

## Section 1

# BUSINESS

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## I'm thinking about going into sheep, what must I consider?

- You must look at it as a business. Remember if there is no profit, then it is not a business, it is an expensive hobby. Here are some questions you need to answer to be successful:
- What are your goals?
- Do you have the required capital for starting the enterprise you have chosen?
- What is your business strategy?
  - Identify a business vision and purpose; complete a strengths/weaknesses/opportunities/threats (SWOT) analysis.
  - Identify specific, measurable, achievable, realistic timeframe goals for the farm business and family.
  - Determine what type of production unit you are looking to operate:
    - Intensive
    - Semi-confinement
    - Grass-based (i.e. range)
    - Cottage (i.e. production for a very defined market on a limited basis, farm gate meat sales, wool products, etc.)
    - Organic
  - Resources you might find useful include:
    - Farm Business Management Council  
<http://www.farmcentre.com>
    - Farm Credit Canada – Prepare your Business Plan  
[http://www.fcc-fac.ca/en/learningcentre/business\\_plan\\_e.asp](http://www.fcc-fac.ca/en/learningcentre/business_plan_e.asp)
    - CIBC – Farm Business Planning Guides  
<http://www.cibc.com/ca/small-business/article-tools/farm-biz-planning-guides.html>
    - Farm Start – Ready to Farm?  
<http://www.farmstart.ca/ready-to-farm-home/farm-business-planning/>
    - British Columbia – Business Planning Guides  
[http://www.agf.gov.bc.ca/busmgmt/bus\\_guides/direct\\_guide.htm](http://www.agf.gov.bc.ca/busmgmt/bus_guides/direct_guide.htm)
    - Manitoba – Analyzing a Farm Business  
<http://www.gov.mb.ca/agriculture/financial/farm/pdf/farmplananalyzingafarmbusiness.pdf>
- What is your marketing strategy?
  - Marketing strategy requires the understanding of price, product, placement, and promotion of farm production in relation to the competitive environment.
  - Determine what your end market will be, know what that market requires and pays.
  - Will you be able to meet these market requirements?
  - Will this market pay enough to meet your requirements?
  - Marketing decisions can dramatically affect the profitability of your operation.



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***Your marketing plan should determine your management system, rather than management dictating your marketing decisions.***

- Your marketing strategy will influence your management practices, including:
  - Timing of breeding and lambing seasons.
  - Amount of feed required for raising lambs (pasture and/or confinement feeding).
  - Lamb weight at marketing.
- Your marketing plan should determine your management system, rather than management dictating your marketing decisions.
- Learning about your options regarding where and when to market your lambs will help you make informed decisions regarding this important aspect of your operation.
- **Do you understand your production economics?**
  - Production economics requires the understanding of the financial impact of various production decisions of a farm business.
  - This includes cost management, understanding cost of production, enterprise analysis, production strategies, environmental impacts and regulations that may impact the financial performance of the business.
- **What are your human resource needs?**
  - Human resources requires the understanding of how the organization will meet its current and future human resource needs.
  - Selection of the type of production unit needs to be considered based on human resources available.
- **Do you understand your financial management?**
  - Financial management requires the understanding of components and analysis of a typical farm financial statement.
  - Knowledge of financial management components such as net worth, production and marketing plans, cash flow, debt service, accrued income would be valuable.
  - Your bottom line – what can you do to affect it?
  - Record keeping – find a system that works for you and make decisions based on facts.
  - Managing your costs means knowing your costs.
  - Increase lambing percentages and/or your lambs marketed per ewe.
  - Is value adding an option?
- **What is your environmental strategy?**
  - Environmental strategy requires the understanding of a process and components in developing an Environmental Farm Plan.
  - Identify all the environmental concerns and possible options to mitigate any risks.
- **What is your succession plan?**
  - Succession planning requires the understanding of a process and the critical issues involved in transferring labour, management and ownership of farm assets to the next generation.
  - It requires identification of strategic actions for retirement, implementation and contingency planning.
- **What are your business structures?**
  - Business structures require the understanding of all the ownership options available and the advantages and disadvantages of each farm business structure.

