



# Business Plan: Commercial Sheep Operation

Submitted to: Dr. Saleh Jaafar

Submitted by: Martin Schuh

Date: September 25, 2008

## Table of Contents

Executive Summary .....	2
Dorper Sheep in a Commercial Operation.....	3
Marketing & Operational Plan.....	4
Phase 1 .....	4
Phase 2 .....	5
Management, Organization, & Ownership.....	5
My Qualifications .....	5
Our Roles .....	6
Financial Assumptions.....	7
Annual Production Expenses per Lamb.....	7
Annual Income per Lamb .....	7
Annual Cash Flow Assumption .....	8
Investment Recovery Time .....	8
Credits & Contact Information .....	8

## Executive Summary

I have been producing sheep professionally for the past 8 years under the marketing name Schuh Box Lambs. During this time, Schuh Box Lambs has been operated as a partnership between me and my father, Glenn Schuh. My father provided the land and the facilities while I provided the sheep, equipment, and business management. Due to family problems, however my father has decided to terminate our partnership which has left me as the sole owner of Schuh Box Lambs.

Schuh Box Lambs has been mainly producing show lambs during this time and has improved greatly since 2001 when I started managing it professionally. Sales of show lambs have steadily grown year after year with one exception due to a problem that was quickly identified and corrected. My experience, education, and marketing techniques have allowed Schuh Box Lambs to grow and better serve customers.

Now, I am looking at expanding sheep production to include the commercial market. With a great deal of time and research, I have found that the breed of sheep ideal for a commercial sheep operation is the Dorper breed. They offer a thick, heavily muscled body that is earlier maturing. They also have the added advantage of being a hardier breed that performs well even with limited grazing resources. Furthermore, they do not require the added inconvenient expense of shearing.

The market for commercial lambs has been rising steadily for the last few years. With the introduction of the Dorper breed, more producers have switched to Dorpers to meet the demand for commercial lambs and have found it to be profitable. Although producing lambs on a large scale would increase revenues considerably, few producers have chosen to produce Dorper lambs on a large scale. The increased work load, cost, and lack of ambition to establish and maintain a large business have often been the culprits. Here is where my competitive advantage takes effect. I am willing and have the desire to produce sheep on a large scale. It has been my dream to establish a large scale sheep production operation and have focused my career towards that goal.

Now I have the opportunity to start the commercial sheep operation with your help. I am requesting that you enter into the commercial sheep operation as a financial investing partner with me. I need you to provide me with the funds to purchase ewes, rams, and facilities while also providing me with use of your land in Tarpley. The amount needed for the initial investment will total \$18,210.00. This amount will cover the cost of 100 ewes, 3 rams, and the finishing of the existing barn with a new corral system. Most of these funds are only a one time expense until we decide to grow. I, on the other hand, will provide the knowledge, experience, and business administration. I will also provide some other assets in the form of equipment and an operating loan. We will then mutually benefit by the sharing of the annual profits.

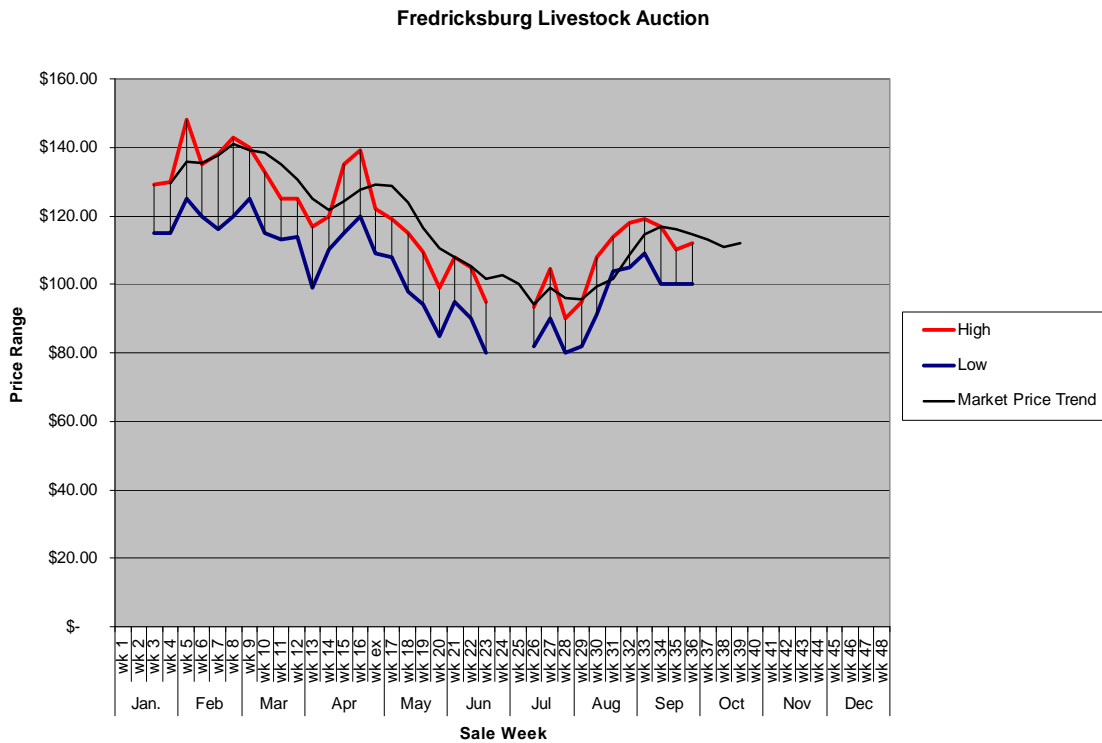
## Dorper Sheep in a Commercial Operation

