ARE SHEEP IN THE FUTURE OF COMMERCIAL AGRICULTURE IN THE MIDWEST?

Clark BreDahl, Producer
Greenfield, Iowa

The temptation is there to open my remarks today by admitting to you folks that even though I’m a lot further than 50 miles from home, I’m sure not an expert on the sheep business, just a farmer wading through the peaks and valleys of production agriculture just like the rest of you - one whose biggest claim to fame may actually be as an “industry observer.” And in Iowa, industry observers usually share a place of distinction right next to ag economists, if there’s an extra jail cell available...

My crystal ball is probably no better than yours and my opinion is worth about what you paid for it today. But in fairness to Dave Thomas, who is paying for it today, I feel obligated to proceed with a full load of opinion regarding where our industry has been, where I see it now, and from there, let you draw your own conclusions as to where the future might lead.

It took some convincing from my wife to get me to say what I’m going to say next. But confession is good for the soul, and this may help focus your attention on the fact that things are changing at warp speed in the sheep business, and if we don’t collectively grab the rudder pretty soon, as an industry we may be history.

My big confession is this: Right now back home at Mormon Trail Farm, we have six sheep on the place, and those all belong to the youngest daughter who is completing her first year of 4-H! Now that may not be big news to you. But there is some significance to it. Because until this summer, there had been a sizable sheep flock at that farm continuously since the early 1950’s. I started my own flock in 1958 at the age of 10, and as recently as four years ago, our family owned a commercial flock numbering in the 100’s, a modest sized purebred flock, and fed out right at 1200 head of lambs annually. The reason I tell you this is somewhat from an obligation to honesty. But mainly I’m going to use our situation from time to time today to help illustrate my topic: “Are sheep in the future of commercial agriculture in the Midwest.”

There were reasons why we dispersed our flock, and I’ll discuss some of them as we go. But for now assume that we were just normal veteran Midwest sheep producers and also assume that just one similar producer in each county of each state decided to sell out, as we did. In Iowa’s 99 counties, that would mean a decline of approximately 30,000 head of ewes. Interestingly, that’s about what we dropped last year!

Prices have been pretty good recently and surely, you say, this has attracted new people to the industry. Yes it has. But the “average” ewe flock in the state of Iowa is around 40 head, and I would wager that the average newcomer is considerably smaller than that. Anyway, conceding the benefit of the doubt and saying that each new shepherd owned at least 40 ewes, it would take nearly eight of them to offset our departure. Did that happen? No. Is it going to happen any time soon? You tell me.

My boss at the Shepherd Magazine, Guy Flora, is a good shepherd, an intelligent businessman, and he goes to a lot more sheep meetings than I do. But the question he has asked me perhaps a dozen times over the past couple of years is this: “With dollar a pound lamb prices, Clark, why isn’t the sheep industry expanding?” The obvious explanation, as I just pointed out, is that there aren’t enough new producers entering the business to offset the larger
veterans who are exiting. Of course what Guy really was getting at with his question was the motivation behind these trends. Buck a pound fat lambs seem pretty good. Why then are established operations failing to expand, or worse yet, bailing out completely?

I haven’t had a good answer for that until recently. But a revelation came, of all places, at the high school graduation reception for a neighbor’s daughter back in May. About a half dozen men were standing around telling lies on the back porch that Sunday afternoon when the host burst through the door with this greeting, “Well, how has the world changed now that we all have time on our hands during lambing season...?” Of the six farmers present, four of them, including the host and myself, were at that moment former lamb producers. And all of them had within the past two years taken some form of employment off the farm. Bingo! I believe one of the major reasons sheep farming isn’t bouncing back in Iowa is that small to medium-sized farmers in their middle years (the ones who historically have owned most of the commercial sheep flocks in the Midwest) have discovered that they can do something else with their time.

In the job marketplace, despite dollar a pound lambs, sheep have been outbid! Of the four former sheepmen working in town, three were blue-collar employees, one white-collar. The payscale was from a low of $10.50 per hour to over $16. All wages were accompanied by a full range of benefits including paid vacation and sick leave, family health coverage, life insurance, and, in a couple of cases, retirement or profit-sharing plans.

