



The Changing Economics of Sheep Production : How R&D Can Help

Of all agricultural sectors, sheep could have the greatest potential for profit improvement. This is partly because lamb production is a one year cycle, capital tied up in the business is relatively low – lower requirement for machinery but higher labour requirement - and because the full potential of advances in breeding and disease management have yet to be fully exploited. It is also just about the only sector where new entrants with limited capital could start to earn a living, provided that they can acquire grazing at reasonable cost and have the necessary stockmanship skills. Likewise established farmers who can find similar low cost grazing have potential to expand by developing easy keep management skills and by using portable handling equipment.

Successful farmers need to marry stockmanship skills with the ability to pick up new ideas and put these into practice, which is what today's "Success through Knowledge" event is all about. It is vital that our research organisations come up with new ideas or techniques that can be tested by early adopters and with involvement from organisations like SAC to help move the industry forward. These gains will be a case of 10% improvement here and 5% there – each one a small gain that taken cumulatively over a longer period make a significant difference to profit. The importance of taking a day off the farm to pick up fresh ideas, at an event like this, a Sheep Group, a Monitor Farm, a farm walk or an evening meeting must not be underestimated.

Economics of sheep production

Performance figures taken to net margin level, gross margin less an allocation of fixed costs, show a very different story for the lowground/upland and hill sheep

sectors. Before looking at the figures it is wise to point out that:

- Figures exclude LFASS and environmental payments.
- Net margin includes allowance for all fixed costs (employed labour, power and machinery, property expenses, general expenses and rent and interest payments) but excludes any allowance for other expenses – personal drawings, taxation payments, loan repayment and cash required for re-investment in the business. Making some assumptions – that £30,000 is required to cover the above, that sheep make up half of the farm enterprises – would give us an additional requirement of £30/ewe for a 500 ewe flock and £15 extra per ewe for a 1000 ewe flock.

Net margin for sheep flocks – source: QMS survey 2004 production year

Net margin excluding LFASS			
Upland flocks	Bottom third	Average	Top third
Flock size	362	545	561
Net margin inc SAPS	£7.52	£18.15	£26.72
Net margin ex SAPS	-£10.62	-£1.27	£6.40
% lambs reared	133	143	154
Av weight lambs kg	37.5	39.6	39.5
Hill flocks	Bottom third	Average	Top third
Flock size	567	692	832
Net margin inc SAPS	-£5.59	£5.52	£12.99
Net margin ex SAPS	-£26.69	-£15.53	-£8.73
% lambs reared	78	100	115

In conclusion it can be seen that in the lowground upland sector the "average" farmer can just about break even and the top third can make a positive margin (before support payments are added and the

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aforementioned private drawings, repayments and investment capital are deducted). What is clear is that there is a vast difference in performance and our aim must be to raise the bar and get more producers into current top third performance.

The hill sector paints a bleaker picture with no category able to break even without SAPS and LFASS.

Over the next few years, Single Farm Payment, which helps return the above businesses into the black, is likely to reduce through either increasing modulation or fiscal policy changes. LFASS payments, crucial to most sheep producers, are also likely to be reviewed. This is why sheep farmers must continually look for ways to improve physical and financial performance. And if prices are to be more volatile in future, make enough changes to ride out the poor years and make real money in the good years.

This is a tough challenge for the hill sheep sector, which occupies the hardest and most remote parts of Scotland, and helps maintain the social fabric of many communities. Profitability depends almost solely on lambs reared, weights and store prices, augmented by SFP, LFASS and environmental payments. Businesses with reasonable areas of inbye have scope to increase production, partly through using tups with better genetics and increasing the proportion of crossbred lambs produced. Members of sire referencing schemes have demonstrated how annual recording and selection on records has significantly improved percentage lambs reared and lamb weights. Others can access these improvements through buying in recorded rams. But will this be enough of a change to keep a farm with limited inbye rearing 80% lambs per ewe to the tup and selling store lambs, in business in the longer term?

Five years ago, those working easycare systems (better described as easy keep) were regarded as oddities in a traditional industry. Now many of the principles of easycare are becoming mainstream, as more farmers see the positive advantages of the system – selecting out problem sheep, lower feed costs and labour requirement and potential to increase flock size - that can be achieved with attention to detail and sound management.

There have been positive spin-offs for conventional sheep producers, notably in the move by a number of ram breeders away from producing stock for the show ring, towards breeding hardier tups that can pass their vigour on to their lambs, thus increasing survival rates and reducing labour at lambing. However, more use

needs to be made of maternal indices when selecting rams to breed female replacements. We also need tups whose progeny will finish quickly off grass and clover swards, leaving sufficient grazing to maintain ewes in optimum condition for tupping. And we still have considerable scope to improve performance from pasture, both in terms of management of grass heights and in fully exploiting the potential of both white and red clover – “rocket fuel for finishing lambs”. Health planning and sharpening up our approach to dealing with footrot and worm control can also pay significant dividends.

The market can play a role here too. We often see figures quoted of around 40% of lambs missing the preferred market specification. This could be reduced through improved genetics and more recorded tups being available for purchase. Better communication up and down the marketing chain would help, and abattoirs could highlight how a producers lambs compare to others. This type of benchmarking, already available to some beef producers, acts as the first step in identifying how finishing can be improved.

It is hard to know how to improve if you don't measure how you are currently performing. Evaluating your own enterprise and picking up new ideas at events like today, should be part of your annual flock maintenance programme.

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