

Pastoral Profit

A joint
initiative of



The Business of Sheep

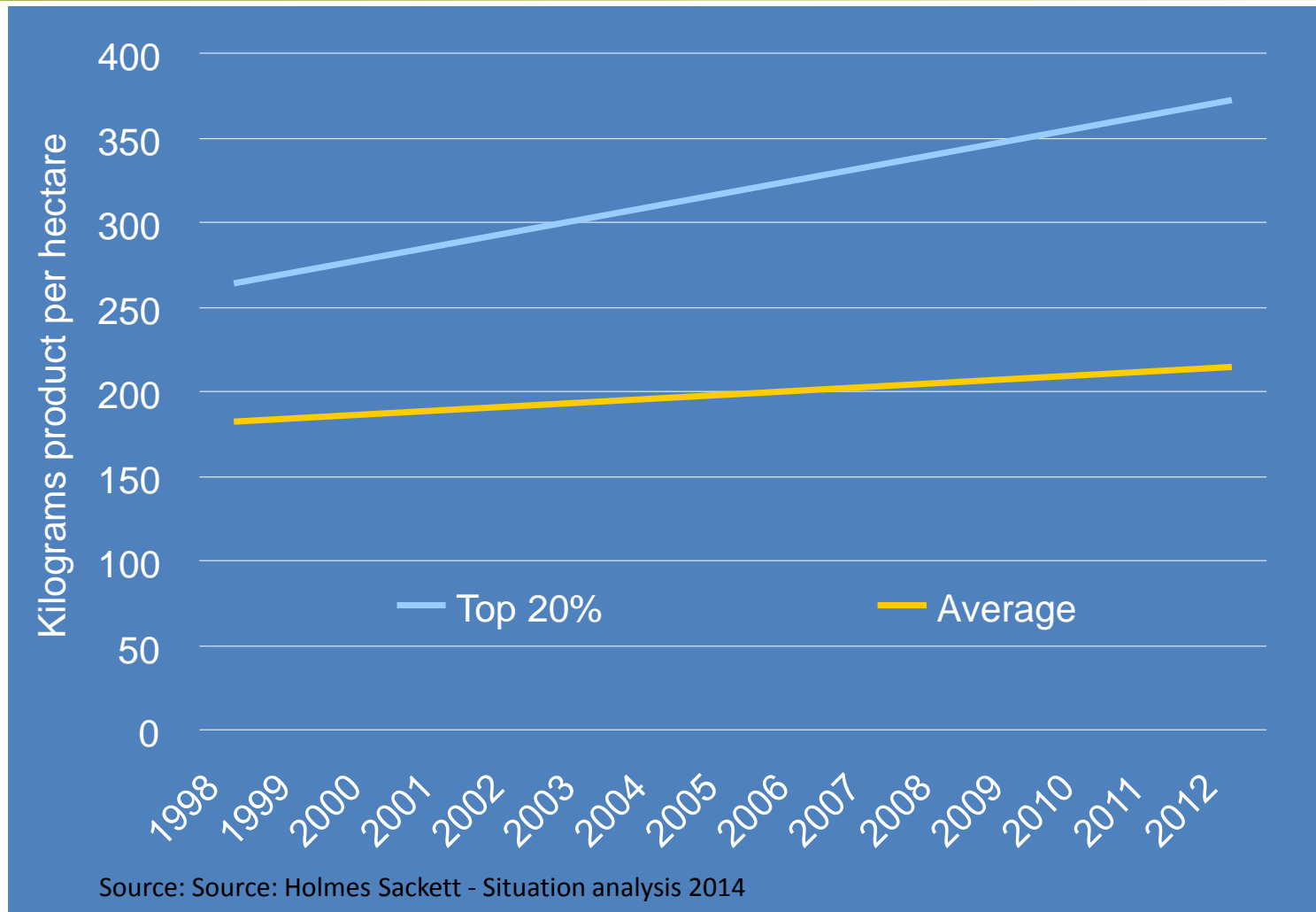
Burra 2016

Profit Drivers in Top Performing Sheep Businesses

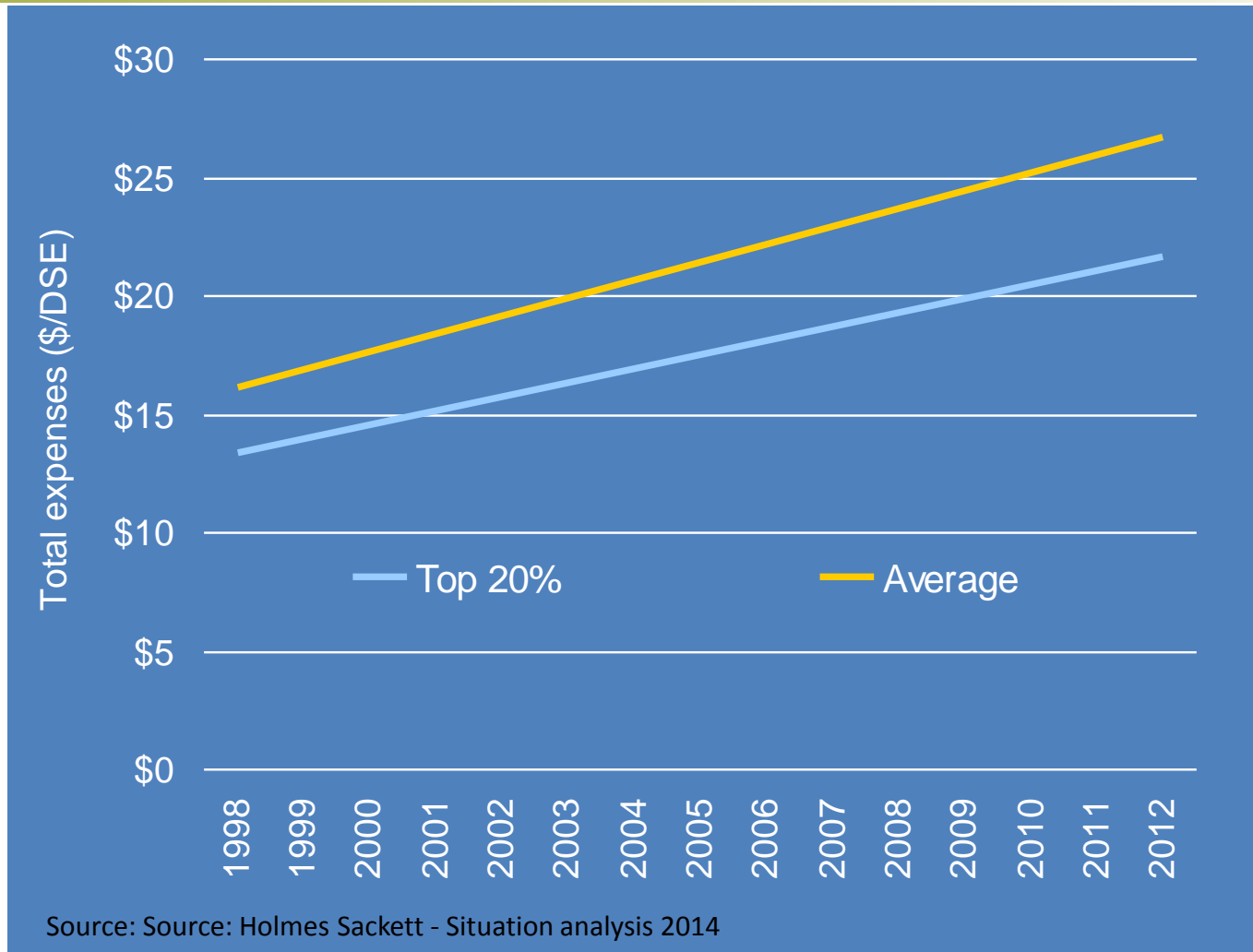
Basil Doonan



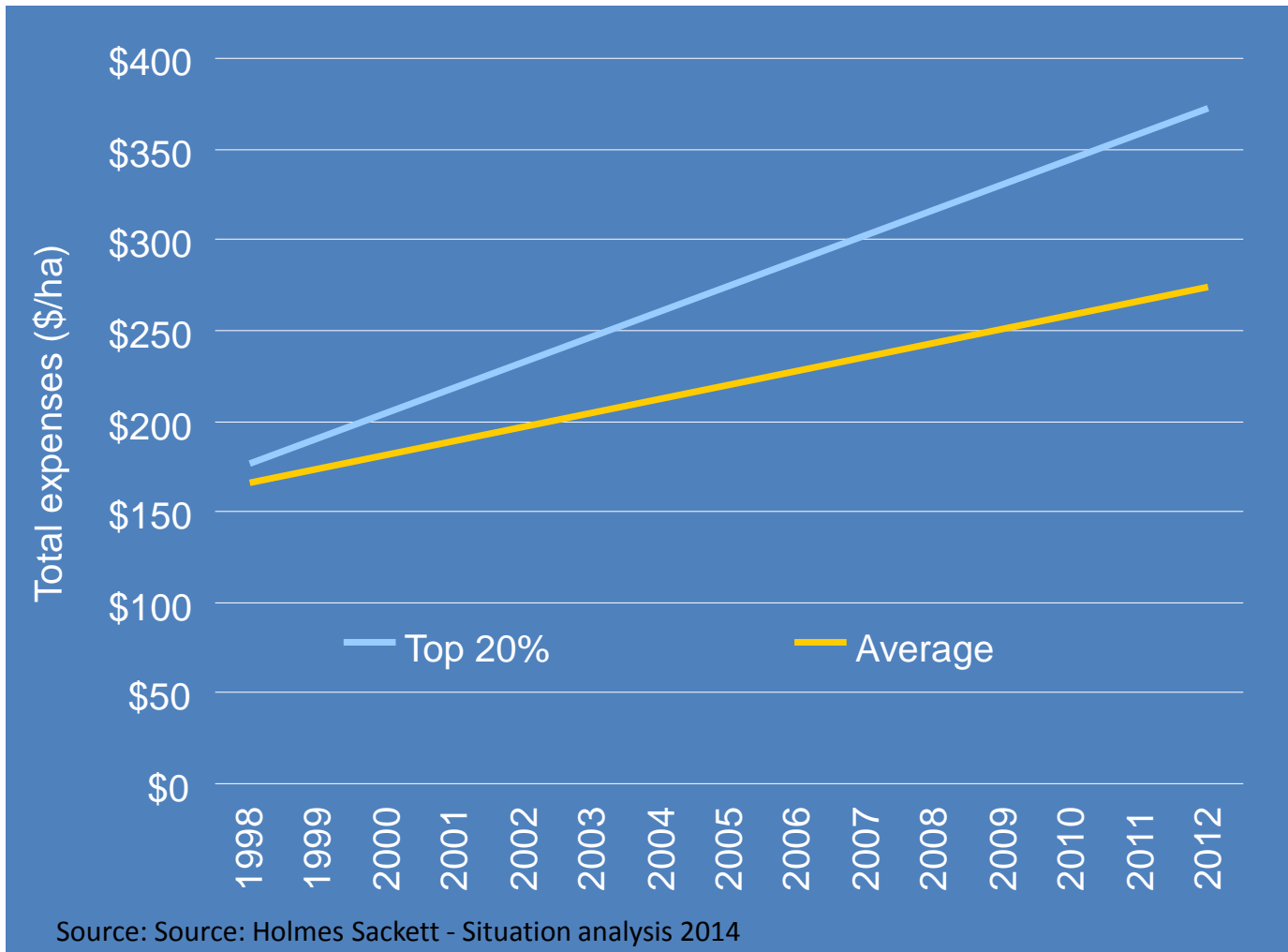
Best- increasing production faster



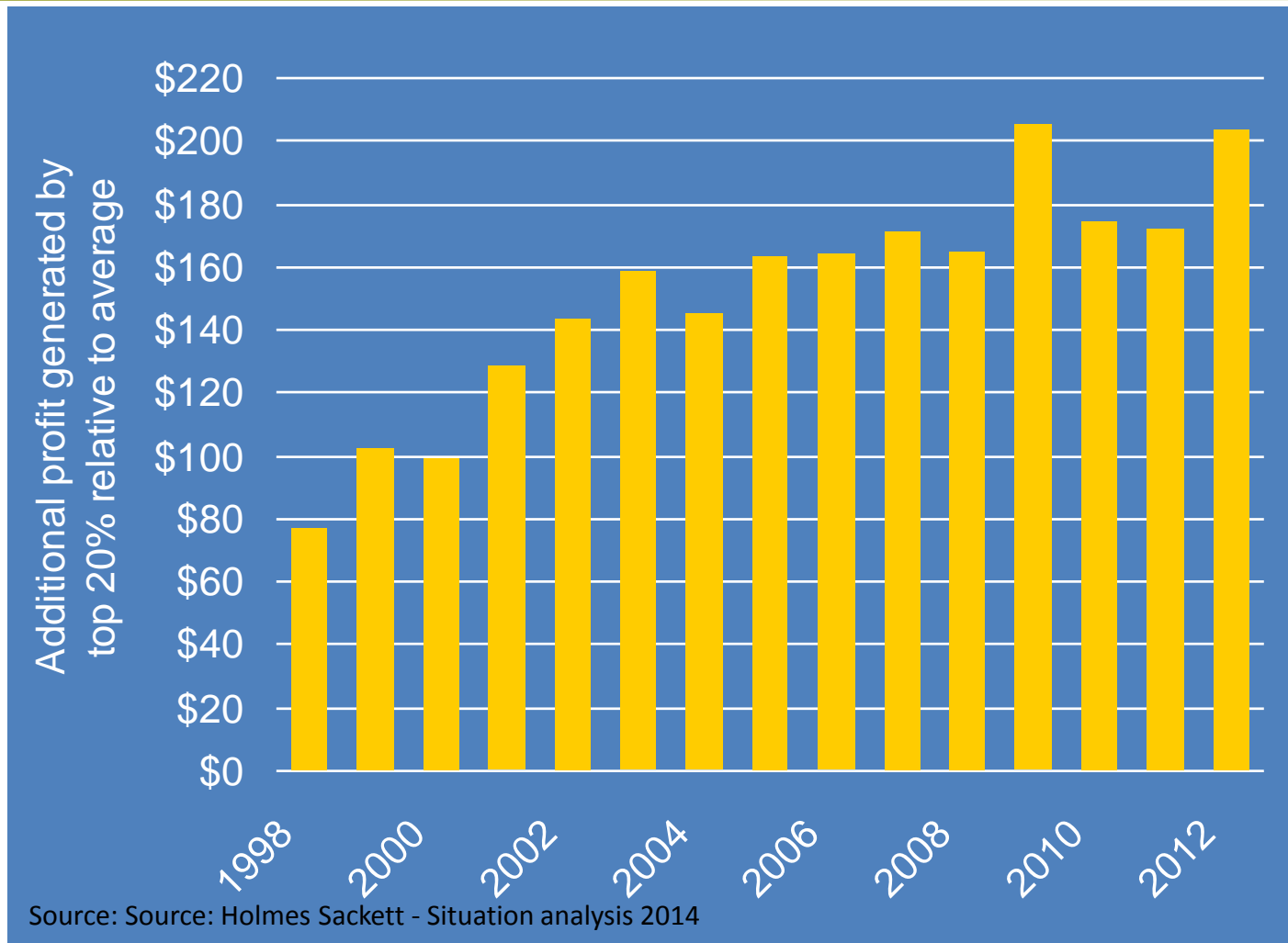
Best - widening the costs/DSE gap!



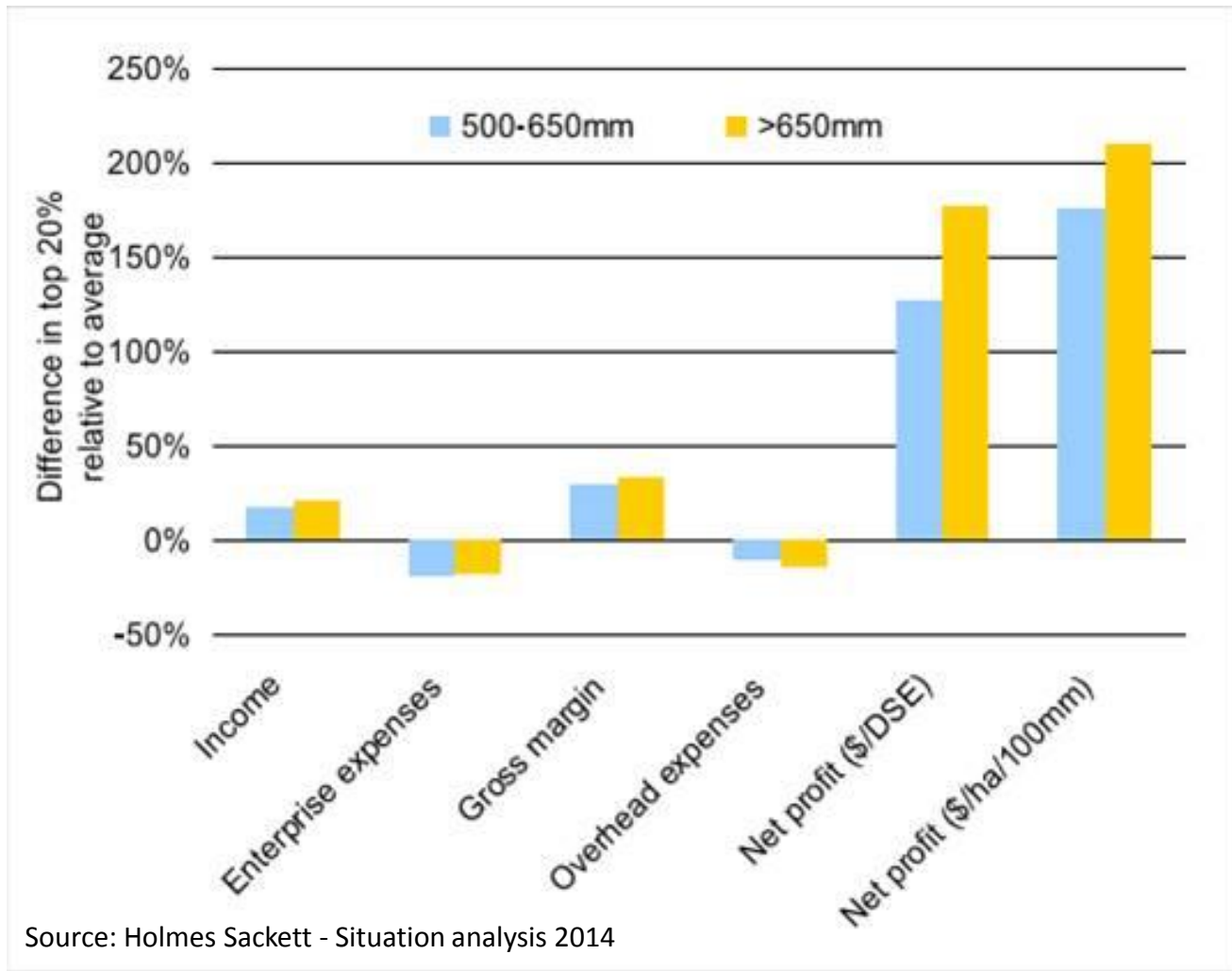
Best – have higher costs/ha!



The profit gap is increasing!



Best - Profit is more than 100% higher



Driver 1

“Learn from the best!”

Background

- For this discussion we're talking about two groups
 - The Best
 - The Average (**MOST**)
- The best producers have businesses that:
 - Are very profitable (successful)
 - Cope well with systems shocks
 - Price is the perfect example

How profitable sheep businesses should evolve!

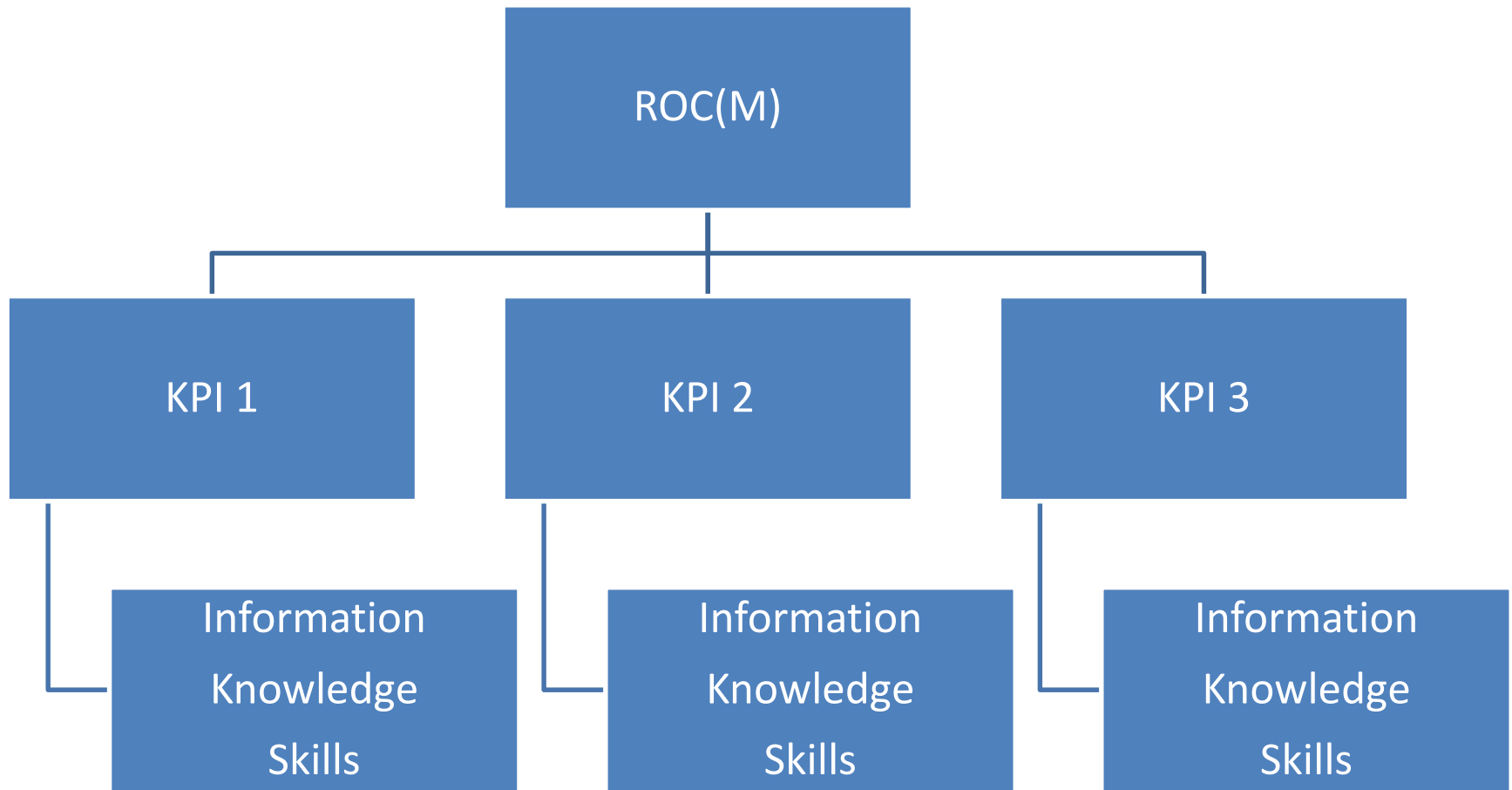
- As a function of logical business decision making
 - Marginal analysis at the whole farm or part farm level
 1. Efficiency
 2. Net worth
 3. Cashflow
 4. Risk
 - Business benchmarking (learning process)
 1. Identify areas to improve (KPIs)
 - Good
 2. Find top 5-10% (the benchmarks)
 - Good
 3. Document (understand) best practice
 - Poor
 4. Adapt the practice
 - Hopeless
 5. Monitor and continuously improve
 - Hopeless
- And the Top 10-20% do this well
 - Simple success model

Profitable sheep businesses are based on:

1. A desire to farm for profit
 - Rather than how you want to farm
2. An understanding of the resource base
 - And its suitability to the production system
3. An understanding of the business
 - Including profit and risk but especially MC vs MR
4. An understanding of the production system
 - How that drives profit
5. A high level of skill associated with the key profit drivers



So business analysis might look like.....