- What business risk management tools are you employing?
  - Risk management requires the understanding of risk factors facing farm businesses, including how to assess the probability of risk and techniques to mitigate risk.
  - What can I do to mitigate risk? Here are some examples:
    - On-Farm Food Safety Program  
<http://www.fsfp.cansheep.ca>
    - Animal identification traceability systems  
<http://www.cansheep.ca/cms/en/Programs/CSIPProgram/CSIPProgram.aspx>
    - Insurance programs
      - Canadian Farm Insurance Corp.  
<http://www.cdnfarmins.com/insurance/livestock/>
      - Bluetongue Insurance Program  
<http://www.cansheep.ca/cms/en/Programs/BluetongueProgram/BluetongueProgram.aspx>
      - Livestock Insurance Managers  
<http://www.livestockinsurancemanagers.com/>
      - Nova Scotia Crop and Livestock Insurance Commission  
<http://www.gov.ns.ca/agri/ci/>
      - Newfoundland Livestock Insurance  
[http://www.nr.gov.nl.ca/agric/prog\\_serv/financial/liveinsur.stm](http://www.nr.gov.nl.ca/agric/prog_serv/financial/liveinsur.stm)
    - Health management programs
      - Voluntary Scrapie Flock Certification Program  
<http://www.scrapiecanada.ca>
      - Western Canadian Flock Health Program  
[http://www.absheep.com/producer\\_mgmt/flock\\_health.html](http://www.absheep.com/producer_mgmt/flock_health.html)
      - Ontario Sheep Health Program  
[http://www.uoguelph.ca/~pmenzies/OSHP\\_Home.htm](http://www.uoguelph.ca/~pmenzies/OSHP_Home.htm)
      - Biosecurity in the Sheep Flock  
<http://www.omafra.gov.on.ca/english/livestock/sheep/facts/health-biosecurity.htm>



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## Where should I market my lambs?

- There are three basic approaches for marketing lamb: through auctions; direct to buyers and/or packing plants; or directly to consumers.
- Each of these marketing strategies has advantages and disadvantages.
- A diverse marketing strategy using more than one of these approaches may help decrease the risk of having 'all of your lambs in one basket,' (i.e. if the price in one market falls).

## Are there benefits to direct marketing (i.e. selling directly to the packer)?

- Direct marketing provides the producer with the option of negotiating with the buyer and not selling the animals if a price is not adequate.
- Developing a long-term relationship with a reliable buyer is ideal for both parties.
- Over time the producer is able to adjust his/her management to consistently produce the type of lamb the buyer requires.
- The producer receives a relatively predictable price and may be able to negotiate a premium for providing the buyer with animals of a known quality.
- However, succeeding with this marketing option may require a great deal of time, effort, and market knowledge on the part of the producer. Keeping an eye on sales barn prices during the time of the year when you are selling will help ensure you are receiving a fair price for your animals.
- Finding out as much as you can about the buyer, including asking for a credit check, may prevent problems with future payment.
- Know what your rights are with regard to the timing of payment and when it is appropriate to file a complaint.



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## What is the difference between live weight vs. dressed weight?

- When selling lambs directly to a buyer, you may have the option of being paid either on a live animal (i.e. live weight) or dressed carcass basis (i.e. dressed weight).
- With the auction system, you will always be paid based on live weight on the day of the sale and paid accordingly.
- Live weight, when selling to a buyer, is generally based on the weight of the animal as it crosses the scale at the abattoir or processing plant.
- Once the animals have left your possession (i.e. they are picked up from your farm or you deliver them to the plant), you have no control over how they are handled before slaughter.
- Animals may be held for a day or more before being killed, which may lead to significant 'shrink.'
- Shrink is the change in live weight that occurs during transport and holding before slaughter, if animals are not given full access to feed and/or water.
- This change includes the loss of gut fill and (generally after 24 hours) moisture and nutrients from carcass tissue. This change can be 35% of the total carcass weight or higher in some cases. You may wish to discuss applying a shrink calculation to the sale price to compensate for this loss.
- Although they may not be accepted as the 'official' sale weight, it is also a good idea to weigh animals on your farm before shipping, to cross reference with the weights at slaughter.
- When lambs are sold on a live weight basis, the buyer estimates what the yield and quality of the carcass will be and accepts the risk of being wrong.