The Sheep Flock Analysis recordbook available through Iowa State University has never been a best seller. For most producers over the years, ignorance has remained bliss. I probably have as big a collection of them as anyone outside of Ames, Iowa, including the one I filled out the first year it was available in the early eighties. After I got home from the graduation exercises that night, I pulled the 1996 records, turned on the computer, and made a quick spreadsheet to help me with some “what-ifs.” Last year paying ourselves $7.00 per hour, our break-even price for lambs grown from birth to market at Mormon Trail Farm was 78 cents. “What-if” all of our family’s labor for the ewe flock had been charged out at $10.00 per hour (less than the lowest wage of my neighbors in town)? The break-even quickly went to 86 cents. “What-if” we assessed just half the annual cost of our family’s health insurance premiums to the ewe flock? Break-even: $1.02. “What-if” we tacked on the cost of a $1,000 annual contribution to an Individual Retirement (IRA) account? Break-even: $1.10. A lot of commercial sheepmen in Iowa know intuitively what it has taken a slow learner like myself 16 years of meticulous records to discover: Dollar a pound lambs may be high from a historical perspective, but from an economic perspective they sure aren’t.

So how did we get to this point? Well, it didn’t happen over night, and it’s not all going to get corrected any time soon either. But it will never change if we don’t dig in our heels somewhere and begin.

Back in 1979 I represented Iowa at a national Sheep Industry Development (SID) meeting held in Denver, Colorado. At that meeting one of the old guard legends of the U.S. sheep industry, Ralph Grimshaw, sheep specialist from Ohio State University, stood up at the far end of a huge row of tables where 100 of the country’s staunchest sheepmen were seated, slammed his silly looking Irish shepherd’s hat on the table and shouted that nothing else we ever did would stem the tide of declining lamb consumption as long as fresh American lamb was a seasonal product. Some heads nodded in agreement, but many, especially range state representatives, merely shouted back for him to sit down and be quiet (shut up!). Well Ralph, if you’re looking down on us now from that great lambing shed in the sky, here’s to you. You nailed it.

Despite our current state of affairs in the sheep industry, there’s still nothing so wrong that a healthy sustained dose of demand wouldn’t cure. And virtually all our demand problems have resulted from a failure to address or an attempt to circumvent the seasonality of lamb. For
example: Why are most retail food chains reluctant to advertise lamb? Answer: They know they would irritate customers by not being able to supply it once it was advertised.

Why has new product development been almost non-existent with lamb? No, it’s not because we haven’t sent enough money to Denver for research. It’s because private industry will not build a business around raw materials that are in questionable supply. The oldest daughter came back recently from a youth “Speak Out For Agriculture” (SOFA) seminar in Des Moines where her group was introduced to a new pork product called the “frizzler.” They are a fabricated, batter-dipped, frozen sandwich cut marinated with either maple syrup (for breakfast) or barbecue sauce (for lunch). They are targeted at the fast food and food service industries where they can be prepared en masse in minutes. They reminded her of chicken strips only better. Her reaction: “They were yummy!”

And if you think lack of product development isn’t killing us, you should have been with our family at the Iowa State Fair two weeks ago. Never was the difference so apparent. I wish I had a real photo rather than a word picture to give you. On the second floor of the ag building right next to the world famous “butter cow” were three 10 x 10 glass enclosed coolers. One sponsored by the Iowa Pork Producers Association contained 38 different brightly pre-packaged, portion-controlled, pre-cooked or microwavable pork products. The “Other White Meat” was lookin’ good. Next was a booth sponsored by the Iowa Beef Industry Council containing 18 similar entrees. Made you kind of think beef was “What’s for Dinner.” And then there was the one sponsored by the Iowa Sheep Industry Association containing three Bavarian china plates with chunks of raw meat on them! It definitely gave you the feeling lamb was “out to lunch.” Golly, while the rest of the world is pulling away from the drive-up window at McDonald’s™, we’re still haulin’ wood to the cook stove!

Why do we almost every year run into a glut of huge, wasty carcasses that at least temporarily send the market into a tailspin? Answer: Because that’s the only plan we’ve been able to devise so far to stretch a seasonal product into a fresh year-around supply. Sadly, it’s also why retailers and food service people scream about lack of consistency in lamb. Packers have been hoisted with their own petard. In their efforts to manufacture an artificial supply, they have concocted products that are as different as night and day, all sold under identical label: from a heavily muscled, brightly colored, 60-pound carcass off a five-month old, 100 percent meat bred, farm-flock lamb to a lightly muscled, tough, “gamy” tasting 90-pound, fine-wooled yearling layered in a half-inch of fat. And of course there’s everything in between. If you’re a supermarket customer or even a white-linen diner, it’s a crap-shoot which you’ll get.