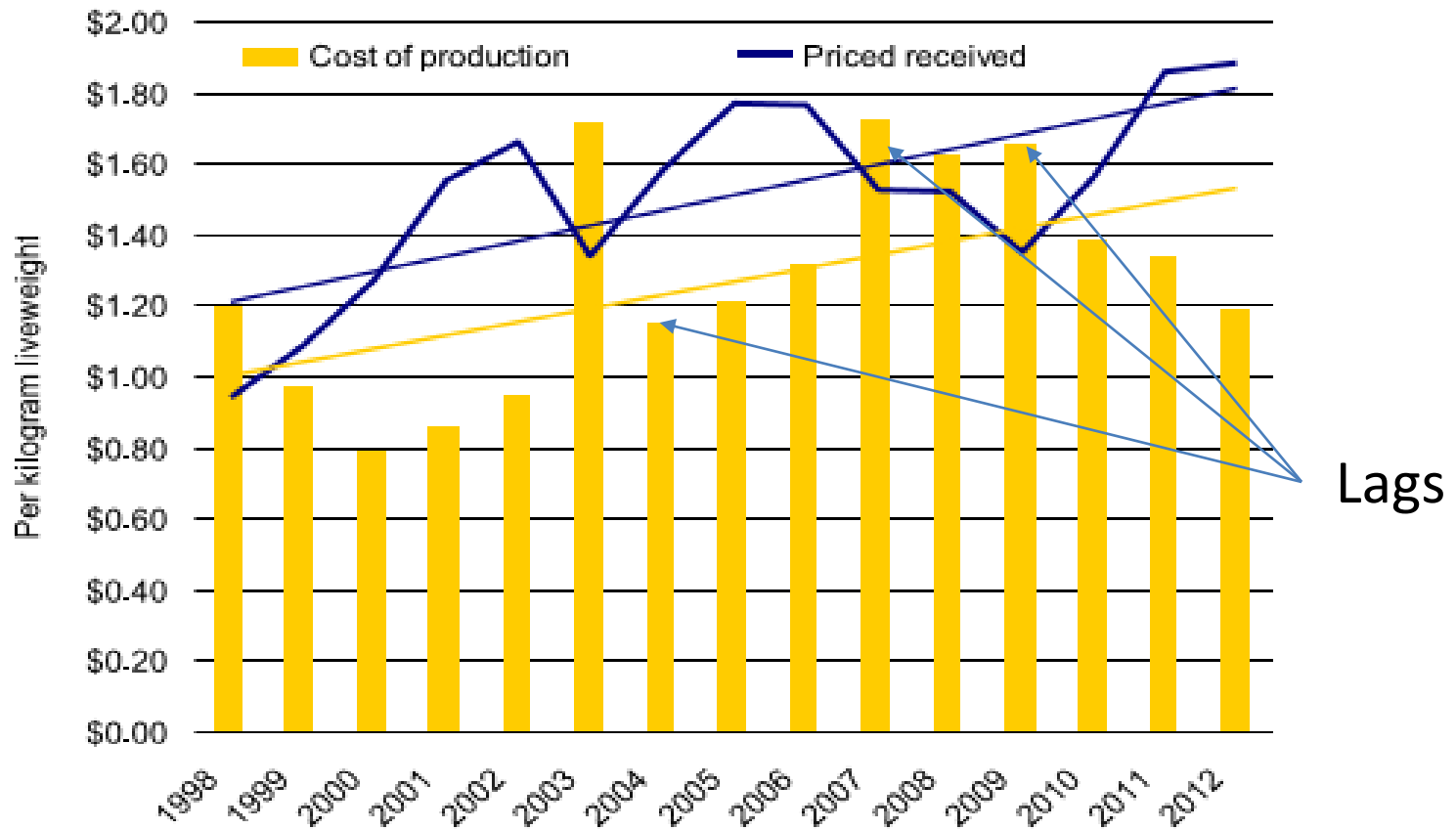


1. A desire to farm for profit

- It is obvious that:
 - Most producers do not actively look for profit
 - They have an overwhelming desire to farm the way they want
 - Generally compromises profit (hobby)
 - So they actively *hope* for profit
 - As price increases they gravitate towards this (rapidly)
 - Compromises short-term profit
 - Introduces sticky costs
 - Are great at working backwards from this and justifying it with bush economics



Example: As price increases.....



Source: Holmes Sackett - Situation analysis 2014



Reaction to price

	2010-11		2011-12	
	Average*	Top 10%	Average*	Top 10%
Wool price (c/kg)	840	845	1,080	1,100
ROC*	1%	4%	3.5%	9%
Wool production (kg)	33,550	45,000	35,230 (5%)	51,300 (14%)
Fertiliser (\$/DSE)	4.10	1.75	5.55 (35%)	1.95 (11%)
Supplements (\$/DSE)	3.75	1.40	5.30 (41%)	1.50 (8%)
Pasture harvested/ha	1,200	2,700	1,210 (1%)	2,970 (10%)

* Based on land value of \$415/DSE



No reaction to price/season

	2010-11	2011-12
	Average*	Average*
Wool price	840	1,080
ROC	1.0%	6.3%

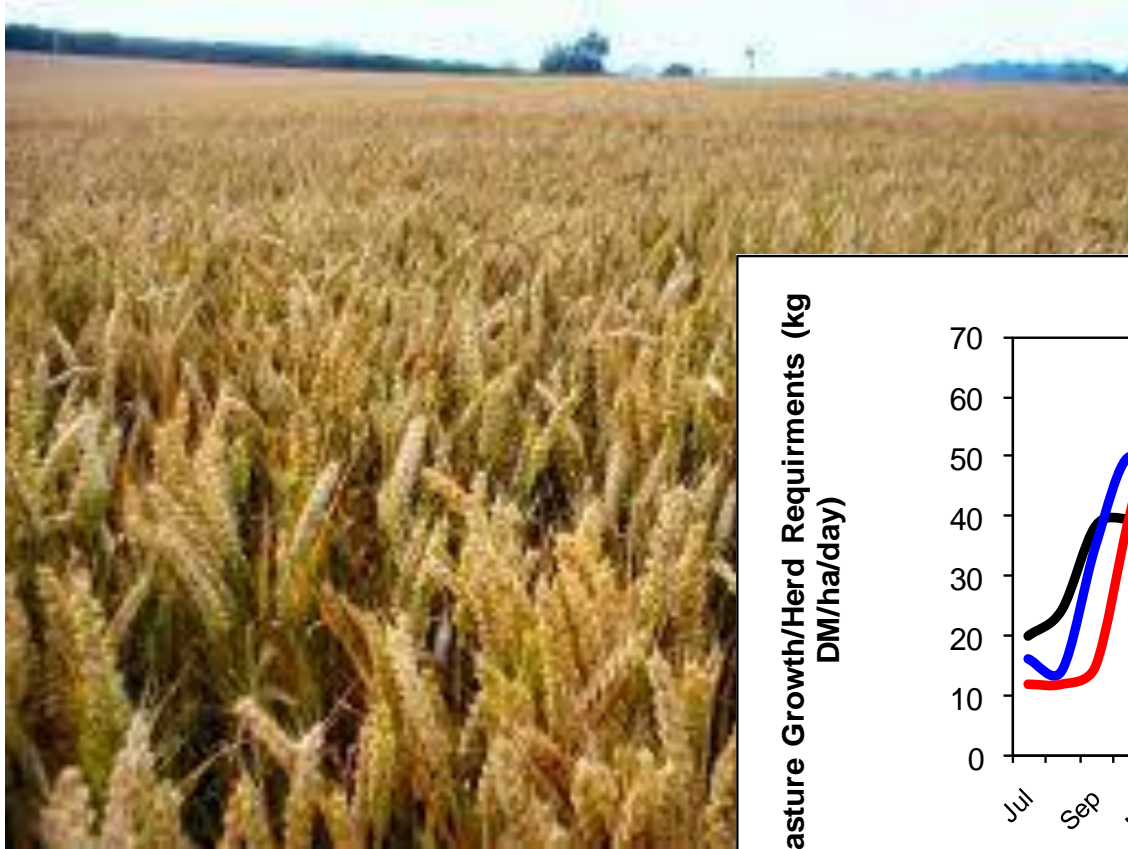
That's about \$74,500/business!!



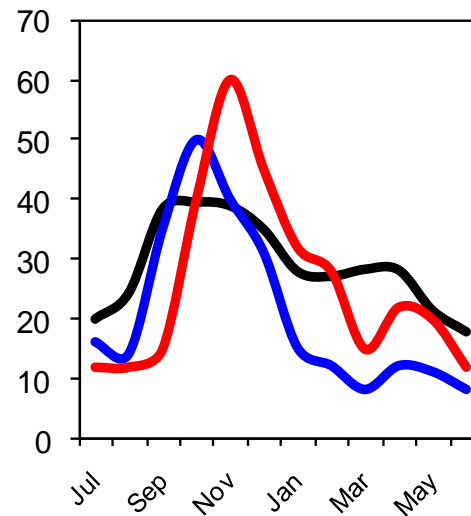
Driver 2

***“Run a business not a hobby
and look for profit!”***

2. An understanding of the resource base



Pasture Growth/Herd Requirements (kg DM/ha/day)

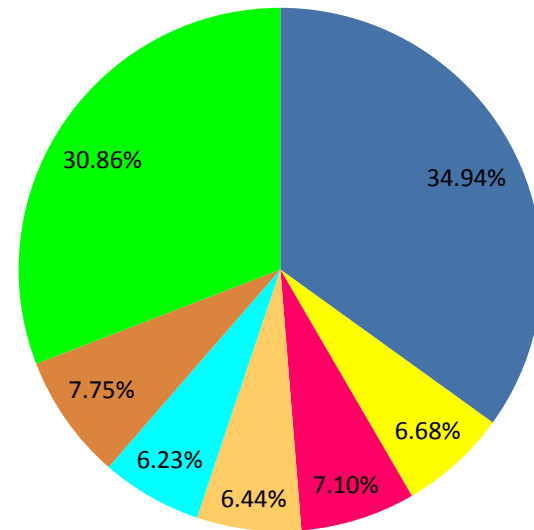
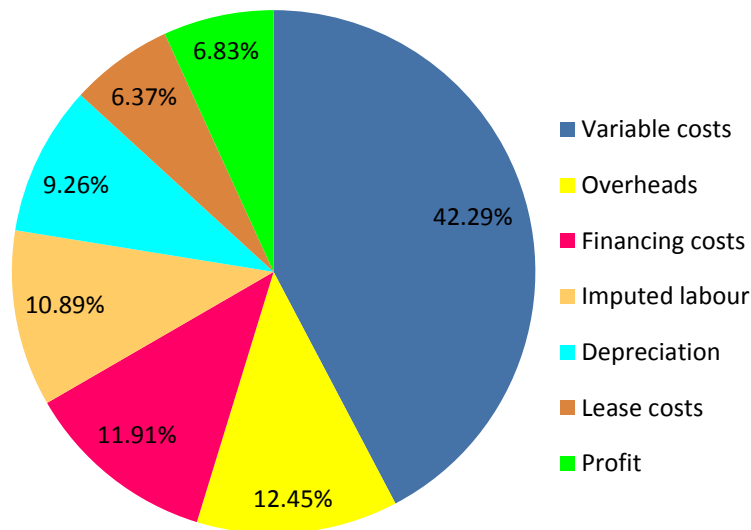


Month

— Herd requirements
— Elliott Growth Rate
— Brittons Swamp Growth Rate

Resilient Farm Business Models

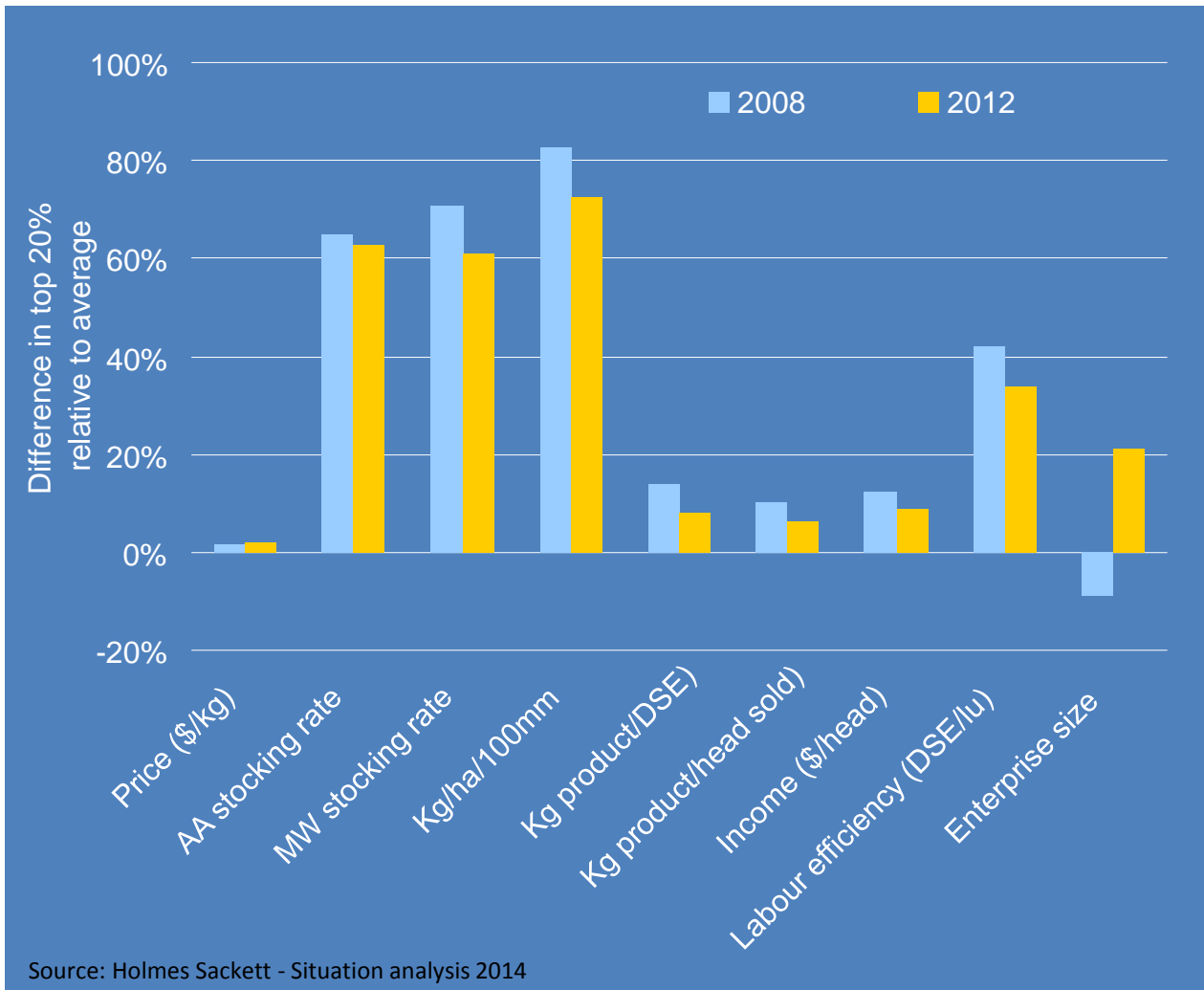
- Identical climate
- Identical season
- Identical resources
 - Retaining 7% vs 30% of turnover as net profit



