RED MEAT UPDATES

TASMANIA

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Maximising profitability in mixed farming systems

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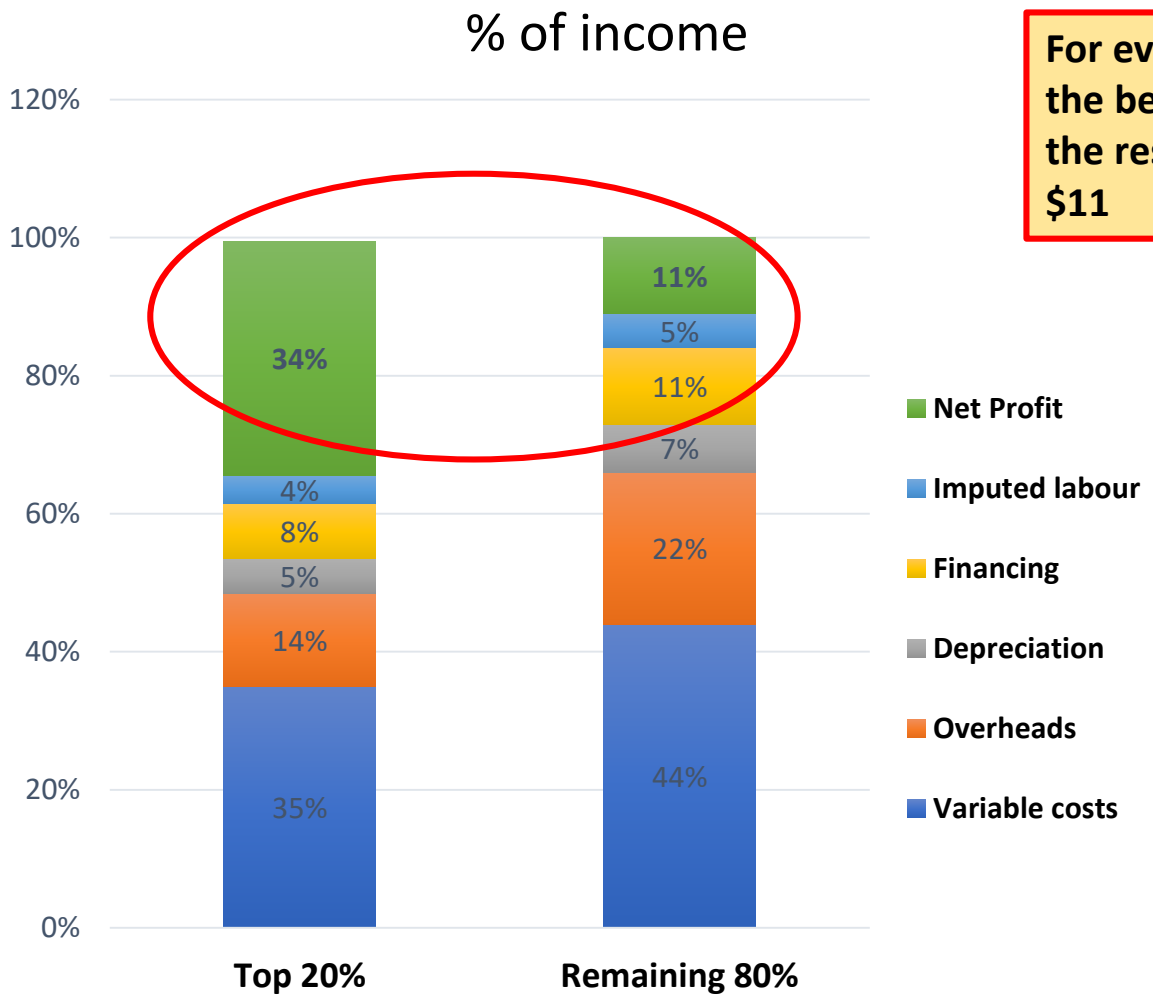
My purpose

1. What the top 20% are achieving.
2. Explain the key drivers of profitability in mixed enterprises.
3. Point you in the right direction.