The Dorper breed of sheep was developed in South Africa in the early 1940s. They were developed due to the necessity to have an animal that can be very productive under limited grazing conditions.

The Dorper breed is a naturally heavily muscled and produces a high quality carcass. They are a hardy sheep that performs well under a variety of climatic conditions including limited grazing. Lamb crop percentages of 150% are often seen under limited labor conditions. The lambs often reach the ideal weaning weight of 80 pounds within 12 to 14 weeks. Ewes have a very good mothering instinct and care for their lambs through to weaning time. All of these traits greatly reduce the cost of production and increase profitability.



The popularity of the Dorper breed has been increasing since their introduction to the American producer. Although there are many small producers, few have chosen, or been able, to grow large enough to attempt to corner the commercial sheep market. The demand for lamb meat has also been growing. Many lambs that have been sold through the local livestock auctions have brought \$100.00/ head and more with few falling as low as \$80.00/ head.



The excellent carcass traits of Dorper lambs have helped to increase the demand of lamb meat. It has been reported that the meat of the Dorper has a natural tenderness and

## Business Plan: Commercial Sheep Operation

excellent flavor as compared to other breeds of sheep. The advantages of the Dorper's carcass merit also enhance the potential of increasing the demand for lamb meat in America and internationally. This will open the door to great possibility for agriculture production enterprises.

## Marketing & Operational Plan

The marketing plan will change as the operation grows. The primary method of marketing the lambs produced will be via the local livestock auction (primarily Fredricksburg). When it is time for the operation to grow, marketing will be targeted at a much larger audience via contracts with restraints, grocers, and other interested parties.

After our first meeting, you desired that the operation start small to prove its profitability. With this in mind I am planning 2 phases for the marketing and operation of the business.

### **Phase 1**

The purpose of phase one will be to prove the profitability of a commercial sheep operation using Dorpers. To do this, the initial acquisition of assets is necessary before production can start and profitability measured. All the sheep assets can be gathered in less than a year, as well as the construction of the original building that is already on site in Tarpley. Dorper ewes can be purchased from other producer or through livestock auctions for \$100.00 to \$150.00 per head. Good rams can cost as much as \$500.00, but are worth the price considering that they make up ½ of the lamb crop genetics. The estimated cost of finishing the building and adding a pen system is \$4500.00. After the establishment of all initial assets, production can begin.

#### ***Initial Investment Cost***

<b>Description</b>	<b>Units</b>	<b>Unit Cost</b>	<b>Total Cost</b>
Ewes	100	\$ 125.00	\$ 12,500.00
Rams	3	\$ 500.00	\$ 1,500.00
Building Material		\$ 2,960.00	\$ 2,960.00
Fencing		\$ 1,250.00	\$ 1,250.00
		<b>Total</b>	<b>\$ 18,210.00</b>

Ewes will be bred to begin lambing in late January and finish in April at the latest. Then the lambs will be marketed through the Fredricksburg livestock auction in April, May, & June.

Profitability can be measured within one year of the full acquisition of the initial sheep and facilities assets based on the production only. An additional 3 years may be necessary to realize profitability with the initial investment.

## **Phase 2**

After the profitability of the operation is proven, phase two will begin. Here is where the operation has the chance to fully grow and become as successful as it has the potential to be.

At this point, selected ewe lambs that have been produced by the flock will be placed back into the flock. This will begin the process of growing the flock and allowing for the quality control of flock genetics and lambs produced. Then rams can be purchased over time to open up the genetic pool and replace older rams.

