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Business analysis for better decision making

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RCS
Transforming Agriculture

Decision making



**GOOD QUALITY DECISION MAKING is the
KEY to GOOD MANAGEMENT**

What do we need to make good decisions?



First thing: Confidence



I never make a bad decision.... **Today**

It's only a bad decision

when you have the benefit of **hindsight**

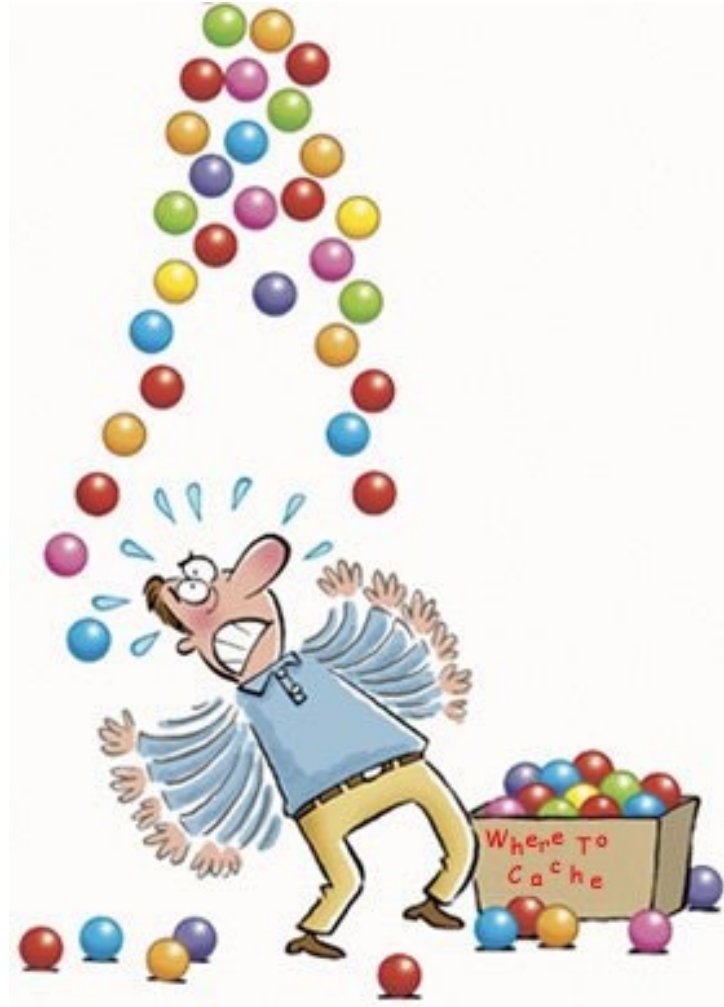
and all the **unknowns** become **known!**

What are you juggling?