Mixed enterprise done really well…



For every $100 of income, the best are retaining $34 the rest are retaining just $11

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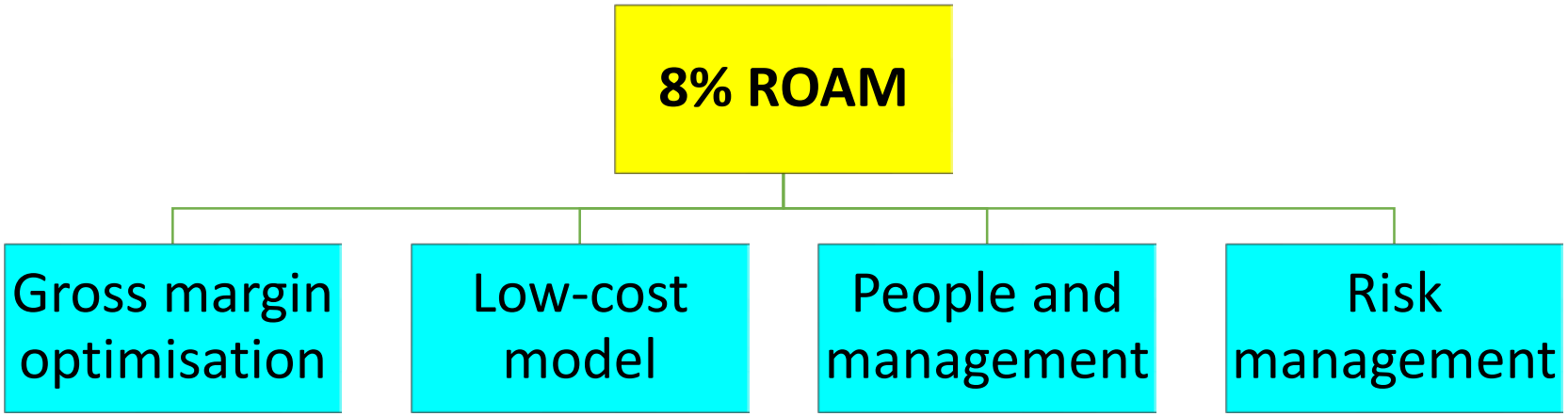
Mixed enterprise done really well…

	Top 20%	Remaining 80%
Return on assets managed (ROAM)	**8%**	3%
Total income	**$2.71M**	$1.39M
Net profit as a % of turnover	**34%**	11%

2.5 times more profitable

What do these businesses look like?

Profit driver framework



Gross margin optimisation

(Being really productive)

Gross margin optimisation — cropping

Item	Top 20%	Remaining 80%
Income/ha (cropping)	**$3806**	$2761
Variable costs/ha (cropping)	**$1452**	$1552
Gross margin/ha (cropping)	**$2354**	$1209
Variable costs as % of crop income	**41%**	62%

Similar investment (inputs)

Double the crop gross margin
= $1145/ha more for profit

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✓ **Agronomy**
✓ **Timeliness**

Gross margin optimisation — livestock

Item	Top 20%	Remaining 80%
Income/ha (livestock)	**$1039**	$576
Variable costs/ha (livestock)	**$444**	$220
Gross margin/ha (livestock)	**$865**	$357
Variable costs as % of LS income	**34%**	42%

Spent double
Earnt double
Double GM/ha

Gross margin optimisation — livestock

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Income/ha (livestock)	**$1039**	
Variable costs/ha (livestock)	**$444**	
Gross margin/ha (livestock)	**$865**	$357
Variable costs as % of LS income	**34%**	42%
Production (kg LW/ha) Lamb Beef	 **268 kg** **431 kg**	
Price received ($/kg LW) Sheep Cattle	 **$2.60** **$2.66**	 $1.96
Pasture harvest (kg DM/ha/100mm)	**873**	655