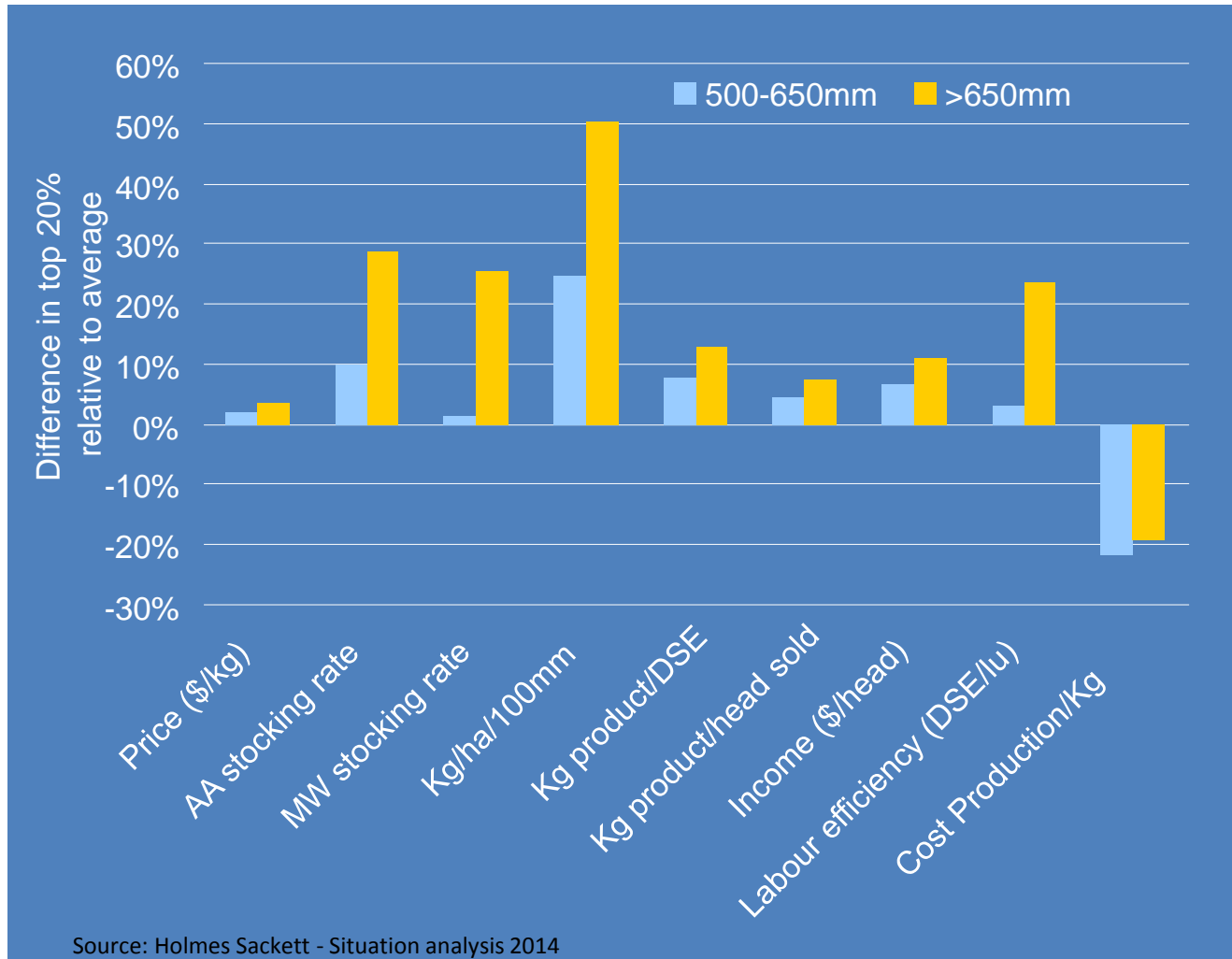
Trends of the best (CA)

	Average (2014)	Top 10% (2014)
Area (ha)	1047	1116
Rainfall (mm)	522	558
Area to crops (%)	25	38
Grain yield (t/ha)	2.0	3.4
Wool Yield (kg/100mm rain)	3.7	4.4
Weaning rate	79%	90%
Fertiliser (\$/ha)	36	72
Interest (\$/ha)	26	42
Contractors (\$/ha)	15	27
Labour use (DSE/FTE)	3,271	6,045
Stocking rate (sheep/ha)	6.5	10.6
ROC	1.2	4.2

Across time! (CA)



Across space! (CA)



To try to be the best.....

- We've done what the best do
 - bigger farms
 - more fertiliser
 - more chemicals
 - more supplements
 - new genetics
 - new pasture species
 - new pasture varieties
 - more contractors
 - more debt
- And we've had the cash to pursue these



Unfortunately.....

- These are associative, not causal
 - That is:
 - These are *characteristics of* the better producers
 - They are not the *cause of* their success

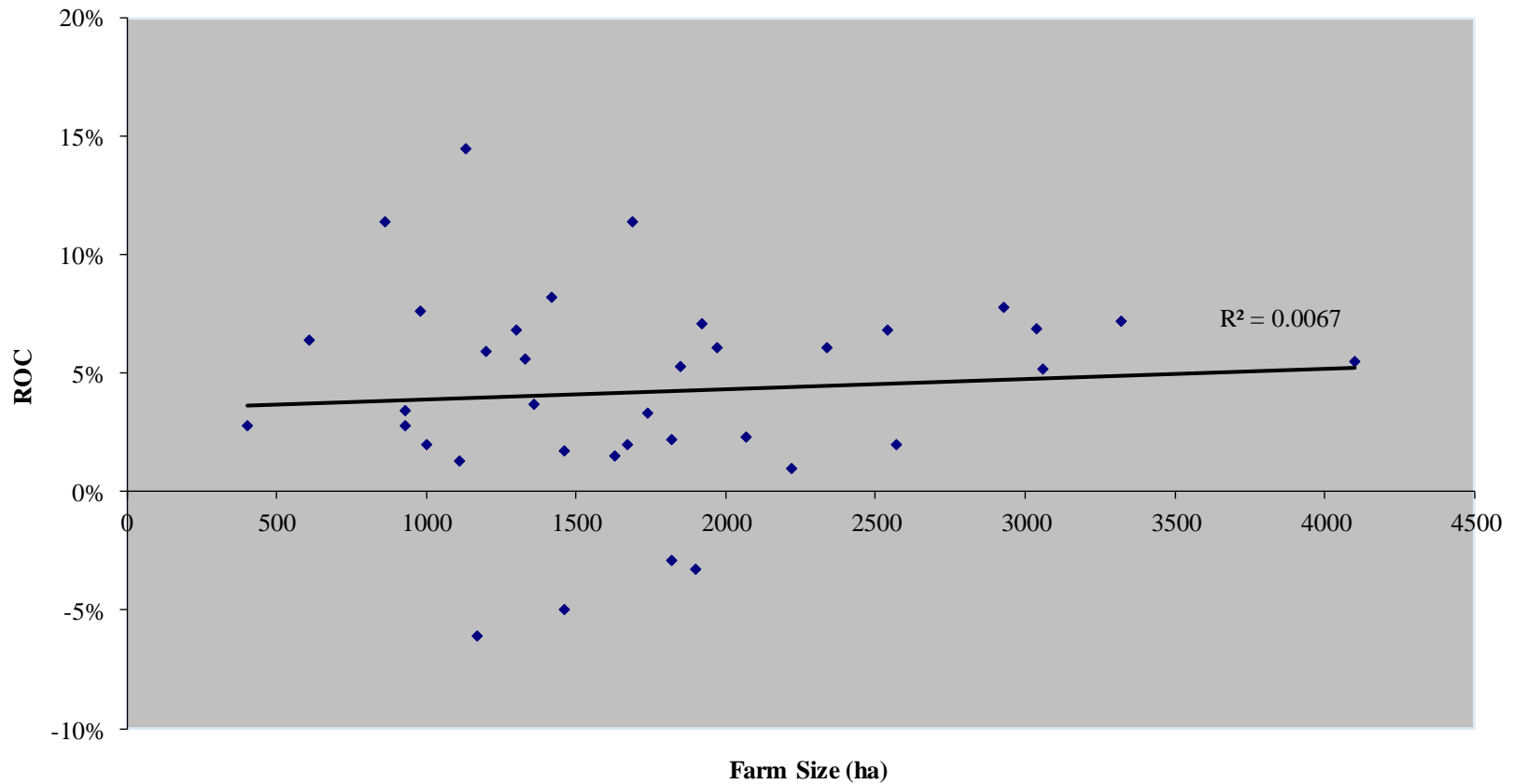


Done a good job in this area

	Average (2004)*	Average (2014)
Area (ha)	680	1047
Rainfall (mm)	550	522
Area to crops (%)	15	25
Grain yield (t/ha)	1.75	2.0
Wool Yield (kg/100mm rain)	3.1	3.7
Weaning rate (%)	73	79
Fertiliser (\$/ha)	15	36
Interest (\$/ha)	6	26
Contractors (\$/ha)	8	15
Labour use (DSE/FTE)	1,230	3,271
Stocking rate (DSE/ha)	3 (3.1)	6.5 (3.3)
ROC	0.9	1.2

The myth: “*get big or get out!*”

ROC v Farm Size (all)



Having said that....

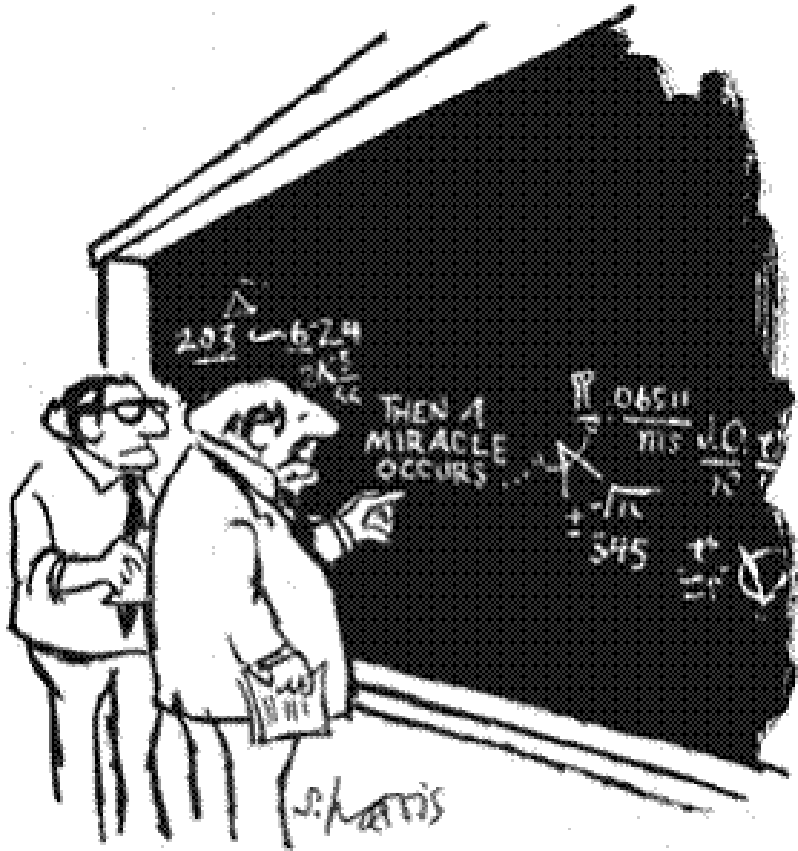
- The most profitable farms tend to be bigger
 - But were smaller, profitable and grew
 - Rather than got big to get economies of scale
- AND all businesses must grow
- BUT growing an unprofitable business....



Another myth “enterprise choice”!