*Be sure to ask about the details of how the carcass will be graded and dressed before agreeing to a price.*

- Alternatively, dressed weight (or rail grade) price is based on the actual carcass weight and grade.
- Complexity of the grading system may vary considerably depending on the buyer – from measurements for fat depth and muscling, to a visual assessment, to not being performed at all.
- Carcass weight generally ranges between 48 and 54% of the live weight, depending on animal age, finish (fat cover), and how the carcass was dressed (i.e. head on/off, organs in/out).
- Carcass dressing methods vary depending on the market requirements (e.g. some retailers may require that the head is left on and organs included, etc.).
- Be sure to ask about the details of how the carcass will be graded and dressed before agreeing to a price. As only the carcass, not including the digestive system, is weighed, no shrink calculation enters into rail grade pricing.
- If the animals are left without feed and water to the point that the body is absorbing moisture from the carcass (causing tissue shrink), the producer is not compensated for this loss.

## What should I consider if selling direct to consumers?

- You may sell a portion or an entire lamb crop directly off-farm, one animal at a time, as ‘freezer lamb.’ This involves developing your own client base and can be a good way to diversify your market.
- It eliminates the cost of the ‘middleman’ and may allow you to realize more return on your product.
- Since you negotiate the price, you should be able to avoid the price fluctuations of the open market.
- Provided you’ve done a good job of establishing a solid client base, you will have a steady market for at least some of your lambs if auction prices fall.
- However, this method can be time consuming, as you may need to deal with many individual clients interested in buying only a single animal.
- Individuals may have very different preferences, requiring the producer to have a wide variety of animals available.
- In most cases, producers incur the cost of slaughter and butchering.
- Producers may have to spend a considerable amount of time promoting their product and developing their client base.

## When should I market my lambs?

- Lamb price fluctuates throughout the year and from year to year.
- Before you decide when to market your lambs, it is important to learn as much as possible about typical price patterns and what to expect when marketing lambs of different weights.
- You may wish to market lambs at different stages to take advantage of various marketing opportunities, rather than relying on a single market for one weight range.



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## What are the lamb market cycles?

- **Long-term cycles:**
  - Tend to last for several years and continue to repeat the same pattern over a long period.
  - Changes in price trends (either up or down) are due to changes in product volume, feed availability and cost (partially dependent on weather), international and interprovincial trade activities, and the overall state of the economy.
  - The lamb market is based on free market trade and is not controlled by a marketing board or quota system.
- **Seasonal cycles:**
  - To a certain extent, prices in all livestock markets tend to follow seasonal patterns and conform to the pattern every year.
  - Seasonality in price occurs as a result of the interaction of consumer demand and the supply of the product.
  - Fluctuations in consumer demand for lamb are largely based on cultural traditions, from religious celebrations to more recent rituals, such as barbeque season.
  - On a seasonal basis, changes in product supply are due to sheep biology and the prevalence of various management practices, such as out-of-season breeding.
  - The influence of supply and demand lead to distinct seasonal price patterns in each of the lamb weight groups.
- **Market data:**
  - To gain a clearer picture of the changes that occur during the year, it is advantageous to look at market data from past years.
  - For links to a number of different market information sources, see: <http://www.cansheep.ca/cms/en/Resources/Markets/Markets.aspx>



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## Does sheep biology impact the markets?

- Traditional fluctuations in the supply of lamb throughout the year are, in part, due to the seasonal nature of sheep reproduction.
- Left to their own inclinations, sheep will breed during the shortening-day lengths of the fall and lamb in mid to late spring.

- The supply of lamb, therefore, tends to increase after mid-June and peaks in August and September.
- The price paid is influenced by the availability of the product, and the time of peak supply generally corresponds with the lowest prices.

