

Devil is in the detail when it comes to cutting costs

Using detailed costings is helping one Cumbrian flock cut production costs and achieve performances that rank it in the top third of UK flocks. **Jeremy Hunt** reports

DETAILED COSTINGS allow flockmasters to maximise margins irrespective of market price while maintaining a high level of performance, believes John Rowland.

Mr Rowland manages Low Becksdale, Mungrisedale, Penrith, which is one unit where costings are proving their worth in improving flock performance. The hill unit is run by Newton Rigg Campus, part of the University of Central Lancashire, and is a demonstration unit for the Northern Upland Sheep Strategy (NUSS) project.

The ESA farm, with 170ha (408 acres) of in-bye land, carries a fell flock of 315 Swaledale ewes and 300 draft Swaledales put to Blue-Faced Leicesters. This year the fell flock achieved 119% lambs reared, while the draft flock achieved 169%. Both figures rank the farm in the UK's top third for upland flock performance.

Mr Rowland believes costings are essential to business efficiency. "Outside the farm gate, producers have little influence on the price they receive for their stock, but they can influence production costs," he says.

COST-EFFECTIVE

"Using costings gives you a window on efficiency and helps produce lambs as cost-effectively as possible, leaving the maximum margin irrespective of market price."

Richard Elliott, an independent consultant working with MLC, compiled the Low Becksdale costings and

feels they have a vital role to play in improving profitability. "Although producers feel justified in getting the best possible deal on feed, the few pounds they save are often lost elsewhere by failing to monitor inputs through costings," he says.

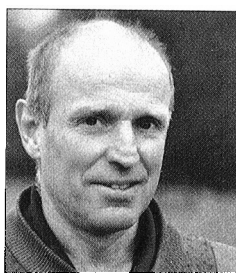
Signet breeding specialist Alison Nichol, the NUSS manager, would like to see more of the project's members introduce flock costings. "There are eight different practical management options that NUSS members can use through the project," she says. "All have the aim of improving performance, but of the 55 flocks involved, only eight have selected to have their flocks costed."

VALUATIONS

Profitability of the fell flock at Low Becksdale is largely influenced by stock valuations. All this year's wether lambs will be sold fat during the winter and 155 ewe lambs have been retained as flock replacements. Also, 93 ewes were drafted to the lowland flock and 60 ewe lambs were sold.

The draft flock - producing Mule lambs - saw 176 wether lambs sold finished and 105 ewe lambs sold for breeding; 32 lambs were sold as stores and 111 ewe lambs transferred to another lowland flock run by Newton Rigg.

The fell flock's current gross margin is £30.67/ewe - plus £13.30 Hill Farming Allowance (HFA) - while the draft flock achieved £68.73/ewe - plus £13.30 HFA.



"Using costings helps lower production costs and improves margins"
- John Rowland

FLOCK COSTINGS

- Analyse closely
- Improve efficiency
- Consider overall picture
- Identify weaknesses

"While we want to encourage more sheep producers to cost their flocks, they should avoid considering each figure in isolation," says Miss Nichol. "Other livestock sectors are good at responding to costings by making management changes, but the sheep sector is lagging behind."

"Interpreting costings is essential. Detailed assessment of the figures enables producers to identify where they can make improvements, possibly arresting rising costs in one part of the system or quickly and effectively spotting weaknesses in the business."

One of the innovations within the NUSS costings is the evaluation of what it costs to produce 1kg of lamb. "This is the driving force behind so many successful businesses," she adds. "High-fliers in industry always work to unit costs of production and this is equally critical to profitable sheep production."

At Low Becksdale, the cost of producing 1kg of lamb from the fell flock is based on sale returns of 94p/kg plus subsidy worth 77p/kg. A total income of 171p/kg set against variable costs of 80p/kg leaves a gross margin of 92p/kg.

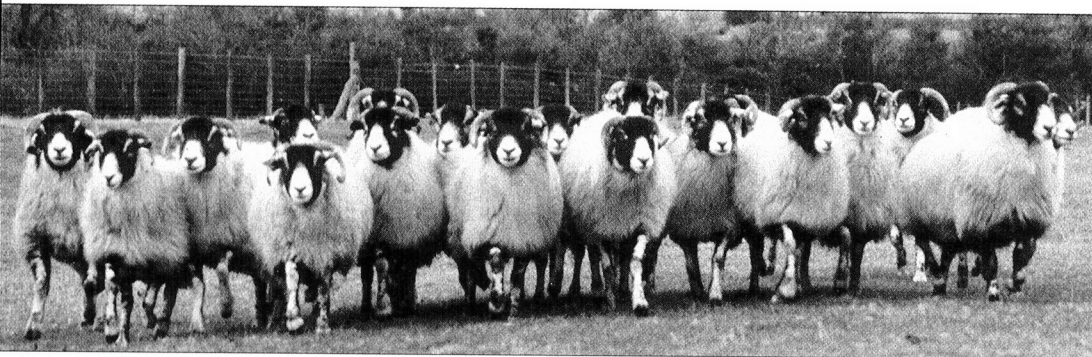
Equivalent figures for the draft flock show sale returns of 97p/kg and subsidy of 37p/kg. Variable costs were 38p/kg, leaving a gross margin of 96p/kg.

"Most flockmasters can tell you exactly what they sold their lambs for down to the last penny, but few can quantify costs of production or final margin," says Miss Nichol.

USE INFORMATION

"Paperwork concerning income and expenditure is often meticulously prepared for the accountant, but becoming more disciplined and making use of that information rather than filing it away could help improve flock profitability."

"Many sheep producers prefer to ignore the bottom-line figure. But when that's because they're concerned about low profits, it's a perfect case for introducing a costings system to identify weaknesses in the system and improve efficiency." ■



Using detailed costings is allowing Newton Rigg's draft Swaledale flock to achieve a gross margin of £68.73/ewe, while the fell flock managed £30.67/ewe.