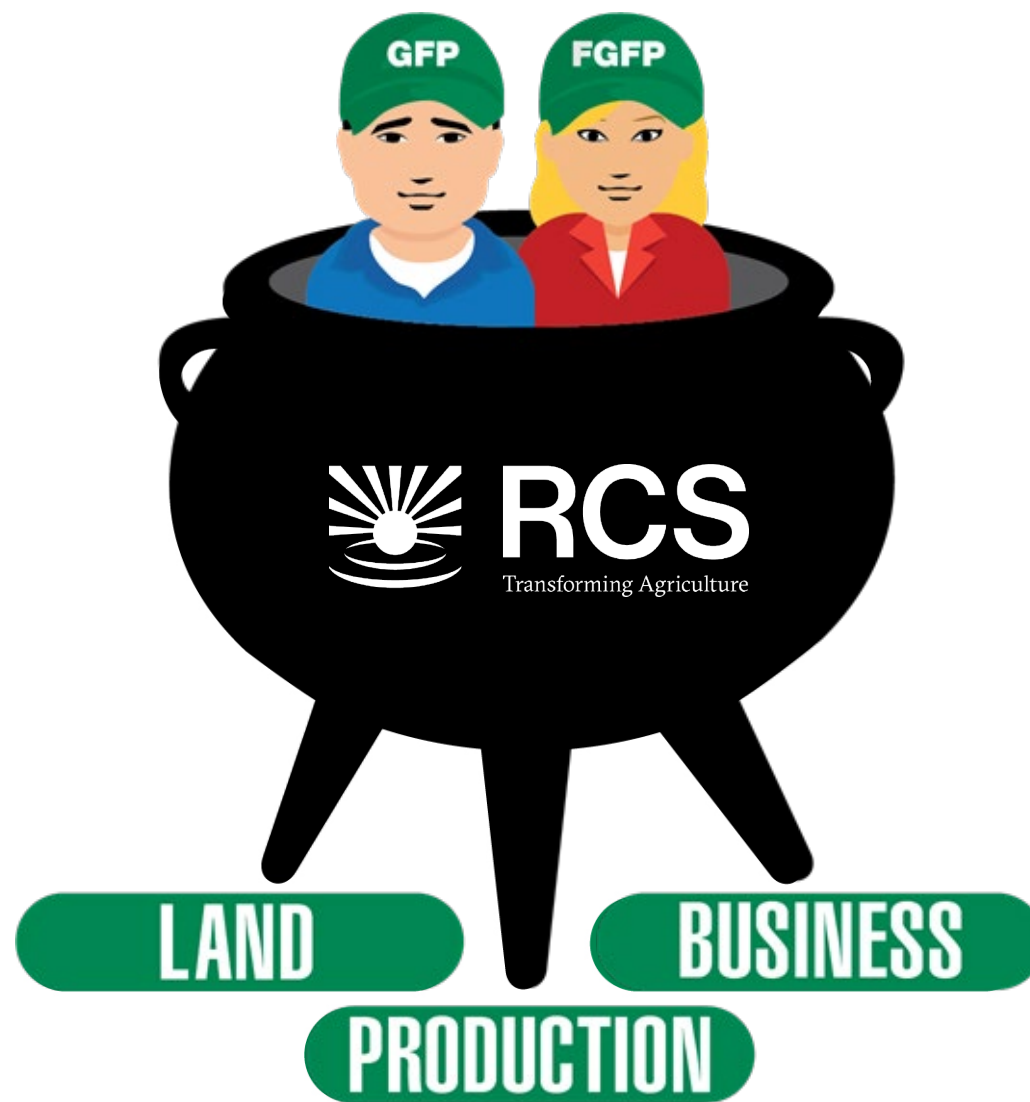


- communication,
- gross margins,
- bank discussions,
- soil health,
- fertiliser rates,
- marketing,
- tax returns,
- mechanics,
- nutrition,
- succession,
- people,
- budgeting,
- setting direction,
- planning,
- feed budgets
- & more.....

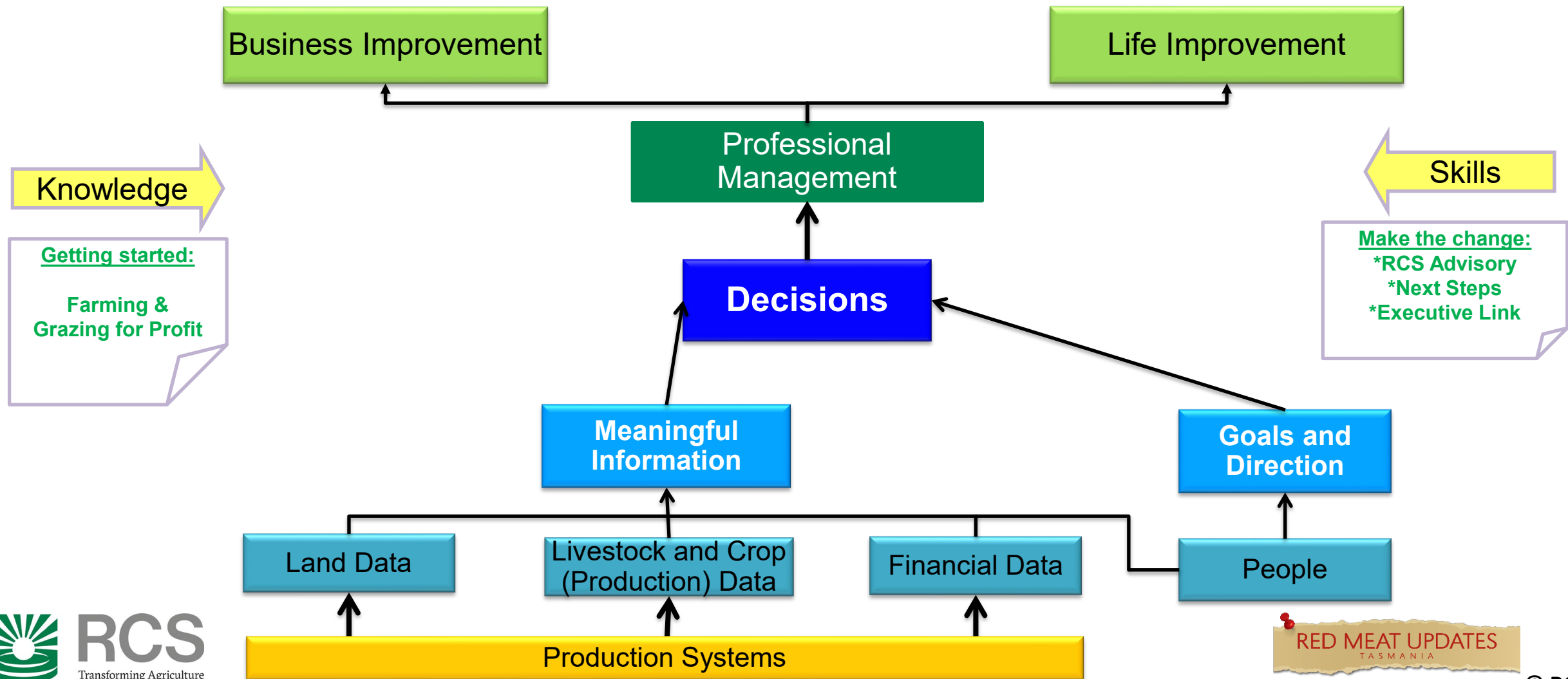
Sometimes we end up dropping a few balls...



