



PLANNING FOR PROFIT



Province of British Columbia
Ministry of Agriculture, Fisheries and Food

One Hundred Ewes Direct Marketed Lambs Lower Fraser Valley Spring 1995

Agdex 430 - 810

Introduction

The planning process provides producers with the opportunity to look at their operation as a group of distinct enterprises. Alternative enterprises should be evaluated on the basis of **Contribution Margin**, taking into consideration resource constraints, market opportunity, risk and uncertainty.

The **Contribution Margin** must provide funds for interest, overhead and other indirect expenses as well as a return for living expenses, loan repayment and investment. These items should be included in the overall farm plan which will include a **Projected Income Statement** and **Projected Cash Flow Statement**.

Key Factors Affecting Profit

	Target
Weaning Percentage	185%
Price (cut & wrapped)	\$3.50 - \$3.75/lb.

High lambing percentages combined with low lamb and ewe mortality are essential for profitability in this industry. Good management should include not only careful selection and breeding but also good quality feed and a proper health and disease prevention program.

Optimum forage production capabilities in the Lower Fraser Valley are 6 tons D.M. per acre. This Contribution Margin is based on a total forage production (hay and pasture) of 4 1/2 tons per acre. Opportunities exist in the sheep industry to increase forage production and increase yields and profitability.

Marketing Alternatives

Investigate and develop marketing options prior to lambing. The ethnic and the butcher shop markets are year round markets. The cut and wrap market is usually a fall market. Availability, cost and quality of butchering, seasonality, volumes and marketing time are all factors to consider.

Cash Flow Timing

	J	F	M	A	M	J	J	A	S	O	N	D
%Inc							25	25	25	25		
%Exp	10	10	15	5	15	5	15	15	15	15		

The above information indicates the timing of monthly flow of funds included in the contribution margin only. A complete **Projected Cash Flow** should include indirect expenses, capital sales and purchases, loans and personal expenses.

Rules of Thumb

Investment	\$650 - 700/ewe
Direct Expense % of Income	40% - 50%

The above indicators are provided for comparison purposes. They are set out as potential targets for sheep production.

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DIRECT MARKETED LAMBS

Target Weaning Percentage - 185 %

Contribution Margin for 100 Ewes Lower Fraser Valley

Income	Head	Avg. Wt.	Price/Lb./Hd	Total
Wethers	93	50	\$3.50	\$16,275
Ewe Lambs	72	45	3.50	11,340
Cull Ewes	15	1	30.00	450
Cull Rams	1	1	60.00	60
Wool Sales	103	5.0	.40	206
Total Income				\$28,331

Direct Expenses	Head	Input	Price /Unit	Expense
Hay: Ewes	100	.23 tons	\$60.00	\$1,380
Rams	3	.35 tons	60.00	62
Pasture*: Ewes	95	.63 tons	15.00	891
Rams	3	.75 tons	15.00	34
Lambs	185	.25 tons	15.00	694
Barley: Ewes	100	42 kg	.16	685
Creep Feed	190	8 kg	.25	399
Milk Replacer	6	10.5 kg	3.00	189
Dog Food	1	183 kg	2.00	365
Minerals & Salt				295
Ram Purchase	1	1	300	300
Shearing	103	1	3.00	309
Vet & Medicine	103	1	7.00	721
Vet & Medicine	185	1	3.50	648
Fuel, Oil & Lube				200
Machinery Oper.				225
Fr. & Trucking	16	60 km	.12	115
Butchering Charges	165	1	37.00	6,105
Total Direct Expenses				\$13,615

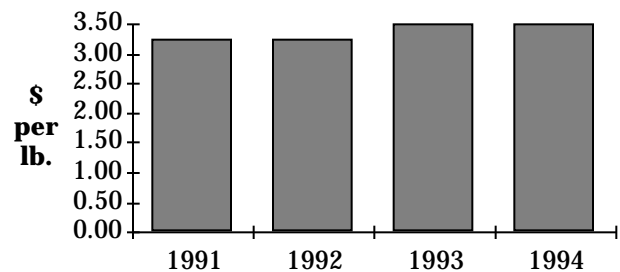
Contribution Margin **\$14,716**

*250 days on pasture equivalent to 5, 6 and 2 lbs./day for ewes, rams and lambs respectively.

Herd, Buildings and Machinery Replacement Cost Total Farm Size - 25 Acres

Ewes and Rams	\$10,900
Buildings	5,000
Power Machinery	15,000
Field Machinery	20,000
Vehicle	<u>18,000</u>
Total	\$68,900

Direct Market Lamb Prices



Contribution Margin - Sensitivity Analysis

The table below lists the changes to contribution margin as quantity of yield changes and price received varies.

PRICE \$/lb.	Weaning Percentage			
	165%	175%	185%	195%
2.50	5,344	6,085	6,826	7,567
3.00	8,814	9,793	10,771	11,749
3.50	12,284	13,500	<u>14,716</u>	15,932
4.00	15,754	17,208	18,661	20,114

This information is provided as a guideline only. Target yield indicates above average production. An individual crop plan should be developed by each producer. Planning forms may be obtained from your local office of the B. C. Ministry of Agriculture, Fisheries and Food.