✓ **Animal performance**

✓ **Adding value**

✓ **Feedbase utilisation**

(utilise 33% more feed)

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Feed for production

Lamb growth rate – 40 kg lambs:

Daily growth rate (g/day)	Maintenance intake (kg/day)	Growth intake (kg/day)	Total intake (kg/day)	% diet going towards production
100	0.8	0.4	1.2	33%
150	0.8	0.6	1.4	43%
200	0.8	0.8	1.6	50%
250	0.8	1.0	1.8	55%
300	0.8	1.2	2.0	60%

Pasture Principles – A practical guide to pasture management
Doonan B, Sherriff L, Hooper P, Macquarie Franklin

= More feed towards product you get paid for

What the best do…

Indicators:

- Keep crop variable costs < 40% of cropping income
- Keep livestock variable costs < 35% of livestock income
- Utilise 1 tDM / ha / 100 mm rainfall (or 1 ML water applied)

Actions for you:

✓Collect your own enterprise info
✓Calculate enterprise gross margins/ha
✓Use your budget to test your enterprise mix
✓Set an operational plan with key dates
✓**??? (Get someone to help you)**

Low-cost business model

(Being really efficient)

Low-cost business model – comparison

Item	Top 20%	Remaining 80%
Total assets owned	**$16.1M**	$11.2M
Total liabilities	**$5.5M**	$2.8M
Net worth	**$10.6M**	$8.4M
Equity (%)	**73%**	75%
Area managed (ha)	**1737**	2731
Total income	**$2.71M**	$1.39M

More debt, but similar gearing

Low-cost business model – comparison

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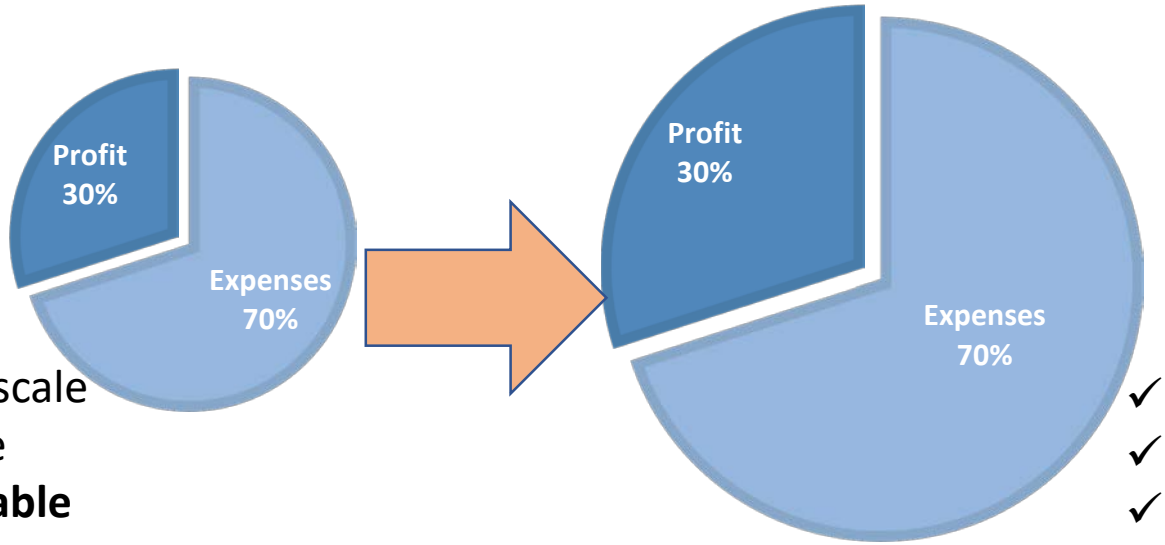
Total liabilities	**$5.5M**	$2.8M
Net worth	**$10.6M**	$8.4M
Equity (%)	**73%**	75%
Area managed (ha)	**1737**	2731
Total income	**$2.71M**	$1.39M
Land value per ha managed	**$11,030**	$6322