- Which ones do we catch?
- Which ones do we 'place' down for now?



The RCS Professional Management Model



Where to start

1. Connect what is happening in the *paddock*, to what is happening in the *office*.
2. Recognise the difference between
 - *Taxation* numbers.
 - *Cashflow* numbers.
 - *Management* numbers

Taxation
(legality)

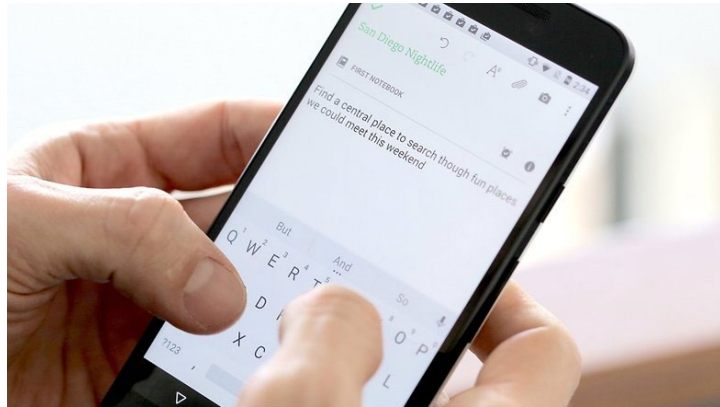
Cashflow
(liquidity)

Do it for:
Accountant
ATO
& us..

Do it for:
Bank
& us..

External drivers

Where are your production records kept?



The paddock/office dichotomy

Paddock data is kept for production reasons.

If data is lost, just get it later.

Office data is kept for tax and cashflow reasons.

Do what is needed to keep accountant and bank manager happy.

What if...

The production data was kept for management decisions?

Which contributed to meaningful cashflow numbers...

& meaningful balance sheets...

And hence the office numbers were simply a record of what was happening in the paddock?

Taxation
(legality)

Cashflow
(liquidity)

Mgmt
(profitability)

Accounting program

Chart of accounts:

- Sales/purchases by enterprise
- Direct costs by enterprise
- Overheads
- Interest
- Capital Expenditure
- Tax

**Stockflow/
Cropflow**

Mgmt Analysis

- Real balance sheet
- Real values of animals, grain, hay, wool etc
- Cash and non-cash
- ForPLAE

**OPENING
BALANCE
SHEET**



STOCKFLOW / CROPFLOW			
OPENING INVENTORY	<u>IN</u> <i>BORN, BOUGHT, TFR</i>	<u>OUT</u> <i>SOLD, DIED, TFR</i>	CLOSING INVENTORY