	Wool	Beef	Prime Lamb	Dual Purpose	Crop
Rainfall	600	600	600	600	600
Mid-Winter DSE/HA	9.8	9.8	9.8	9.8	
Average Annual DSE/HA	11.76	11.76	10.78	10.78	
Land value (\$/Ha)	\$3,800	\$3,800	\$3,800	\$3,800	\$3,800
Livestock (\$/Ha)	\$588	\$823	\$755	\$647	\$0
Working Capital	\$412	\$259	\$345	\$377	\$556
Plant and Equip	\$100	\$100	\$100	\$100	\$235
Assets under management	\$4,900	\$4,982	\$5,000	\$4,924	\$4,591
15yr Average Net profit (\$/Ha/100mm)	\$18.78	\$10.01	\$13.20	\$29.83	\$11.54
Average Profit (\$/Ha)	\$113	\$60	\$79	\$179	\$69
Return on Assets Under Management	2.3%	1.2%	1.6%	3.7%	1.4%

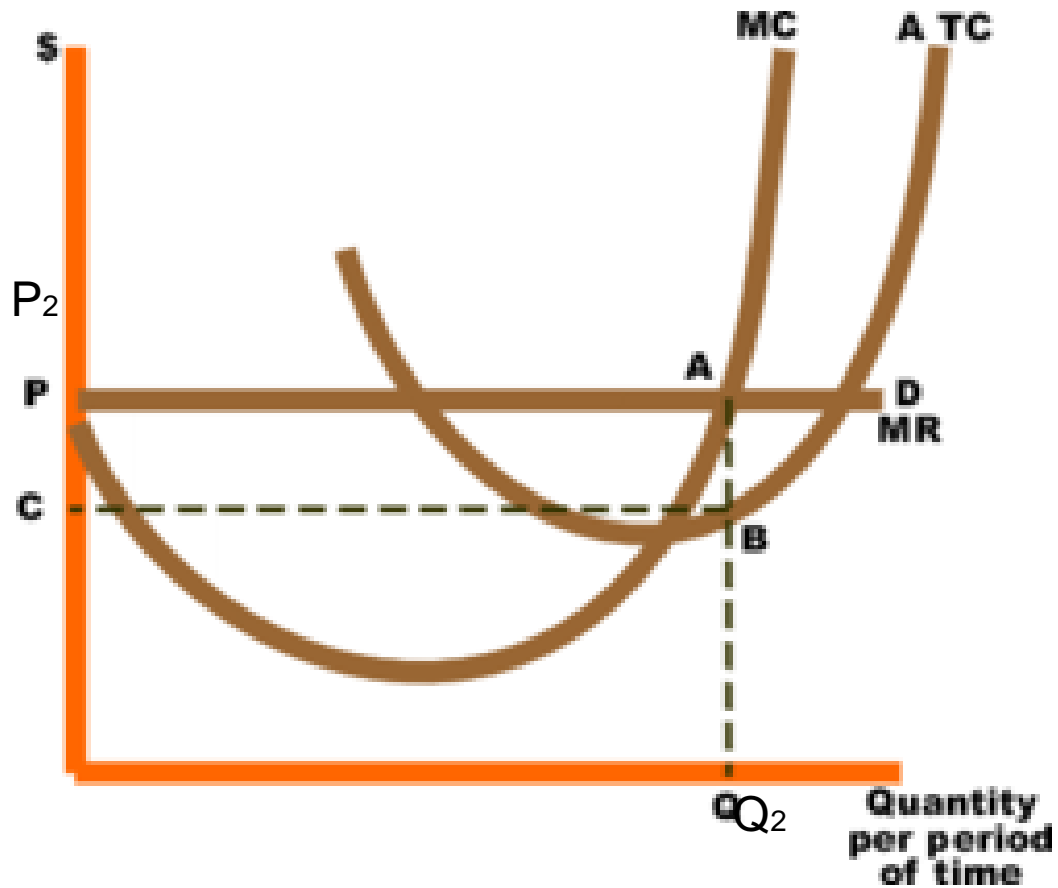
Driver 3



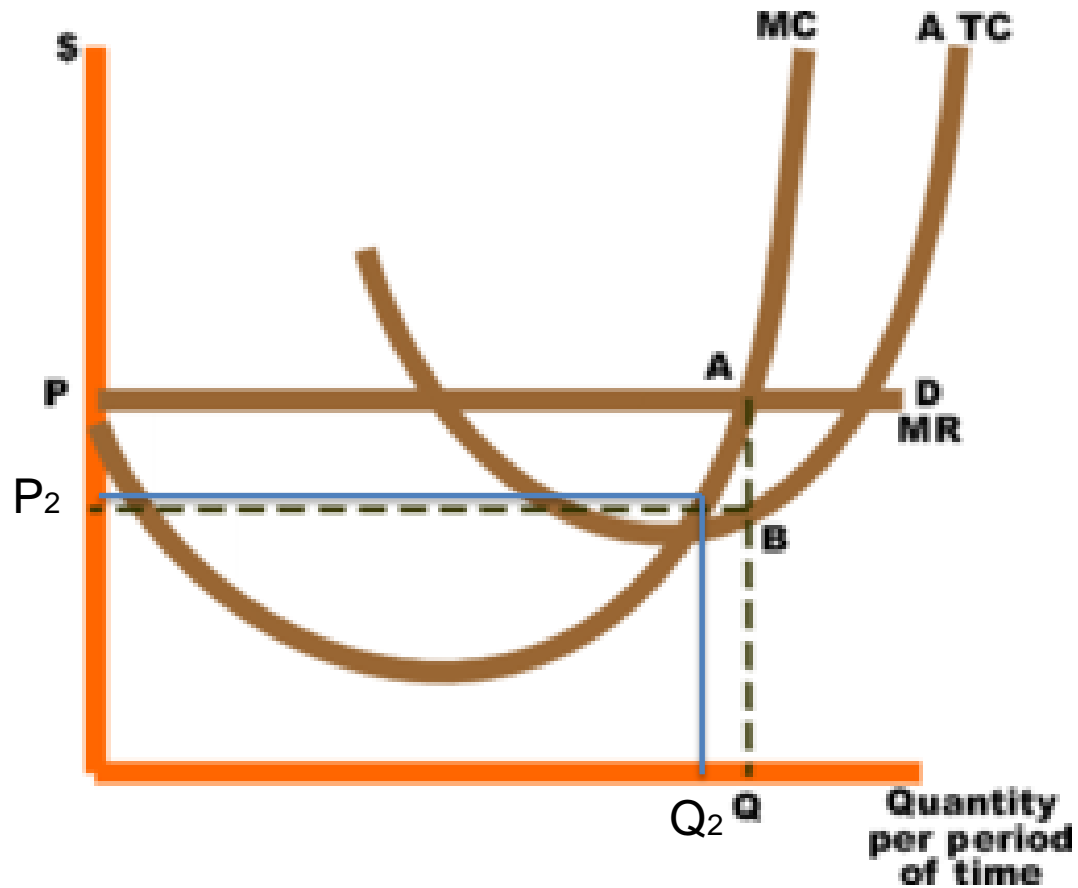
“How you do something is more important than what you do”

"I THINK YOU SHOULD BE MORE EXPLICIT HERE IN STEP TWO."

3. An understanding of the business



Concept of MR and MC



Profitable decisions

- Economists are logical
- There is obviously a difference between profitable and unprofitable decisions
 - Less obvious is the difference between a profitable decision and the most profitable decision
 - A less profitable decision will often preclude a more profitable one
- The MC:MR analysis can be complex
 - Oversimplifying it usually gives the wrong answer
 - But often the one you want



Risk/Robustness

- Its all about price!
- 20-30% decrease from average will test system robustness



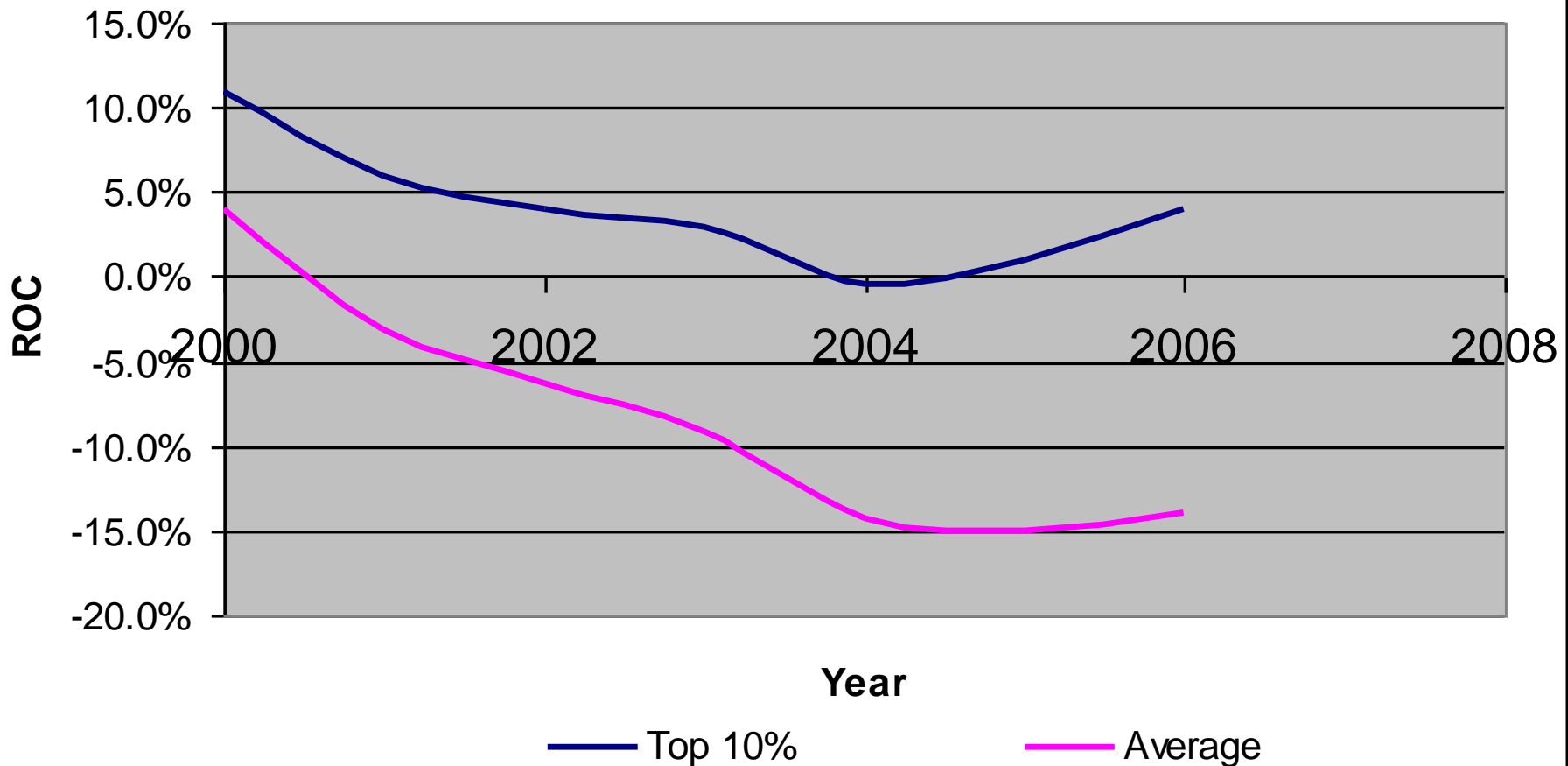
Impact of season/price on ROC

	Top 10%	Average
Good season/price	13%	2.1%
Average season/price	8.6%	1.4%
Poor season/price	6%	-9.9%

Source: Redsky (Wool/Meat/crop) 2004 - 2006



Tracking into and out of drought - recovery



Driver 4

“Commodity prices will always be volatile – develop a robust system”

4. An understanding of the production system

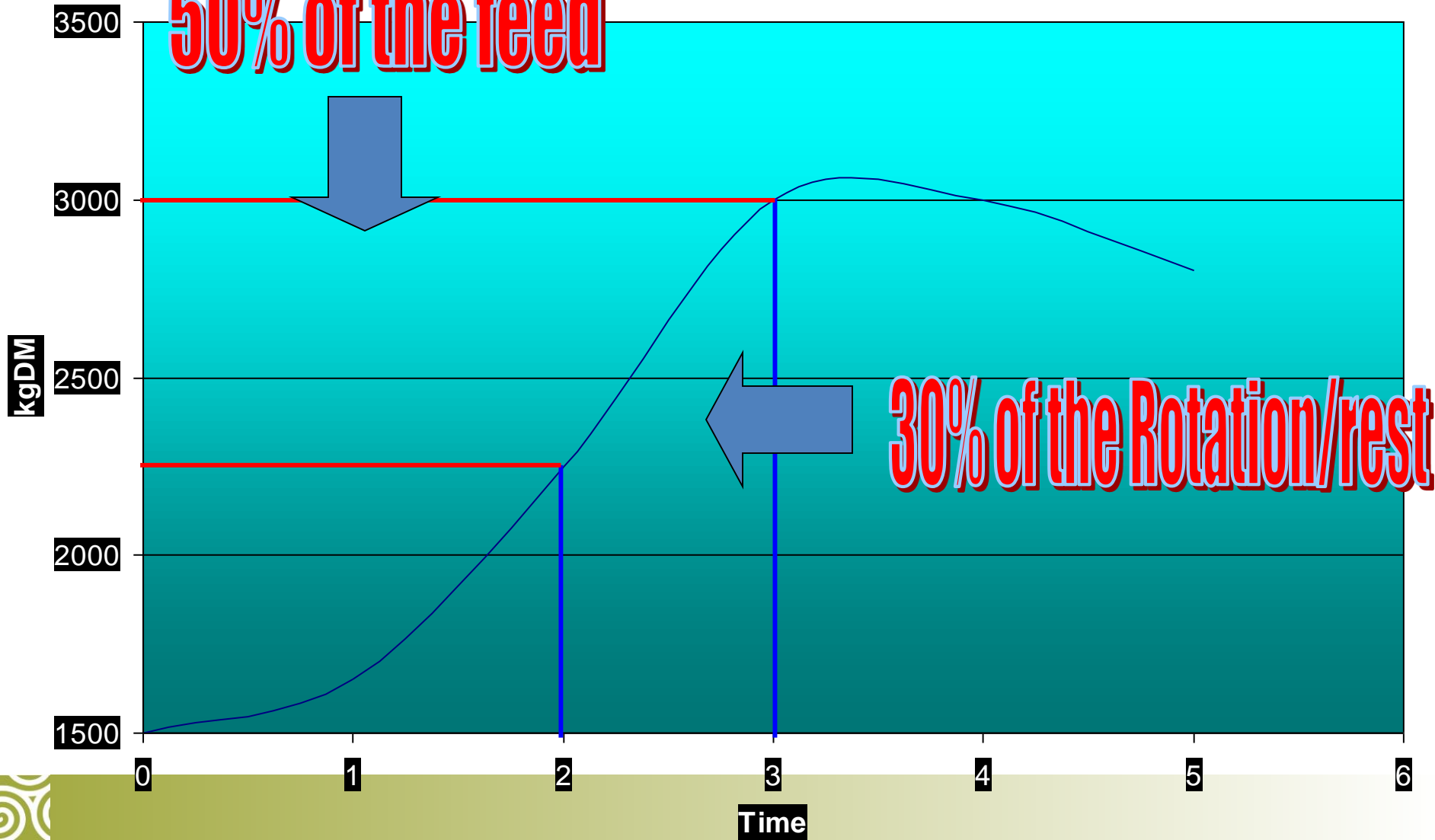
	Profit
Feedbase/Agronomy	70%
Business	40%
People	30%
Operational	15%

