

Sheep Profit\$

Agdex FS430/821-1

... profit planning tools for an Alberta ewe-feeder & market lamb enterprise

Business Summary

This factsheet provides economic information on establishing and operating a ewe-feeder and market lamb enterprises. This information was generated by a group of sheep producers who arrived at a consensus on investment, production, costs and revenues.

This operation consists of 310 ewes located in North Central Alberta. It is considered to be of commercial size, but not large enough to be the sole income of the operator.

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

Production Targets

Lambs weaned per ewe	1.35
Animal Unit Months ¹ (AUM) per acre	3.72

Ewes are lambing on pasture in May to minimize the labour requirement. Lambs are weaned in late summer or early autumn to be transferred to a feedlot for finishing.

Sheep must have access to an adequate supply of water, with attention to the special needs of lactating ewes, feedlot lambs and sheep in hot weather.

Financial Benchmarks

Total investment per ewe	\$ 543
Break even feeder lamb prices to cover:	
Direct costs	\$ 1.25/lb
Direct & indirect costs	\$ 1.77/lb
Economic costs	\$ 1.87/lb
Break even market lamb prices to cover:	
Direct costs	\$ 0.84/lb
Direct & indirect costs	\$ 0.88/lb
Economic costs	\$ 0.89/lb

Capital Investment

This investment reflects developed enterprises and *is not intended as startup venture.*

	No.	Value	Investment
<u>Livestock</u>			
Bred ewes	250	\$125	\$30,000
Breeding rams	8	\$200	\$ 1,600
Bred ewe-lambs	60	\$125	\$ 7,500
Replacement ewe-lambs	0	\$120	\$ 0
Guard/stock dogs	4	\$500	\$ 2,000
<i>Total Livestock</i>			<u>\$41,100</u>
Buildings and improvements			\$29,580
Machinery & equipment			\$13,680
Land (100 ac pasture + 5 ac site @ \$800/ac)			\$ 84,000
Total Investment			\$168,360

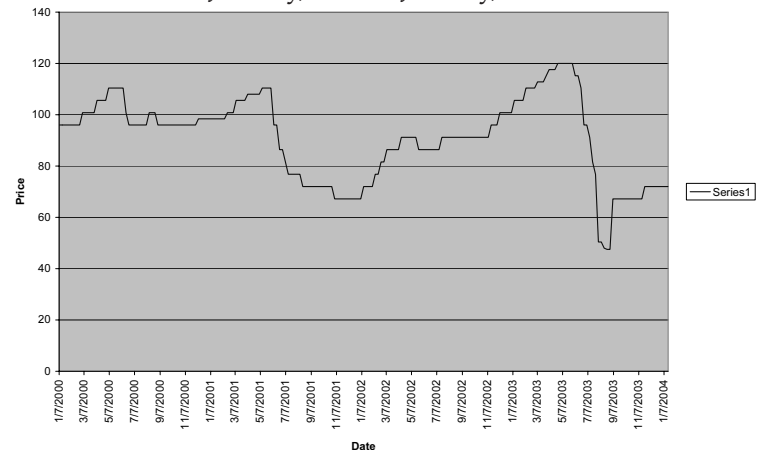
Market Factors

Alberta producers have four alternatives to choose from when they sell slaughter lambs:

- sell direct to a meat packer
- sell to custom buyers or agents
- sell through a local auction market
- farm gate sales to consumer

The relationship between finished lamb prices in Alberta, Eastern Canada and the U.S. is constantly changing. Producers need to constantly assess potential benefits of shipping lambs into distant markets.

Finished Lambs — 95 to 115 lbs. — Edmonton
January, 2000 to January, 2004



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Snapshot Enterprise Budget

Sheep/Feeder Lamb Enterprise — 310 Ewes

Projected Revenues	No.	Price	Revenues	Your Snapshot
Feeder ewe-lambs	143	\$64.00	\$ 9,152	_____
Feeder ram-lambs	202	\$64.00	\$ 12,928	_____
Cull ewes	50	\$12.00	\$ 600	_____
Cull rams	2	\$14.00	\$ 28	_____
Mature Market Animal Inventory Program			\$ 1,331	_____
Wool sales	2,400	\$ 0.50/lb.	\$ 1,200	_____
Total Projected Revenues			\$ 25,239	_____
Projected Direct Costs				
Feed costs				
Hay			\$ 9,975	_____
Grain			\$ 2,605	_____
Salt & mineral			\$ 1,709	_____
Milk replacer			\$ 105	_____
Total Feed Costs			\$ 14,394	_____
Bedding			\$ 249	_____
Pasture (372 AUM's @ \$20.00/AUM)			\$ 7,448	_____
Livestock purchases				
Breeding rams (3 head @ \$400/head)			\$ 1,200	_____
Veterinary & medicine			\$ 1,735	_____
Trucking & marketing			\$ 1,625	_____
Machinery operating & repair			\$ 1,585	_____
Building operating & repair			\$ 1,549	_____
Custom work & miscellaneous			\$ 3,536	_____
Operating interest ²			\$ 1,245	_____
Other Direct Costs			\$ 20,172	_____
Total Direct Costs			\$ 34,566	_____
Return Over Direct Costs			(\$ 9,328)	_____
Projected Indirect Costs				
Taxes, licences & insurance			\$ 313	_____
Operator labour ³ (986 hours @ \$12.30/hour)			\$ 12,122	_____
Depreciation ⁴			\$ 1,796	_____
Total Projected Indirect Costs			\$ 14,231	_____
Total Projected Direct & Indirect Costs			\$ 48,797	_____
Gross Operating Profit			(\$ 23,558)	_____
Interest on Investment⁵				
Breeding Stock			\$ 2,055	_____
Improvements & equipment			\$ 727	_____
Land			\$ 100	_____
Total Interest on Investment			\$ 2,882	_____
Total Projected Economic Costs			\$ 51,678	_____
Return To Management⁶			(\$ 26,440)	_____