**CLOSING
BALANCE
SHEET**

**OPENING
BALANCE
SHEET**

STOCKFLOW / CROPFLOW				
COWS	OPENING INVENTORY	<u>IN</u> <i>BORN, BOUGHT, internal purch</i>	<u>OUT</u> <i>SOLD, DIED, Internal sale</i>	CLOSING INVENTORY
HEIFERS	OPENING INVENTORY	<u>IN</u> <i>BORN, BOUGHT, internal purch</i>	<u>OUT</u> <i>SOLD, DIED, Internal sale</i>	CLOSING INVENTORY
WEANERS	OPENING INVENTORY	<u>IN</u> <i>BORN, BOUGHT, internal purch</i>	<u>OUT</u> <i>SOLD, DIED, Internal sale</i>	CLOSING INVENTORY
STEERS	OPENING INVENTORY	<u>IN</u> <i>BORN, BOUGHT, internal purch</i>	<u>OUT</u> <i>SOLD, DIED, Internal sale</i>	CLOSING INVENTORY

**CLOSING
BALANCE
SHEET**

OPENING
BALANCE
SHEET

STOCKFLOW / CROFLOW

OPENING
INVENTORY

IN
BORN, BOUGHT,

OUT
SOLD, DIED

CLOSING
INVENTORY



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TRADING ACCOUNT

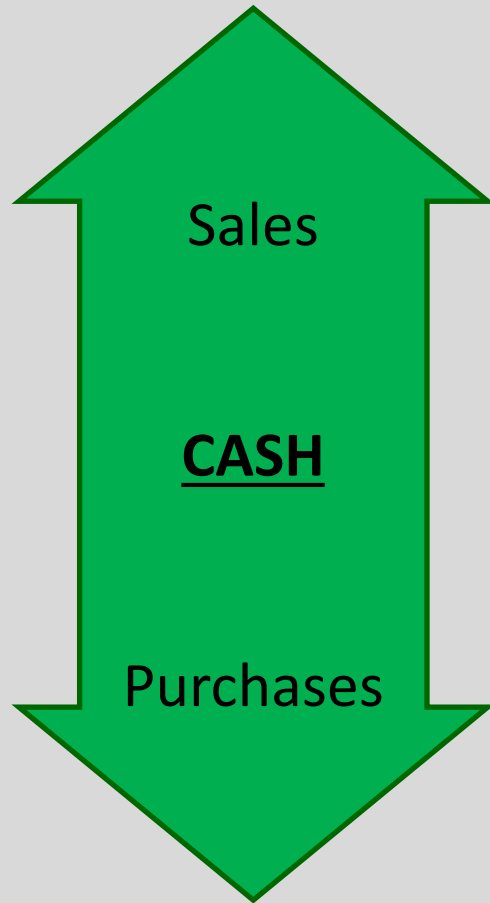
GROSS INCOME = SALES + CLOSING INV. + INTERNAL SALE

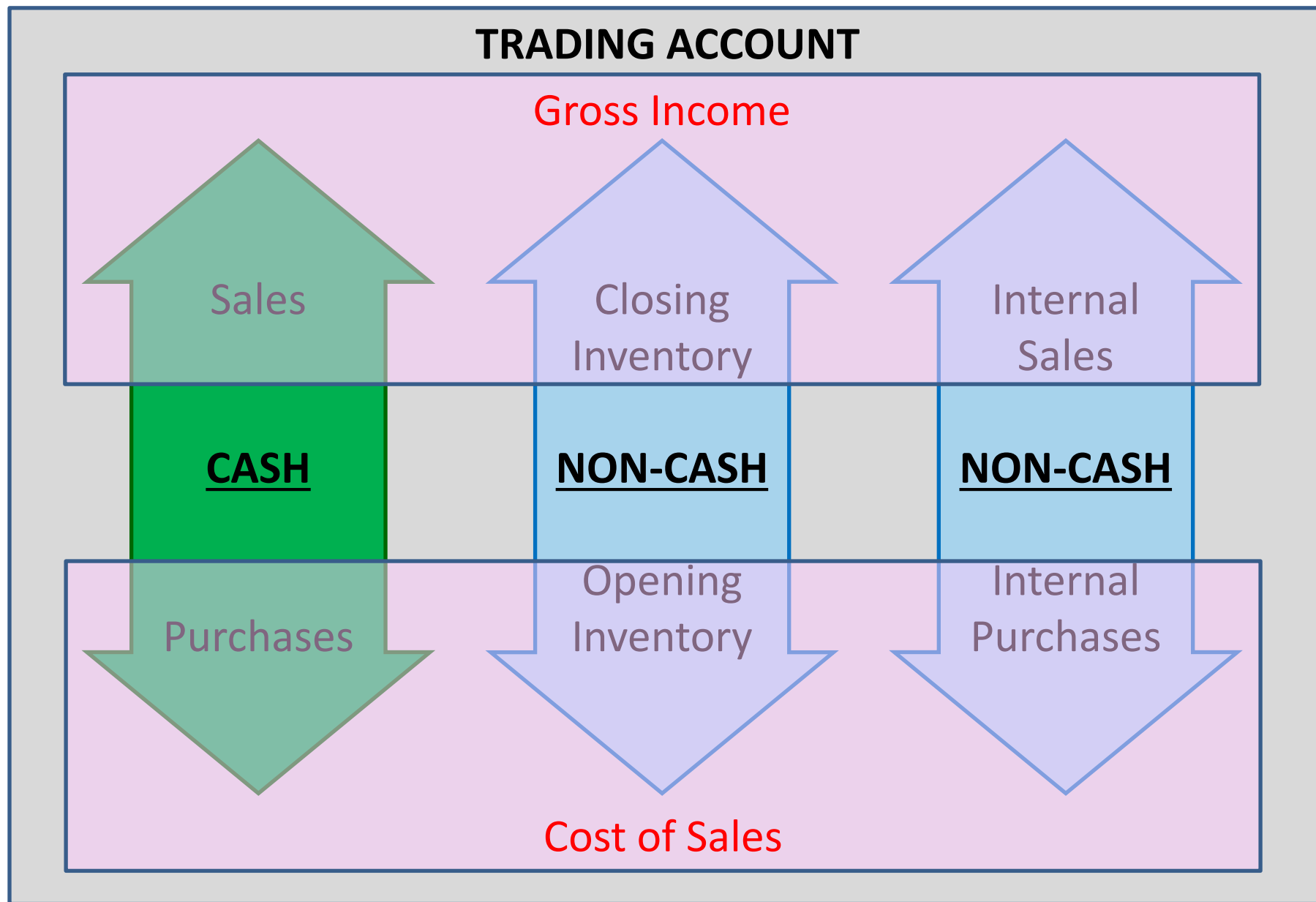
Less COST OF SALES = PURCH + OPEN INV. + INTERNAL PURCHASE

= GROSS PRODUCT

CLOSING
BALANCE
SHEET

Cash flow analysis





**STARTING
BALANCE
SHEET**

STOCKFLOW / CROFLOW

**OPENING
INVENTORY**

IN
*BORN, BOUGHT,
Internal purchase*

OUT
*SOLD, DIED,
Internal Sale*

**CLOSING
INVENTORY**

