Networking in the Sheep Industry

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The sheep business, like all of agriculture, is changing rapidly. It is becoming obvious that in order for sheep producers to continue to make a living raising sheep they must increase flock size, employ superior genetics and state of the art technology, reduce input costs, utilize sound business strategies and access a stable market price for lamb and wool. We need to start making these changes in order to remain economically competitive in the future. The sheep industry is just starting to move from a commodity to a product oriented industry. As this shift develops it will require producers to change to meet the requirements set by the rest of the market chain. If producers cannot provide the product that is required, they will not be able to compete. These changes should not be feared by producers but rather looked upon as new opportunities. The future looks very bright for producers who are willing to change to meet the new demands of the industry. Producer networking is one way producers can address the changes that need to be made to survive in the future. Likely the same old ways of doing business won't be profitable in the future.

Networking is not a new concept. Pork producers, poultry producers and other producer organizations to achieve greater profitability have used it successfully for years. The dairy, beef and sheep producers are now taking a look at how they can each apply networking concepts to capture advantages they normally couldn’t by themselves. Networking is one way sheep producers can retain or regain their competitive advantage. There are all kinds of opportunities for sheep producers to work together to accomplish their goals.

Producers are beginning to recognize they can gain from pooling resources. Several producers are looking ahead and starting to incorporate nontraditional ways of doing business. With the competitive nature of the sheep industry today, some producers have started to realize that their time is too valuable or they don’t have the expertise to do a good job of managing all areas of their sheep business. Many producers are also faced with limited access to capital, local markets, and the latest in technology or all three.

To address these problems a few producers are starting to network or develop farm business arrangements or alliances. Only producer’s imagination and innovation limit the possible arrangements. Some producers have started marketing lambs and wool together in order to obtain a more competitive price. Others are buying feed and supplies together in order to save costs. Still others are investigating, jointly building sheep facilities or looking at specializing and cooperatively producing lambs, such as one producer lambing ewes, another feeding all the lambs and another doing the maintenance and breeding of the ewe flock. Relationships between suppliers, producers, processors and retailers can and need to become less adversarial and more cooperative. As this happens, these alliances will expand to more nontraditional network groups.

Networks offer a way for producers to be more competitive. Some producers will argue that by joining a network they give up part of their independence. This is true. In a network, a producer will have to compromise. There will be times that a producer will need to agree with decisions that benefit the group more than they benefit the individual producer. The idea that producers are totally independent and their own boss may be comforting, but is it really accurate? Let’s really look at sheep production; the consumer decides whether products sell; packers determine the price; lenders control whether producers expand. By joining other sheep producers, producers may gain more
control over their sheep operation. Networking may offer producers ways to achieve goals that they could never attempt on their own. With networking, the independent nature of sheep producers is bending, not breaking. The other option is to remain totally independent at all costs. That's all right as long as producers understand what the cost might be.

**TYPES OF NETWORKS**

As we have examined and studied the networking that is occurring in other livestock species, we have found that it can be grouped into four major areas. Producers may be using one or more of these areas to network together. I would expect networking in sheep to follow along the same lines. The four major areas are:

- Group Marketing and Group Purchasing Networks
- Group Production Plans and Business Networks
- Information Networking Groups
- Group Financial Networks

**GROUP MARKETING**

Sheep producers are trying new marketing strategies to increase the price received per hundred weight and to lower their marketing costs. Group marketing is a strategy that some sheep producers are using to help attain these goals. Group marketing is not a new concept, but is gaining support throughout the industry. Concern about consolidation, integration and a lack of competitiveness is the primary driving forces behind the revival of producer marketing groups.

Sheep marketing groups fit into two broad categories; transportation oriented groups and quality oriented groups. Transportation oriented groups consist of independent sheep producers banding together primarily to market lambs or wool directly to packers and processors in semi-load lots instead of pickup and trailer load lots. Their primary objectives are to reduce transportation costs and to receive a higher price due to volume marketing. In some cases they are doing this to access a better market.

The other category of marketing groups consists of several producers organizing primarily to market a sufficient volume of similar, high quality product. These groups strive to increase prices by improving the overall quality of lambs and wool marketed, therefore increasing their quality bargaining power. Large quantities of high quality lambs or wool will often command $4 to $5 more per hundred weight than the top quoted market in the area.

As producer groups form, they cannot simply produce a product and then try to find a packer to buy that product. Groups of producers will need to be willing to produce the right product and then negotiate to sell that product with a guaranteed consistent supply. In the future packers will not be willing to wait until the last minute to see if the right product comes along. The net result of producer coordinated marketing is better quality control and better product flow.

**GROUP PURCHASING**

Purchasing groups are not a new idea. Some of these producer networks were started back in the 1950's and 60's. Purchasing groups are heavily involved in buying quantity to negotiate a lower price and cut transportation costs. These groups are buying many items in volume including feed, health supplies, ear tags, equipment, building supplies, pickups, tires, etc.

An example of such a group is one that was organized as a buying group for nutritional services. The purpose of the group was to reduce feed costs from lambing to market. The group formed to achieve the economics of scale in purchasing base mixes and formulating rations. One person is in charge of all communications with the feed manufacturer concerning feed orders and delivery of feed. This particular group also hired a nutritional consultant for ration formulation, implementing quality control and evaluation of growth performance.

**GROUP PRODUCTION PLANS AND BUSINESS ARRANGEMENTS**

This group involves producers developing a business arrangement with each other. These groups are often formed around group ownership of a phase of the production chain. Many of these are organized to supply a source of high quality breeding stock or to enable each producer to specialize in raising lambs through one of the stages of production such as breeding and maintenance of the ewe flock, lambing and finishing. These arrangements are a way for producers to expand numbers and to
do what they and their facilities do best. By cooperatively producing lambs they can produce a large quantity of lambs and put themselves in a position to negotiate an arrangement with a packer that provides them with downside price protection.