Land will also need to be acquired at this time to support the increased flock size. Unfortunately, the land in Tarpley is not ideally suited for mass production of livestock, and it is currently very expensive. More productive land can be found West, South, and East of Hondo for less money. This land is more suited to the production of grass and can support more animals per acre without abusing the land. It is also ideal for setting up an irrigation system which allows for the production of grass during bad climatic conditions. The land can be purchased or leased depending on the amount of financial investment that you are willing to apply but some of the land may need to be cleared and possibly fenced. Although this could increase your investment, it is worth the money in the short term and long term.

Next, contracts will be obtained for the sale of lambs produced. Contract can be obtained by direct soliciting or by searching the internet for potential buyers. By setting up contracts with bulk buyers of lamb, we can increase sales, lock in prices, and raise gross revenues.

## **Management, Organization, & Ownership**

The operation of the business will be set up so that I retain all administration and decision making responsibilities. You will have a limited role in the business as an investing partner.

I have had a dream and a passion to set up a sheep production operation since high school. I have devoted my career to this goal. Now I have the opportunity to see my dream and establish a large scale sheep production operation. But, I need your help. I can run and make the business work, but I need land and capital.

### ***My Qualifications***

I attended Angelo State University in San Angelo (the sheep capital of Texas). My major was in animal science and I had a split minor in Marketing and Management. I was a member of the Livestock Judging Team where I further honed my livestock selection skills. As the president of the ASU Block & Bridle Club, I continued the improvement of my management skills. My educational accomplishments were highlighted when I was selected to be a member of the Delta Tau Alpha Agricultural Honor Society and soon was voted in as Vice President.

## Business Plan: Commercial Sheep Operation

When I graduated, I came home to officially operate Schuh Box Lambs. Here I put my education to use and further my education through experience. My marketing education was honed through the design, development and implementation of the Schuh Box Lambs website. I worked closely with customers to get them the lambs they wanted and helped them realize their lamb's full potential. I found more effective ways of advertising and increase exposure of Schuh Box Lambs.

My animal science education also was put to use. In many cases I had to become my own vet, and diagnose problems to discover the best treatment for them. In some cases I diagnosed problems and treated them successfully when they were unprecedented or undocumented in Texas. I discovered how some problems trigger other illnesses and how to recognize the true source of the problem. After in depth research, I implemented some unconventional ideas that improved lamb crop percentage because of improved nutrition.

An additional important skill that I have developed is the use of the computer in managing livestock. After using a few other livestock management program, I was unable to find a program that best meet my needs so I designed and built my own. This program is also able to synchronize with a PDA. This allows me to view and modify records on sheep when in the field.

### ***Our Roles***

I will assume the administrative role and will function as CEO. The operation of the business will be limited to me performing all administrative duties and overseeing the management of the flock. I will provide you with reports on the business performance and consult you when desiring to expand production or assets. I will also manage all accounts and any finances pertaining to the business. I will retain all knowledge, expertise, trade secrets, and record information on the flock and finances. Furthermore, I will have the right to purchase some of your livestock assets in the business.

You will play a limited role in the business. All that I am requiring of you is that you provide any investment necessary to grow, expand, and in some cases provide operating capital when profits are used for growth. You will own most of the assets and thus retain most of the equity in the business.

We will share in the profits of the business. You will get 60% of the profits and I will gain 40% of the profits. Assets will also be retained by their respective buyers in the event that the partnership is terminated.

I am also requiring that in the event of a partnership, that a partnership contract be signed. This document will spell out the terms of the partnership and the time period of the partnership until renewal.

## Financial Assumptions

The commercial sheep operation is able to generate a profit within one year of production if looking at production cost only. However, to generate a profit after recovering the initial investment will require 5 years.

### ***Annual Production Expenses per Lamb***

All expenses are based on per lamb sold. This is because the lamb is the actual salable product of the business and therefore all expenses are best figured when inferred on the lamb.

Expenses are lumped into 3 categories called feed, vet, and miscellaneous. There will be times that some form of feed will need to be provided and the cost associated with it is an average estimate. Vet costs are an average estimate for costs that are necessary for maintaining the health of the sheep. Miscellaneous is for all other costs that are unforeseen or years when more medication or feed is necessary. It also includes fuel cost for transporting lambs to market and facility repair costs.

<b>Description</b>		<b>Cost</b>
Feed/Hay/Supplements	\$	27.00
Vet	\$	10.00
Misc./ Variable	\$	10.00
	<b>Total \$</b>	<b>47.00</b>

### ***Annual Income per Lamb***

Income primarily comes from the sale of lambs to market; however, there will be some other sources of income. These income sources include the sale of cull ewes or rams, and the sale of breeding stock to other producers.

<b>Description</b>		<b>Income</b>
Average sale per lamb	\$	110.00
	<b>Gross Income \$</b>	<b>110.00</b>
	<b>Net Income \$</b>	<b>63.00</b>