Is more money spent on promotion going to help this situation? The second law of marketing says, “advertising sells!” But common sense adds three of words of caution: “Advertising sells junk only twice.” The first time I get swindled at the meat case is your fault. The second time is mine, and there is no third time!

Speaking of advertising, where do we go now without a nationally funded promotional organization? First let me say that we had a national sheep promotion program for over 40 years and if promotion worked by itself, we would have a sheep flock in this country today of over 100 million head instead of our actual eight million. I opposed the recent national checkoff proposal and have been asked about that a few times since, but I offer no apologies. I didn’t get hung up on the size of the board, or who was going to represent whom or when or why. I said simply that it was too expensive for highly productive commercial flocks to endure and for that reason would squelch sheep expansion in the Midwest rather than encourage it. There were many features about the proposal I liked, and I’ll admit I wasn’t very comfortable with some of the company in the opposition camp, but our opposition was for very different reasons. The New Zealand Meat Board opposed the checkoff because they feared the U.S. domestic market would change. I was afraid we’d spend a ton a money, and it wouldn’t!
If a new checkoff plan can be devised that doesn’t punish expansion and productivity so harshly, I’d probably favor it. In the meantime, I have high hopes that the newly funded National Sheep Industry Improvement Center can have a positive impact as an incubator for innovation. There are so many things both production and market-wise that could be happening, but aren’t due to lack of start-up funding. NSIIC has the potential to remedy some of that.

I attended a meeting in Blacksburg, Virginia last December where a veterinarian skilled at sheep AI and embryo transplant was asked why the sheep industry wasn’t falling over itself to embrace the new technology. His reply was a real crowd silencer. He said that AI methods in sheep can produce reproductive results nearly equal to those in the beef and swine industries. “Technique is not the problem,” he said. “For AI to offer economic benefit, you have to start with sperm or eggs from highly superior animals and for the most part, we don’t have a clue where those animals are.”

Standardized records, including EPD’s, are the way to find out. Wisconsin dairymen have been using DHIA records to identify quality breeding stock and then proliferating those genetics through AI perhaps as long and as effectively as anyone in the country. I certainly hope that adequate funding can be found to preserve or expand the National Sheep Improvement Program. Even then, it’s of no value unless we use it. And the more we use it, the bigger the database and the more valuable the information. Until NSIP or some similar record system becomes the industry standard, it’s absurd to think widespread genetic progress is going to happen.

A good example is found in our failure to address one of the long-standing complaints of even our most tried and true lamb customers: Almost universally, they would like to see lamb chops bigger than the size of a half dollar. One of the tenets of value-based marketing is listening to the customer’s needs. Yet a genetic selection system still based largely on visual appraisal has given us carcasses up to twice as big as 40 years ago with a loin eye that may in fact be smaller.

There’s another interesting phenomenon happening that I think underlines the deplorable lack of information we have regarding our national sheep genetic base. In the July 1997 issue of The Shepherd magazine, I counted no less than 50 breeds represented in the breeder listing section. FIFTY! Everything from Arcotts to Icelandics to Scottish Blackface. In the September, 1972 issue there were 20. I have nothing at all against these importations, but what is it we’re looking for that can’t be found in the breeds we already have? I would submit that in many cases we’re looking overseas not because the traits don’t exist here, but because there’s simply not enough information available to find them. Unfortunately without critical standardized records, the new imports soon become an unknown quantity themselves.

How is this breed diversity affecting the product that goes in our meatcases? I don’t know. But I do know most of the hogs produced in this country come from a mere handful of breeds or their crosses, and I know a recent publication predicted the beef industry of the 21st century would be dominated by only five breeds or their composites. And I know for years virtually every broiler chicken raised anywhere in the U.S has been a Cornish cross. In an era when uniformity is paramount in the meat business, are we bucking a bit of a trend here?

So have we established a new price level for lamb at a dollar a pound? Any prediction at all is a guess. But I’d say don’t count on it. In Iowa we had market lambs selling under 80 cents for six weeks this summer. And as cattle prices ratchet upward through their cycle over the next few years, my guess is lamb will run counter to that.

One would think that as long as our supply of lamb continues stable or lower, prices should remain stable to higher. But it doesn’t always work that way. In fact it hasn’t worked that way in the sheep industry since the end of World War II. That’s when the sheep population peaked, and
since then we’ve endured the almost uninterrupted “free fall” in numbers mentioned earlier. Yet this dramatic plunge has been accompanied by cyclical price nose-dives resulting from, of all things, oversupply. How can that be?

