over more animals by growing the operation."

In Canada, what percentage of producers actually know their COP and use it to help manage for profitability?

"I don't think there are statistics on this, but it is likely similar across all small businesses – very poor. Talking with other business consultants, we optimistically estimate between 5% and 10%. Typically, small business owners prefer to be "business operators" as opposed to "business managers."

How do we compare with other countries? A May 2011 survey of New Zealand lamb and beef producers indicates 59% have no written business plan and 27% say they do not understand their cost of production.

What tools are available for producers to use in helping them determine COP?

Over the years a lot of sheep COP surveys have been done in every province. Collecting the data has been a challenge – everyone's numbers are different and a lot of them aren't actual data but estimates, or even wishful thinking. The LTP has developed and worked on fine-tuning a tool – the "Flock Snapshot."

The Flock Snapshot enables producers to collect key data in a standard way, and then calculate their COP. This shows not only their own flock performance but allows fair comparisons between farms.

It clearly shows benchmarks, targets a manager has to work with. The Flock Snapshot is able to do this by ensuring:

- Only sheep enterprise costs are included in the calculations (other farming enterprises such as making hay or custom grazing are separate enterprises)
- Labour is included in the calculations, plus setting a standard labour rate
- Any land used in the operation is rented back to the operation at the going rental rate. (Since we are not interested in assessing land ownership costs in the Flock Snapshot)
- Costs are calculated as cost/lamb instead of costs/ewe. Cost per ewe is not useful enough for cost control and profitability targets.

"One limitation on the current Flock Snapshot is it does not tell the producer whether their overall farm is making money. The Flock Snapshot is a picture in time of just the sheep enterprise – other enterprises (such as making hay, custom grazing, or even investing in land) also have an impact on profitability."

The Flock Snapshot will be available to producers later this fall on www.sheepcentral.ca once 2010 analysis is complete.

Your feedback is essential!

This forum will only be successful if everyone weighs in with their own perspectives from their place in the industry. Tell us:

- What you think about "Points of View"
- If you had a strong reaction – either good or bad – to the first feature editorial
- 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

What's in it for you? Most people don't often get a chance to have their opinion heard. This is yours. Use it to help make an impact on the future of our business. **Send your comments, suggestions and questions to pointsofview@cansheep.ca or call CSF at 519-824-6018 or 1-888-684-7739.**

In the next issue...

Myth: Requirements for the voluntary Scrapie Flock Certification Program (SFCP) are optional.

While the SFCP program is voluntary, once a producer commits to the program they must complete mandatory requirements to maintain enrolment. These mandatory requirements ensure both the integrity and the effectiveness of the program.

- Are you on the voluntary SFCP program?
- Have you considered joining the program?
- How difficult is it to meet the SFCP program requirements? How significant is the commitment for your operation?
- What would make the program more appealing for your operation?

Please send your comments to pointsofview@cansheep.ca, or contact Barbara Caswell directly at 1-888-684-7739 or barbara@cansheep.ca.