Hoekema 2002



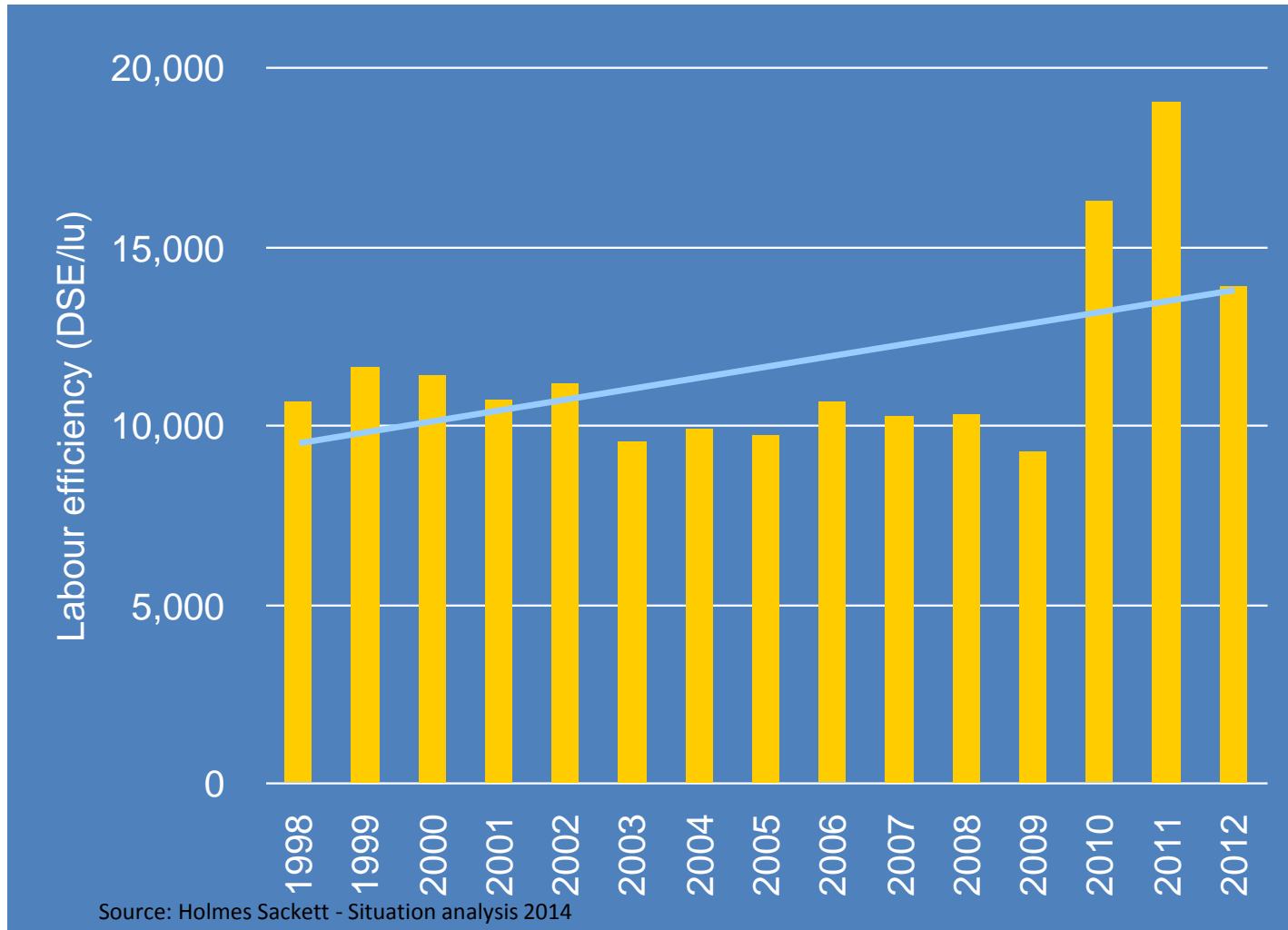
Sheep Business Foundation!

50% of the feed

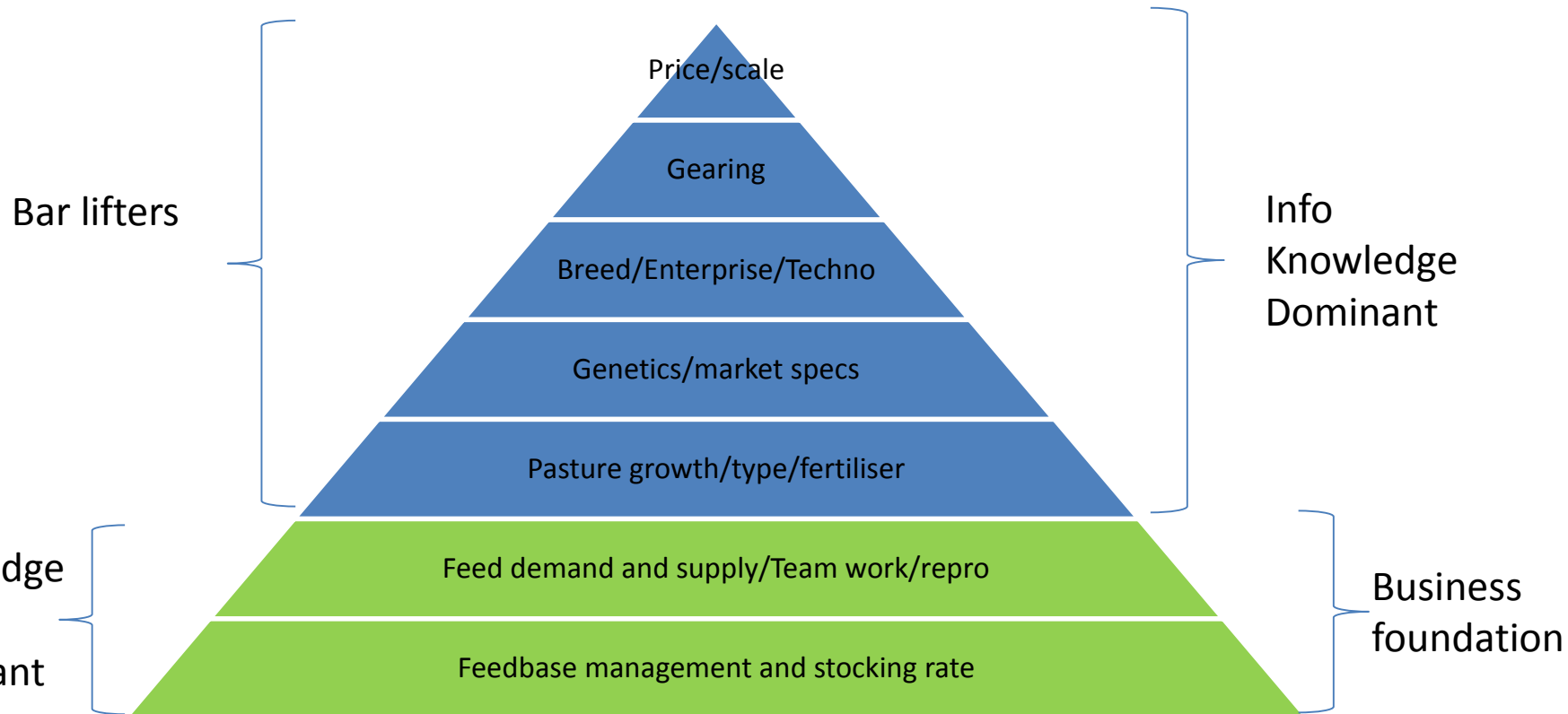


30% of the Rotation/rest

Labour efficiency is a good news story



The important things?



Driver 5

***“Be very good at the things
that count”***

5. A high level of skill associated with the key profit drivers

- Its no use knowing what to do if you cant do it!
 - Implementing good decisions is critical to business profit
 - Under game day pressure
 - Vs armchair critic