Even though we all know dead ag economists don’t tell tales, I wish one was around now to explain this so it sounded really complex. The simple truth is demand for lamb has dropped faster than supply. Rather than sell our way through market cycles, the U.S. sheep industry since 1950 has instead offset each price decline with a breeding stock sell-off. But unlike producers in the pork and beef industries, sheepmen have steadfastly refused to rebuild during the good years. Thus the continual reduction in supply has virtually assured a reduction in demand unless (God forbid) we drastically increase the weight of our lambs, or import. As Pipestone Project coordinator and national “Blueprint for Expansion” chairman, the late Dwight Holaway, said about lamb nearly 20 years ago, “You can’t sell it if it ain’t on the shelf!”

You’ve heard the question, “How many ag economists does it take to change a light bulb?” The answer: At least four, but the light bulb has to want to change...Right now I think its way past time that the sheep industry wants to change. Let me preface my next remarks by adding that mere change is neither good nor bad. It is only different. It’s through our study of the past and our vision for the future that we determine whether change is indeed progress.

I think the U.S. sheep industry needs to grow and do it rather quickly before our antiquated infrastructure is gone and the remaining demand swallowed by imports. Having said that, from a business standpoint it still may not be a good idea for you individually, unless you know exactly how you are going to sell your product. I hope that doesn’t sound contradictory.

A few years ago, a college classmate of mine, Gary Vincent, who worked on the editorial staff at Successful Farming magazine, suggested in national print that perhaps those in the sheep industry needed to do a better job of profitably merchandising what they were already producing before growing more. It made me mad enough to fire off a letter to the editor and temporarily cancel my subscription. But in retrospect, I know he was absolutely right. By highlighting some history and challenges the sheep industry currently faces here today, my intent has been to show how, with some changes, we can accomplish that profitable merchandising he was talking about. We do have a salty hand to play right now, but that’s not the message I intend to leave you with. Matter of fact, I still have enough confidence in the sheep to bet quite a little of my own money on them.

We plan to repopulate our commercial flock, but we won’t do everything just the way we did before. The sabbatical we’ve had this past year has allowed us for the first time in our married life the luxury of taking a detached, objective look at what we’ve been doing and try to assess what was working, what wasn’t and what could be improved. In simple terms it has given us the opportunity to draw up a business plan.

In years past I used to think we all had to pull for “the industry,” and I still think that’s good. But experience has drilled into me that strong individual businesses are what make a strong industry. Do it fairly and honestly, but look out for yourself first.

The commercial sheepman sinks or swims according to pounds marketed and costs per pound. Our records have shown over the years that with the commercial ewe flock, lambing percentage marketed per ewe exposed is the most important factor influencing profitability. Ewe feed costs are the second most important, and lamb feed efficiency is third. What that says is you need to find an extremely prolific ewe who can take care of herself and a lot of lambs on not very much feed. Without getting into any breed wars, I’ll just say those two criteria narrow the selection field very quickly. And probably no single breed is going to accomplish those goals as well as an adapted crossbred. (I know you here in Wisconsin, like us in Iowa, are consistently
marketing two or more lambs per ewe per year, but I worry about all those horribly backward folks around Dumbbell County or other far off places who are marketing zero to come up with our national average of 100 percent!)

Reason number one why we decided to repopulate: We had fairly prolific ewes, but they produced a wool clip we couldn’t find a market for. And though my wife can tred a pretty mean spinning wheel, 300 fleeces was a little much for her to handle short of cutting back to two hours sleep at night. The last few years with once a year lambing we were dropping about 2.4 from these crossbreds and marketing about 2.2. We think we can do this incorporating another breed with more salable wool.

Reason number two why we decided to repopulate: flock longevity. As one of your cohorts here from Wisconsin, Peter Wood, has often said, a major unseen ewe flock cost is that of raising or acquiring replacements. Too many of our best young ewes were disappearing before the age of five for health reasons, usually spoiled udders. Our flock traced back to some Finnish Landrace ewes imported to the US Meat Animal Research Center, Clay Center, NE, back in the early 1970’s. Though it had been virtually closed for many years since except for rams, we now realize those ewes probably were our initial source of ovine progressive pneumonia (OPP). That’s not a reflection against MARC. Most of the early Finns carried it and unfortunately, many from that and other breeds still do. Though lamb pneumonia was quite rare in our flock, hard bags, limited milk supply and spoiled udders were not. The ironic twist as mentioned earlier was that frequently the most prolific ewes were the earliest victims. We know now that is typical. We’ll rebuild our flock aiming to keep OPP out. I am absolutely amazed that this disease has been allowed free roam through our industry much like its more publicized partner, scrapie. My opinion is that it is not possible for the sheep industry to co-exist with either of them. They have to go, or we will, and we’ll personally look to breeders who share that belief when we go to buy.