## What is the impact of holidays and ethnic markets on lamb prices?

- Lamb holds a significant meaning in the observances of many major religions, and lamb and mutton are dietary staples in many countries.
- As ethnic diversity increases, the traditional patterns of supply and demand for lamb may change. As such, there is substantial advantage in learning about the type of lambs preferred for these markets.
- Lamb is a traditional dish for many important events and celebrations. As well as the holidays listed below, demand for lamb may increase before the summer long weekends and prior to various other ethnic observances.
  - **Western or Roman Easter:** Lambs should be freshly weaned (milk fed) and not older than three months of age. Numbers of lambs less than 65 lb begin to increase approximately three weeks before Easter, and peaks during the week before Easter.
  - **Eastern or Greek Orthodox Easter:** Generally speaking, the same type of lamb preferred for Western Easter is preferred for Orthodox Easter. Orthodox Easter very often falls on the same day or within a week of Western Easter, making it difficult to determine demand and supply patterns from past data.
  - **Passover:** An eight-day Jewish observance, which generally falls in close proximity to Easter.
  - **Christmas:** Lambs preferred for the Christmas market are similar to those preferred for Easter (i.e. light weight and milk fed). Out-of-season breeding is required to produce the favoured type of lamb for this market.
  - **Ramadan:** Ramadan is the Islamic holy month. Lambs can be either male (castrated or intact) or female, and not older than one year of age. Preferred lambs are between 60 to 80 lbs live weight and not overly fat.
  - **Id al Fitr:** Id al Fitr is the festival of breaking of the Ramadan fast, and occurs at the end of the month of Ramadan. Generally, the same type of lamb is preferred as for Ramadan.
  - **Id al Adha:** The festival of sacrifice is one of the most important observances in the Islamic faith. Lambs should be under one year of age and be unblemished. In some cases, wethers and lambs with docked tails may not be acceptable. This observance may also be referred to as Qurbani.



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## What should market lambs look like?

- Different markets favour lambs of different weights.
- Buying a scale and monitoring lambs on-farm will help ensure your lambs are fitting into the desired category.
- The amount of finish (fatness) will depend, to some extent, on the age of the lambs.
- Generally speaking, market lambs should have a good fat cover, but not be overly fat (condition score of ~2.5).
- Condition scoring and modifying your feed schedule accordingly will help finish lambs properly.
- Be aware that some breeds will mature at different weights. If you wish to market heavy lambs, breeds with light adult weights may mature and be over-finished (too fat) before they reach the desired weight.
- Buyers will be much more likely to pay a good price for lambs that look healthy and clean.
- Some ethnic markets require 'unblemished' lambs, referring to the lack of marks, injuries, or other faults.
- Many buyers prefer shorn animals with docked tails.
- Shorn animals are easier for buyers to visually assess for quality (e.g. muscling, fat cover, etc.).
- As well, shorn animals take up less room during transport.
- There is less chance of carcass contamination during slaughter by bacteria from soiled fleece if the animals have been shorn and the tails are docked.
- When marketing older lambs, castration may help decrease bruising from animals fighting.
- Generally, however, lambs will be marketed before they become sexually mature and some producers prefer to leave them intact.
- Certain ethnic markets favour ram lambs.
- If you are selling a number of animals, try to have the group as uniform as possible.
- Buyers are often looking for a specific type of animal.
- If your animals are similar in appearance, they may go for a better price than if the buyer has to pick and choose the preferred animals.
- Maintain records regarding the use of medication and double-check that animals being shipped to market have met the recommended withdrawal dates for all medications.



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### ***Evaluating Farm Resources and Sheep Production Systems***

Delma Kennedy, Ontario Ministry of Agriculture, Food and Rural Affairs, 2009  
<http://www.omafra.gov.on.ca/english/livestock/sheep/facts/evaluate.htm>

### ***Manitoba Sheep Industry Initiative***

Manitoba Sheep Association  
<http://www.mbsheep.ca/mb-sheep-industry-initiative/>

### ***Getting Started in Sheep***

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