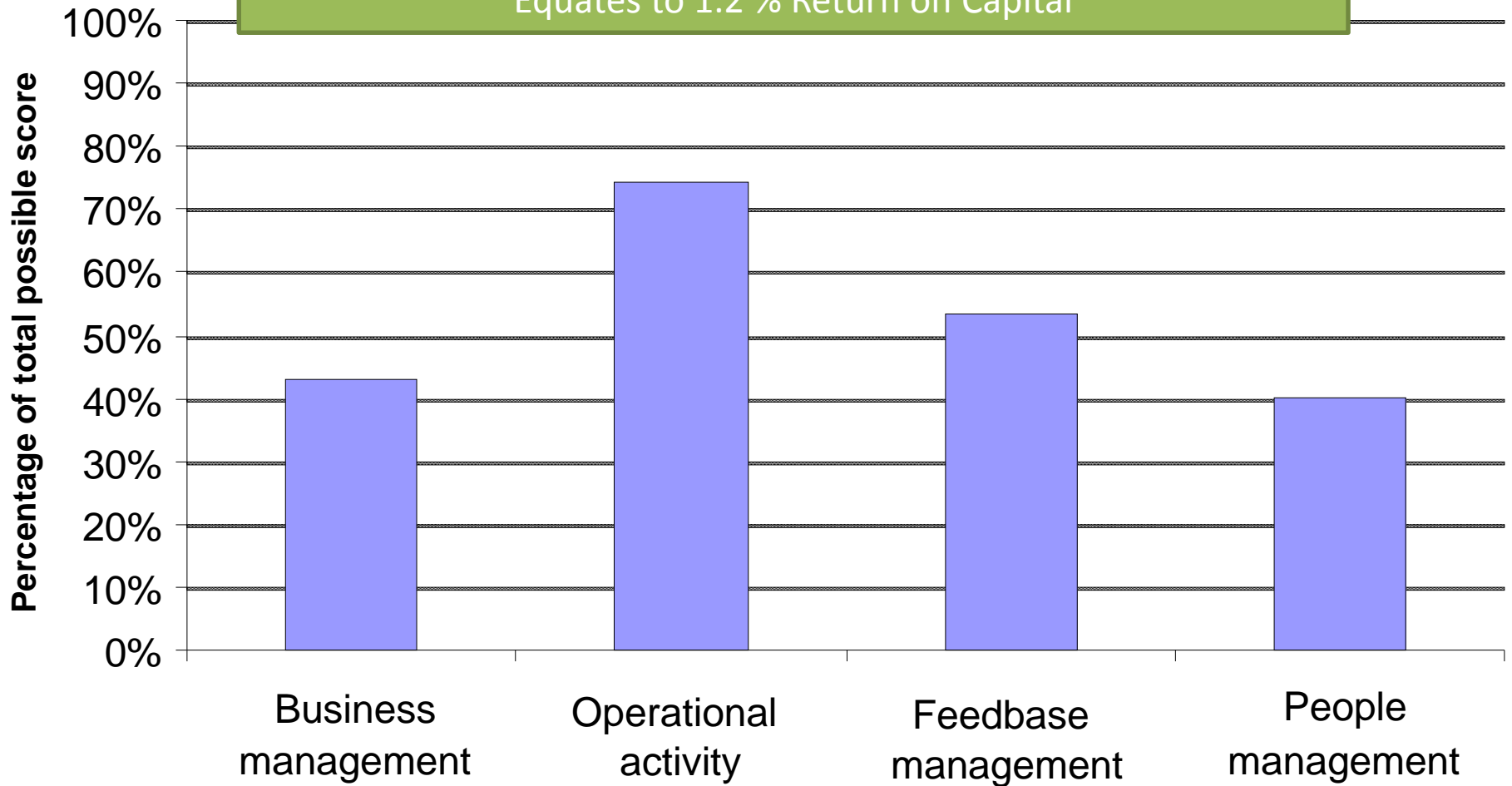


Skill the missing variable



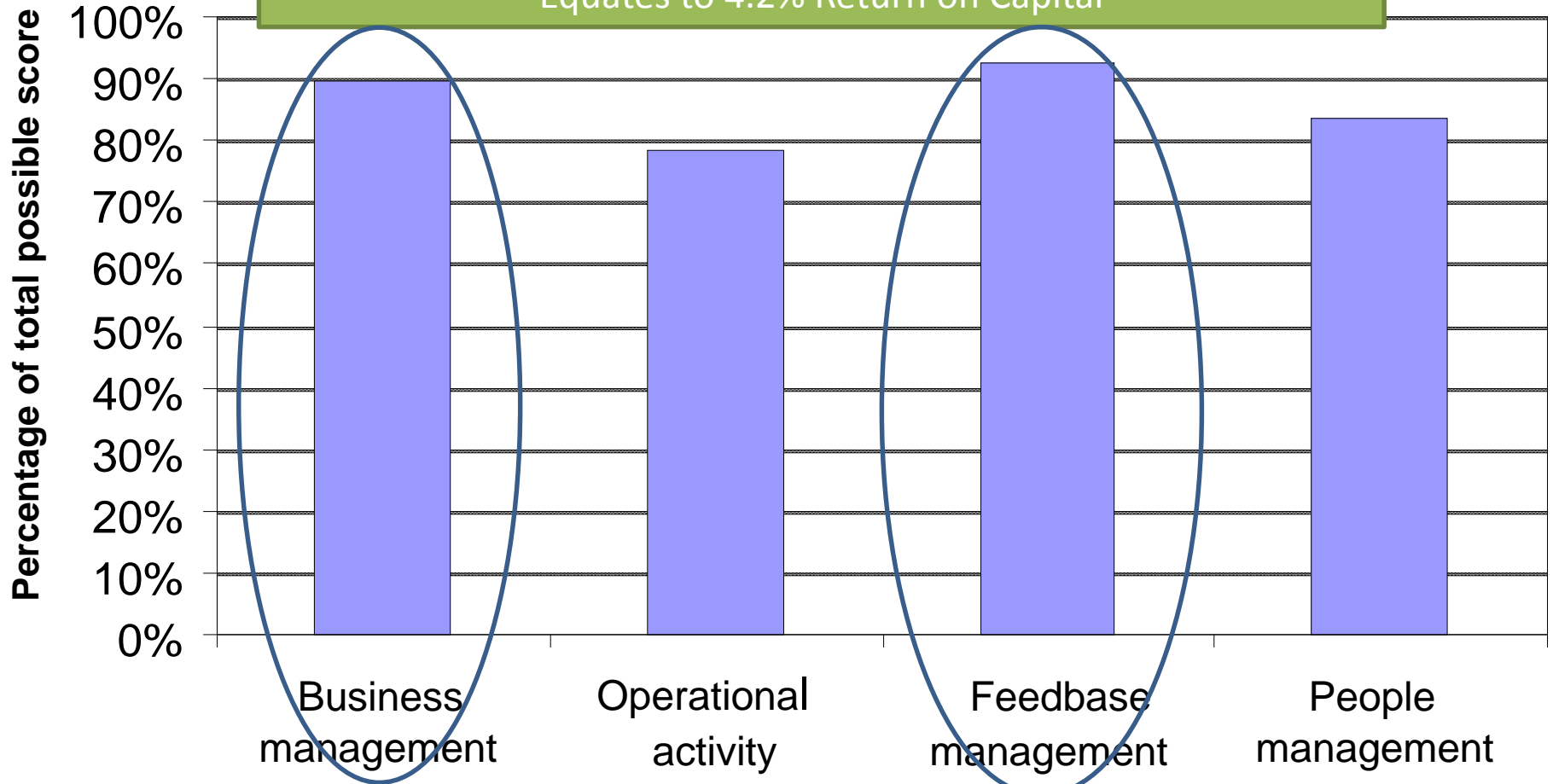
Audit results - Average

Equates to 1.2 % Return on Capital



The best

Equates to 4.2% Return on Capital



Link to skills

- Strong link between ROC and skill
 - The difference between a good producer and an average producer is two weeks?
 - That's skill
- We audit our clients!
 - And remunerate on skill!
 - Remuneration is a function of skill – not experience



Australia - a great sporting nation

Analysis of countries at the 2012 Olympics

Country	Gold medals	Population (million)	Medals/million people
USA	46	275	0.16
China	38	1261	0.03
Russia	24	146	0.16
Australia	7	20	0.35
Japan	7	126	0.06
New Zealand	6	4	1.5
South Africa	3	45	0.07



A professional approach



60 World champions

- same resource base

- better managed

The TIS aims to provide leadership and quality athlete and coaching services to assist TIS athletes in realising their potential to become successful international athletes.



Recreational golfers splurge on technology aiming to emulate the pros but their investments fail to deliver

We're not alone?

Wasted millions

- Each year Australian golfers spend \$300m to upgrade their equipment
 - Over the last 10 years average handicap has increased
- They're now hitting the ball further in the wrong direction
 - We always tend to believe that our skill are higher than they actually are!

By JOHN COOMBER

...in
...so wielding tech-
...technology that grew out of international
...weapons programs.

They swing space-age clubs with
...that contain
...average family car.

They happily splash out \$300 million
...upgrading
...club comes
...superstars in the game.

And here's the rub:
They don't get any better.

According to a detailed survey of
...at a
...not

"One would think that we all must
...now play better golf — we do not,"
...was the conclusion of survey

...the
...By

"The main reason why
...changed."

Like most things in golf, there is
...no simple explanation.

Nearly all
...with golf
...with obsessive
...behave irrationally.

The main mistake, according to
...former touring

...that people
...doen't

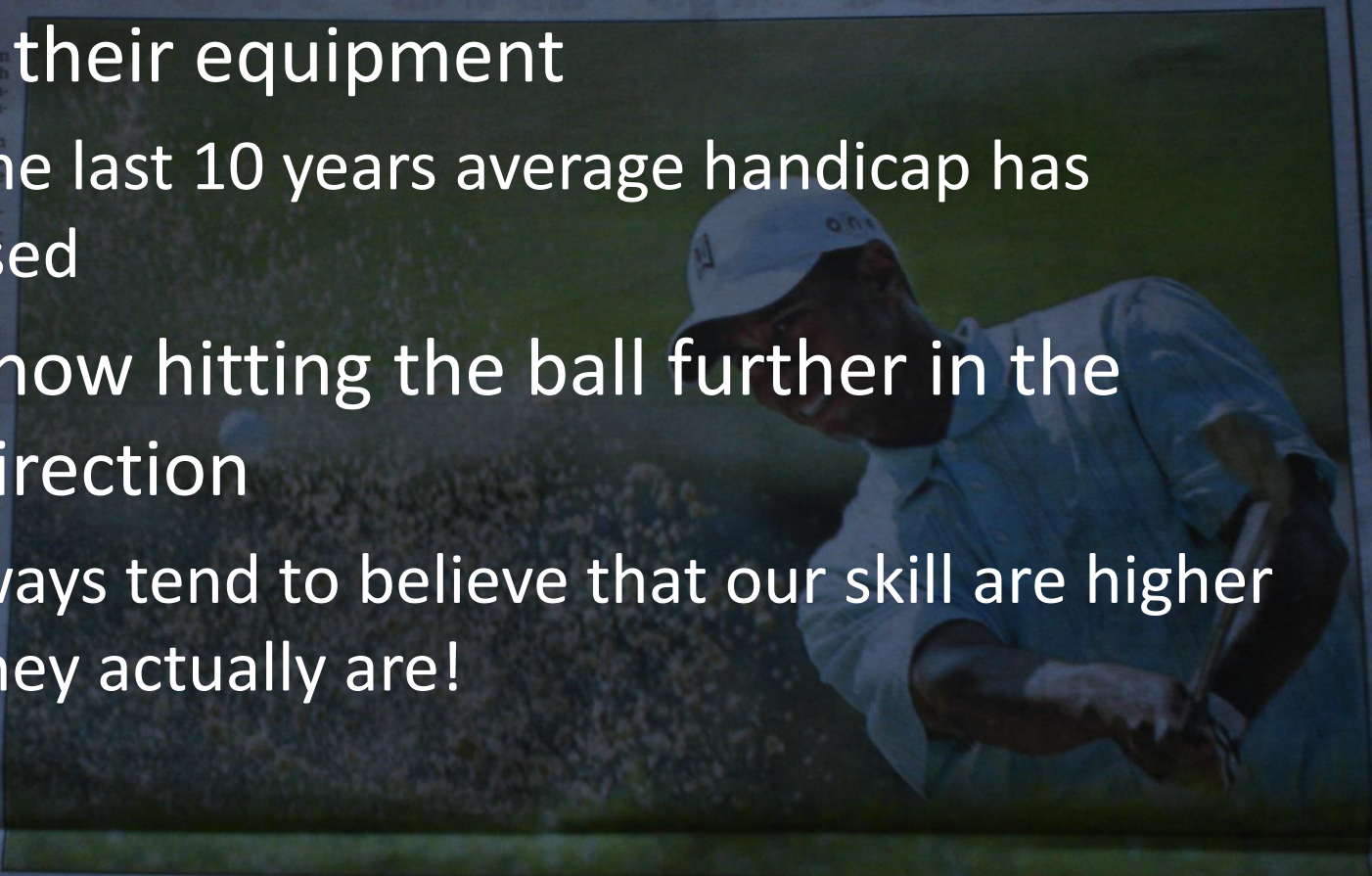
"You can buy a \$1000 driver but
...it's not necessarily going to make
...you hit the ball any further," said

Ogilvie, now a club professional at
...Royal Downs in Sydney.

Too many people just buy on the
...of the moment in America or
...England and the handicap goes
...from 14 to 17 and they're wondering
...why.

"They've bought the best equip-
...ment, but it's not necessarily going
...to make their game any better."

When they do buy new clubs they
...must have them fitted to suit the



Left floundering . . . many social golfers fail to improve because they over-estimate their ability to use the equipment of professionals like Tiger Woods

Most [male] golfers think they're
...much better than they really are,
...which means they use drivers with

defence industries turned their at-
...tention to golf equipment design.

added more flex to shafts over the
...years, so that what once might have

It is also important to hit the ball
...that best suits your game.

A case study

- **CHBBG**

- From benchmarking

- Low total pasture harvest
- Low proportion of the low harvest as saleable produce



The problem

	MJ	Pasture
Maintenance	18754306	1875431
Production	6226800	622680
Purchased feed	0	0
Total		2498111

Total pasture utilisation /ha

3762 kgDM/ha

Pasture/ha for maintenance

75% 2824 kgDM/ha

Pasture/ha for beef production

25% 938 kgDM/ha

Cents per kilogram of Drymatter

\$0.02

DSE/ha

13.9

ROC

2.4%



The solution

	MJ	Pasture
Maintenance	18754306	1875431
Production	12426800	1242680
Purchased feed	0	0
Total		3118111

Total pasture utilisation /ha

4696 kgDM/ha

Pasture/ha for maintenance

60% 2824 kgDM/ha

Pasture/ha for beef production

40% 1872 kgDM/ha

Cents per kilogram of Drymatter

\$0.01

DSE/ha

17.3

ROC

7.9%



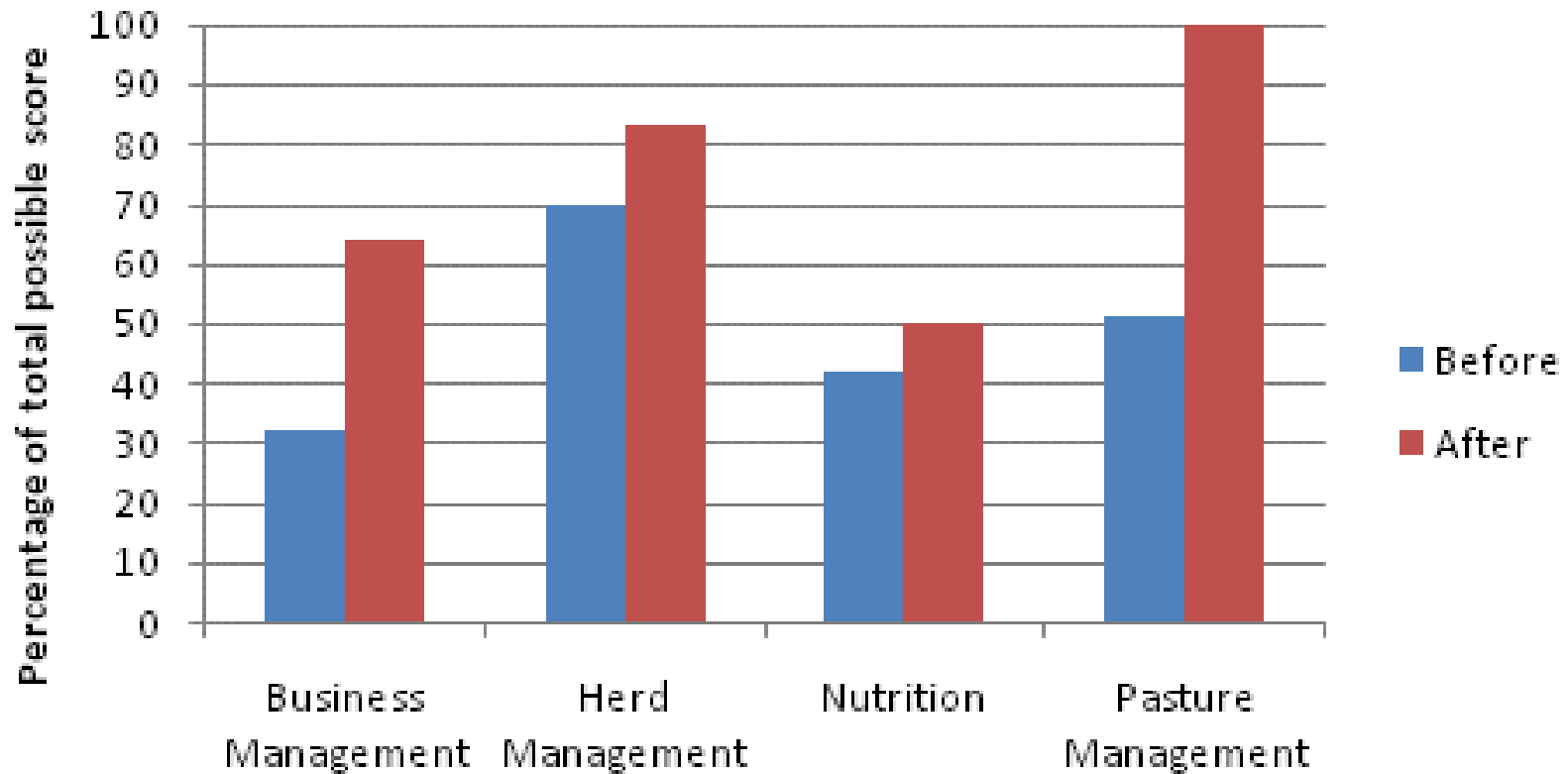
MLA PIRD Objectives

- **Pasture management principles**
 - Demonstrate that developing the skills to implement best practice pasture management that productivity can be increased and that the risks generally associated with higher stocking rates can be offset.
- **Pasture utilisation**
 - In the case of the host farms to lift pasture utilisation by 40% (5t/ha to 7 t/ha).
- **Pasture partitioning**
 - Reduce the proportion of pasture utilised going to animal maintenance from 75% to 60% by increasing growth rates and the speed at which animals are turned off.
- **Supported learning**
 - Provide an opportunity for participants to regularly practice the skills developed in the workshop.
- **Awareness**
 - Expose the broader group to the value of developing skills in the area of pasture management and to demonstrate that implementing these skills is simple and rewarding.