TRADING ACCOUNT

GROSS INCOME = SALES + CLOSING INV. + Int. Sale
Less **COST OF SALES** = PURCH + OPEN INV. + Int Purch
= GROSS PRODUCT

GROSS MARGIN ANALYSIS

GROSS PRODUCT /less DIRECT COSTS
= GROSS MARGIN

P&L

GROSS MARGIN /less OVERHEAD COSTS
= EBIT

EBIT /less FINANCE COSTS
= BUSINESS PROFIT

Business Profit less TAX
= BPAT

**CLOSING
BALANCE
SHEET**

BPAT pays for capex, dividends, reserves etc

KPIs I'd focus on

This measures
overall profit



- Return on Assets (ROA)

These tell us
where to focus.



- Gross Margin Ratio

- Overhead Ratio

- Turnover Ratio

- Cost of Production

- Gross Margin \$/DSE

- Gross Product per Full Time Labour Unit

ALL OF THESE
NEED FORPLAE!

Top three take home messages

1. Make your decisions.
2. Balance your three legged pot
3. Clearly separate taxation, cashflow and management analysis & decisions.

Tools, resources & training

- Tool/Resource: Set up your accounting program with a meaningful chart of accounts/categories
- Tool/Resource: Have a meaningful stockflow
- Resource/training: John Kempf podcast
- Resource/training: RCS!
 - Free newsletter,
 - Global Learning Hub,
 - Farming and Grazing for Profit (Launceston Aug '22)



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