Feed efficiency will come mainly from the ram, so go to someone who can provide you with honest records that will help predict the performance of their animals. Beware of size in terminal cross rams. It is not interchangeable with feed efficiency nor is rate of gain, though the latter does generally show a correlation. Some get hung up with how a ram’s gain was achieved: was it on grass, a moderate grain diet, or a “hot” ration. We don’t worry about that too much as long as for evaluation purposes, the ram was compared to others on a similar diet. We do, however, want to know that he will be able to survive under our management conditions. There are many terminal cross lines hard pressed to survive on grass any more, and dead rams are a lot like ag economists: They don’t settle anything and the rendering truck won’t pick up either one.

The final reason we left the sheep business this year was a lack of acceptable market alternatives. For a long time, we had been “residual” lamb suppliers, but just didn’t realize it. I’d guess most of you fall into the same category. If you sell lambs on the open market for a spot price, you are a residual supplier. In times of strong demand, that won’t hurt you much, but when demand heads south, the packers will kill and pay for all their contracted, captive supply or formula lambs first before they show any interest in yours. That happens on a fairly regular basis when the western feedlot lambs get heavy. There have been times, the most recent being in 1993, when we couldn’t get lambs killed at any price! Any commercial sheep business plan must have some risk management alternatives spelled out in advance to avoid that kind of situation, and we’re still working on ours. But unless you plan to market all your lambs directly to the consumer, you’d better be talking to and working with some packers; finding out what they want, when they want it and get at least a tentative price range before the rams ever go in. Like it or not, I’m afraid we need to take another cue from industry where increasingly the product isn’t even made until it’s sold.

A moment ago I spoke about producing “acceptable quality” in your commercial flock. What did I mean by that? The commercial lamb market accessible through our major packing plants is
a generic one, meaning that as long as the carcasses of your lambs meet certain very minimal standards, there will be no discounts. Rest assured, though, the packer will still try to bid you the lowest price he thinks you may accept. On the other hand, if your lambs have carcass attributes above the average, few if any packers I am aware of will give you a premium. Most couldn’t even if they wanted to because no system exists to maintain carcass identity. So despite the ballyhoo over “certified” lambs a few years ago and the current rush of hot air regarding “value-based” marketing, until someone guarantees you a premium above your costs for producing a superior carcass and a fair and open way to calculate that value, don’t sacrifice anything else to get it.

The concept of value-based marketing is a good one. Producers, packers and consumers all could be better served by a system that fairly values quality. But for farmers to benefit, the plan has to be totally open to inspection and review at the packing plant. With Con-Agra, the parent company of Monfort being assessed a multi-million dollar slap on the wrist this summer for improperly grading, misweighing and adulterating midwest grain, it highlights the risk of surrendering possession of your livestock to a packing house and allowing them to arbitrarily place a non-recourse value on it. Unfortunately, dealing with the potential for cheating has to be part of your business plan, too.

As I have said many times in my column, the only way currently to get paid for quality in the commercial sheep business is to maintain ownership all the way to the consumer. Many individuals and a few co-ops are doing this. We have done some ourselves and may do more in the future. In that case, superior quality becomes your trademark, what distinguishes you from all the generics, and what allows you to ask and receive a premium. And if the perceived value difference is great enough, it is what will keep customers coming back again and again. I think retaining ownership all the way to the consumer is one of the most exciting prospects out there right now for family livestock producers regardless of the species involved. It requires a lot of marketing savvy which is foreign to most farmers and may be too expensive for them individually to buy. But if producers are willing to surrender some of their independence, small closed cooperatives may offer a solution.

In closing, let me reiterate that now is not a bad time to expand in the sheep business. In business, as in comedy, timing can be everything. I’d like to think we’ve hit bottom, bounced a couple of times and now there’s nowhere to go but up. For all the obtuse things we have done to squelch it in the last 40 years, the incredible thing is that there is still demand for lamb out there. And it will be filled. If we do our homework and draw out our business plans first, we never need fear that imports will steal our industry. If we don’t, we will hand it to them fully carved on a platter.

Thank you.