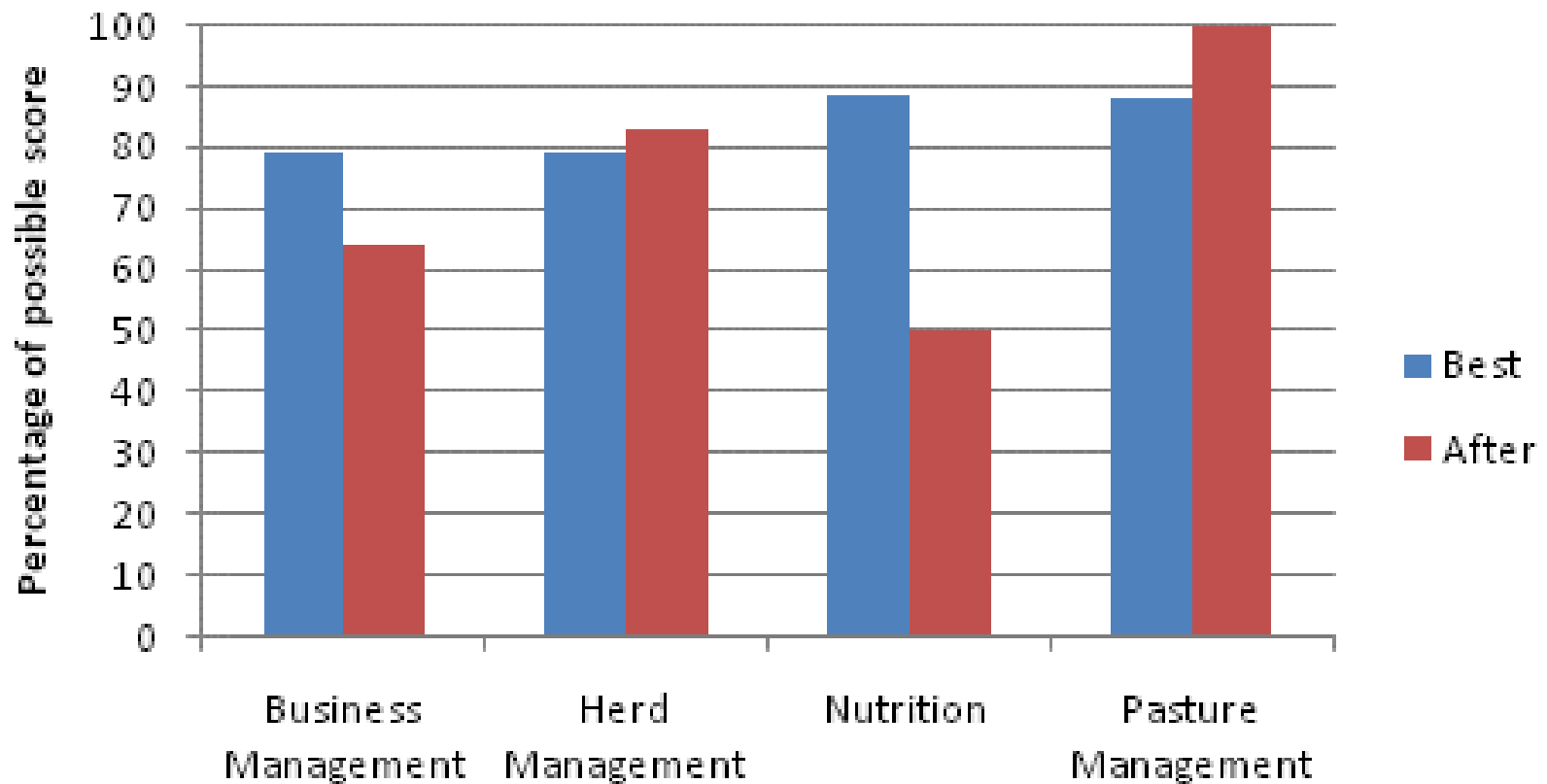
MLA PIRD

Change in skill level



MLA PIRD

PIRD group versus industry best



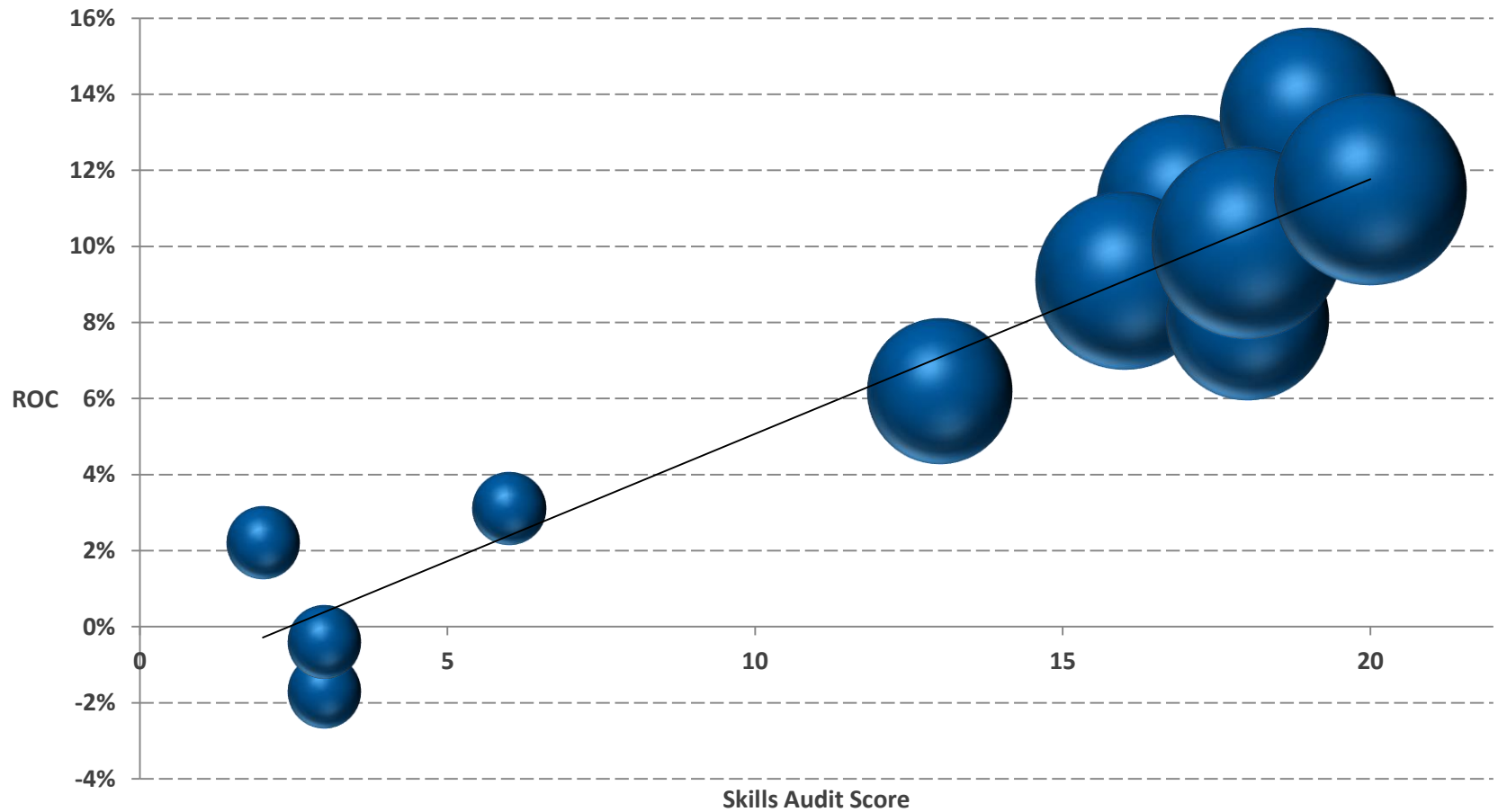
MLA PIRD

	Farm1 before	Farm 1 after	Farm 2 before	Farm 2 after
Income	\$307,700	\$424,000	\$329,740	\$639,580
Variable costs	\$88,900	\$117,430	\$167,640	\$217,470
Gross margin	\$218,780	\$306,570	\$162,100	\$422,110
Overhead costs	\$90,200	\$96,980	\$147,240	\$158,590
EBIT	\$128,580	\$209,590	\$14,860	\$263,520
ROC	3.2%	5.2%	0.3%	5.6%

Source: Bruce, I 2010 Master Thesis



Profit and Skill



Driver 6

“Skill is the most important and overlooked aspect of a successful business”

Pastoral Profit

A joint
initiative of



Analyse your business,
for better performance



WHAT - Pastoral Profit

- Financial literacy
- Business planning
- Cash flow budgeting
- Planning for the next generation
- Understanding key profit drivers
- Calculating cost of production
- Key financial benchmarks

WHAT - Pastoral Profit

- Record keeping
- Improving computer skills
- Business structures
- Effective team communication
- Managing a workforce
- Standard operating procedures
- Risk management
- Off property investment

HOW - Pastoral Profit

Pastoral Profit

A joint initiative of



Analyse your business,
for better performance

A one day workshop for current and aspiring pastoral business managers with **Paul Erkelenz** of *Astrebla Agribusiness & NRM Consulting*.

Financial Foundations for Pastoral Success

- starting the *Pastoral Profit* journey

- **The Destination** – How financial management affects where you want to go with your station
- **The Map** – Using an economic planning process to help you make better management decisions
- **The Signs and Symbols** – Understanding financial terminology important to your business
- **The Big Gauges** – Profit & Loss statements and Balance Sheets – how to read them, what do they mean, doing your own calculations and using them to make business decisions.

Port Augusta -12 Tassie St Mon 22nd Feb

Coober Pedy Golf Club Wed 24th Feb

Marree Telecentre Fri 26th Feb

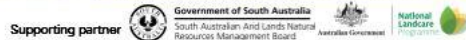
Commencing 9.00am

Cost: \$66 per business plus \$22 per subsequent business member (invoice issued)

For more information, and to register for these workshops, please contact Anne Collins, SA State Coordinator

T: 0427 486 115 E: anne.collins@sa.gov.au

www.pastoralprofit.com.au



Pastoral Profit

A joint initiative of



Analyse your business,
for better performance

A one day workshop for current and aspiring pastoral business managers with **Linda Eldredge** of *Eldredge & Assoc.*

Financial Literacy for Pastoral Businesses

- Reading and understanding tax returns – what can you learn from your profit & loss and balance sheet; tax compliance accounts vs management accounts; calculate key business ratios
- Understanding lending margins and influencing your financier, with guest presentation from a leading SA agribusiness lender
- Record keeping strategies

Blinman Hotel Tuesday 1st March

Craddock Hotel Wednesday 2nd March

Yunta Telecentre Thursday 3rd March

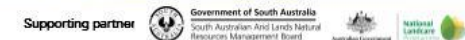
Commencing 9.00am

Cost: \$66 per business plus \$22 per subsequent business member (invoice issued)

For more information, and to register for these workshops, please contact Anne Collins, SA State Coordinator

T: 0427 486 115 E: anne.collins@sa.gov.au

www.pastoralprofit.com.au



A joint initiative of



WHO - *Pastoral Profit*

www.pastoralprofit.com.au

- Website includes past webinars, case studies & information about coming activities
- Speak to Anne about your interest

Anne Collins
Rural Solutions SA
Port Augusta
0427 486 115
anne.collins@sa.gov.au



A joint
initiative of



Thank you

Basil Doonan

bdoonan@macfrank.com.au



NB: No cats were harmed in making this presentation