Another example is a group of producers who want to feed out lambs and capture the latest state of the art technology for lambing ewes. To accomplish this they jointly build state of the art lambing facilities, hire a person to lamb multiple groups of ewes through the facility. They finish the lambs at home to them on each of their farms. The advantage of this arrangement is that they collectively can produce a large quantity of high quality lamb. This gives them a marketing and cost of production advantage over other producers plus enables them to become larger while not consuming more of their labor or bearing the total cost of new facility construction.

**INFORMATION NETWORKING**

It is vital to have access to the latest information and technology to make good management decisions. The role of information management and technology is an increasingly important component in obtaining and maintaining a competitive advantage within a changing industry.

In the corporate business world, it is very common for a group of business executives to meet on a regular basis to discuss each other's business problems and to advise each other. Some progressive sheep producers have followed this example by forming information networks such as the Pipestone Lamb and Wool Program. These producers have organized to meet regularly to share information and learn about new technology. Members of these types of groups have found that participation in these groups can provide information that as a single operation they would not have received. These groups usually combine a variety of activities including tours, short courses, special speakers and member sharing to increase the knowledge of their members.

Access to information and the ability to effectively use the information in management decisions will be a necessity to remain competitive in the sheep industry in the future.

**GROUP FINANCIAL ARRANGEMENTS**

Access to capital is one of the main factors that limit the application of new technology for many producers in the sheep industry. The capital may be available but it is not easily obtained through traditional means. Groups are now starting to form to take advantage of combined capital. Examples of this, in the swine industry, are groups of producers combining assets to build off site farrowing and nursery facilities. These groups are utilizing the three-site production concept, without having to shoulder all the risk and capital investment.

Another example involved two producers wanting to expand, but neither could obtain enough capital. By working together one added more gestating and farrowing facilities while the other added more nursery and finishing facilities. Each entered into a contract with the other for the length of financing (7 years). One is supplying the feeder pigs for the other to finish out. When the debt is paid off, they have the option of parting company and each individual adding these facilities to the rest of their operation or continuing the current contract. With this arrangement both diminished the capital required for expansion and both improved their current balance sheet.

As existing producers continue to expand, young producers enter the business, or producers reach for new technology, more unique financial arrangements will begin to form in the sheep business.

**FORMATION OF NETWORKING GROUPS**

Before a producer forms or joins a network, they need to review the advantages and disadvantages. First, a network should allow a producer to do or acquire something that they could not do on their own. By joining a network, a producer must gain competitive advantage that they did not have before or there is no reason to be a part of a network. Whether it is group production, quality-based marketing, information groups, etc., it must add competitiveness to the producers operation.

As producers look at this concept, they must look at big-ticket items that affect the costs of production or income. Producers need to be aware of costs involved in their operation. By forming networks you must concentrate on how
to reduce costs and increase income. Either way, the end result is more net income and a more competitive position. If belonging to a network allows a producer to decrease their feed costs by 15% or improve the market price received for their lambs or wool resulting in more net income, these are real advantages.

Another advantage of networking is it can allow the producer to concentrate on specific phases of their operation. In a group-marketing network, the producer does not have to worry about calling to receive the best price for their lambs. Someone is doing that for them. In a purchasing network, someone else is pricing your inputs. If the group is producing their own replacement ewes, time is no longer required in developing special breeding programs and selecting females. This frees up producer time, which allows them to concentrate on other phases of their operation.

Networking can open up avenues for acquiring information that would not be available to many producers. As producers share information within a group, new knowledge changes hands. Just getting together to share information within the group will give competitive advantages to the members. Regardless of the type of network a producer is considering, they should not underestimate the benefits of sharing information. A producer can gain access to records, computer programs and consultants that otherwise might not be available.

Despite the many advantages, networks do have limitations. It's not easy to ensure all members are committed equally to the same goal. Formal business procedures are very important and these may intimidate some people. Most groups rely on joint responsibilities, which can be a problem. After joining a group, producers may lose access to some markets and suppliers that they have used in the past. There will be times that a producer's obligation to a group may be a burden. A decision that is good for the group may not always be the best decision for a member. In some groups, its members require a financial commitment. A producer must be sure they can handle the commitment. In addition, a producer must be aware that the financial status of other members may affect their profits.

Forming the network can be the most difficult part. To develop a network that lasts requires good leadership. The leadership of the group is one of the most important considerations for success. This leadership can come from within the group, but many times it works better if it comes from outside of the group. Regardless, the leader needs to be someone the group believes in and respects.

Selecting members of the group will help determine the group's success. Forming a network with the right people is essential. Some people will not be very comfortable in a networking situation. These people should not be involved. In order to function in a group, a producer must be a team player. Egos must be left at the door. Group members must realize that there may be a social cost in joining a network. Neighbors and businesses in the area may take a dim view of the new "big guys" in the area.

CONCLUSION

Building networking relationships with others that give producers an advantage may be the factor that determines long-term strength in the sheep business. Change in agriculture is coming fast, creating a very different operating environment. The change is forcing every agricultural entity to look hard at its purpose, structure and approach to the market place.

By effectively planning and addressing the industry challenges, producers will need to make the necessary changes to survive in the future. Producers must let go of unrealistic fantasies. Part of getting an operation on track is letting go of what could or should have been and paying attention and committing to what really is.

Networking is not the only solution. Some of the networks will work and some will not. The people involved, the commitment, the organization and outside forces will all play huge roles in whether a network will succeed. Networks do nothing more than offer a way for producers to compete.

Networking is not the solution, but a solution to remain competitive in a changing industry.

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