Feeding Program

	lbs./head/day	head	days on feed	\$ per tonne	Total Cost
Hay	5.0	308	210	\$ 68.00	\$ 9,975
Barley	0.8	308	210	\$ 111.00	\$ 2,605
Salt & mineral (breeding)	0.05	308	210	\$ 670.00	\$ 984
Salt & mineral (pasture)	0.05	308	155	\$ 670.00	\$ 725

Snapshot Enterprise Budget

Market Lamb Finishing Enterprise — 310 Ewes

Projected Revenues	No.	Price	Revenues	Your Snapshot
Market lambs	340	\$.69/lb.@110lbs.	\$ 25,806	_____
Slaughter Market Adjustment Program			\$ 6,800	_____
Total Projected Revenues			\$32,606	_____
Projected Direct Costs				
Feed costs				
Hay			\$ 532	_____
Grains/rations			\$ 5,986	_____
Total Feed Costs			\$ 6,518	_____
Pasture			\$ 0	_____
Feeder lamb purchases			\$22,080	_____
Veterinary & medicine costs			\$ 0	_____
Trucking & marketing			\$ 1,465	_____
Machinery operating & repair			\$ 187	_____
Building operating & repair			\$ 188	_____
Custom work & miscellaneous			\$ 185	_____
Feeder interest ⁷			\$ 552	_____
Operating interest ²			\$ 331	_____
Other Direct Costs			\$24,988	_____
Total Projected Direct Costs			\$31,506	_____
Return Over Direct Costs			\$ 1,100	_____
Projected Indirect Costs				
Taxes, licences & insurance			\$ 111	_____
Operator labour ³			\$ 308	_____
Depreciation ⁴			\$ 859	_____
Total Projected Indirect Costs			\$ 1,278	_____
Total Direct & Indirect Costs			\$32,784	_____
Gross Operating Profit			(\$ 178)	_____
Interest on Investment⁵				
Improvements & equipment			\$ 422	_____
Land			\$ 100	_____
Total Interest on Investment			\$ 522	_____
Total Projected Economic Costs			\$33,306	_____
Return To Management⁶			(\$ 700)	_____

Notes:

- Feeder stock interest charges and feeder lamb purchases are included as if this were a **stand alone enterprise**. These costs would be excluded when looking at the whole farm operation.
- On a whole farm basis, returns for the market lamb finishing enterprise are as follows:

Gross Operating Profit	\$ 22,454
Return To Management	\$ 21,932

Feeding Program

	lbs./head/day	head	days on feed	\$ per tonne	Total Cost
Hay	1.0	345	50	\$ 68.00	\$ 532
Ration (16%)	3.0	345	50	\$ 255.00	\$ 5,986

Sensitivity Analysis

The profitability of a sheep operation is strongly influenced by market prices and lambs weaned per ewe.

The table below shows the changes to gross operating profit as market prices for feeder lambs, cull stock and wool prices vary.

Change in Market Prices	Return Over Direct Costs
+ 10%	\$ 3,035
0%	(\$ 541)
- 10%	(\$ 4,118)

The number of lambs weaned per ewe will have a significant impact on the profitability of the operation. The table below shows the change to gross operating profit with different weaning rates.

Lambs Weaned Per Ewe	Return Over Direct Costs
	Feeder
2.25	\$6,814
1.35 (average)	(\$9,328)
1.0	(\$15,485)

Definitions

¹Animal Unit Month (AUM). The amount of feed consumed by one animal per month.

²Interest on operating: The interest on an operating loan, estimated at 7.75% for 6 months.

³Operator labour: Labour contributed by the owner-operator, valued at \$10/hour. Not a cash cost.

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 5% on all asset categories.

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

⁷Feeder interest. The interest cost of purchasing feeder lambs. Calculated at 5% for 6 months.

Risk Factors

Individual operators must address the following risk factors:

- predators
- market conditions
- disease management
- weather conditions especially during lambing

Management Strategies

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

- Predator control is a major factor in a sheep operation, especially one that lambs on pasture. Predation can be minimized with good livestock husbandry, two well-trained guard dogs and electric fencing.
- A nine-wire high tensile electrified perimeter fence and crossfencing is necessary to accomodate intensive grazing management.
- Sheep require shelter from the extremes of weather. This may be as simple as a shelterbelt or a windbreak. If a building is used, it must be clean, well ventilated and sanitary.

For more information, contact:

Alberta Sheep & Wool Commission

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Alberta Agriculture, Food and Rural Development

Contact the Ag-Info Centre at 1-866-882-7677
or visit our website at <http://www.agric.gov.ab.ca>

Publications

The Western Canadian Sheep Production Manual

Cost: \$10 + GST

Available from The Alberta Sheep & Wool Commission

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