37% less area: Twice the income

Scale, not size, matters

Going for scale – simple and scalable



- ✓ Small scale
- ✓ Simple
- ✓ **Profitable**

- ✓ Larger turnover
- ✓ Repeatable systems
- ✓ **Profitable**

- ✓ Business management skills
- ✓ Access to scale
- ✓ Labour and machinery productivity
- ✓ Efficient finance/debt structure

Labour and machinery is more efficient

Benchmark	Top 20%	Remaining 80%
Income/FTE	**$476,287**	$296,354
Net profit/FTE	**$167,308**	$27,602
Total plant machinery and labour costs as % of income	**24%**	34%

- ✓ **Rationalise the # of enterprises**
- ✓ **Simple and scalable patterns of work**
- ✓ **(Strategic) investment in labour-saving infrastructure**

Similar gearing but better serviceability

Benchmark	Top 20%	Remaining 80%
ROAM	**7.75%**	3.02%
Finance coverage ratio	**11.30**	4.31
Equity %	**73%**	75%
Finance* costs as % of income	**8.71%**	13.38%

- ✓ **More EBIT = better debt serviceability**
- ✓ **Careful use of gearing**
- ✓ **Greater net profit = options to re-invest**

What the best do…

Indicators:

- 6% ROAM or better
- $100 EBIT per ha per 100mm rainfall
- TPML costs < 25% of income
- $150,000 net profit per FTE

Actions for you:

- ✓Work out your own ratios
- ✓Know your strengths and weaknesses
- ✓Design your own plan to improve performance
- ✓**??? (Get someone to help you)**

So we try to be the best…

We do what the best do:

- ✓Bigger farms
- ✓More fertiliser
- ✓More chemicals
- ✓More supplements
- ✓New genetics
- ✓New pasture species
- ✓New crop varieties
- ✓More contractors
- ✓More debt

These are ASSOCIATIVE behaviours

- **Characteristics of the better producers**
- **Not the cause of their success**

✓And we've had the cash to pursue these things…

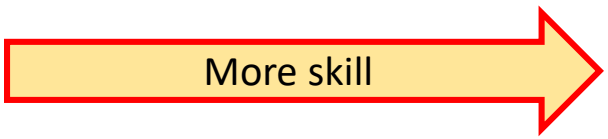
Unfortunately…

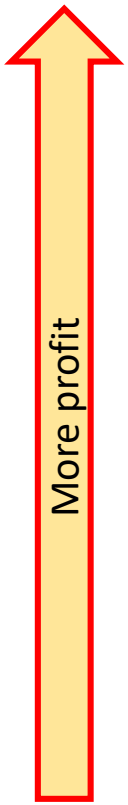
People and management

(Being really competent)

Profit is correlated to skill

- ✓ Systems focus
- ✓ ‘Helicopter’ view when under pressure
- ✓ Take responsibility for decisions
- ✓ Focus on the things within their control
- ✓ They implement plans well
- ✓ Strong observational skills





What the best do…

Indicators:

- $150,000 net profit **per FTE**
- **Timeliness**. Key implementation dates achieved
- Minimum of four weeks annual leave taken and **five days training**

Actions for you:

- ✓Identify and engage your team
- ✓Focus on what you can control
- ✓Communicate the plan and who is accountable for what
- ✓Measure, monitor and review team performance (include 360° feedback)
- ✓**??? (Get someone to help you)**

Profit driver # 4

Risk management

(Dealing with uncertainty)

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Business risk is…

"the probability of impaired financial performance due to uncertainty"

- Identify the primary sources of uncertainty:
  - production risk
  - climate risk
  - market risk
  - financial risk.

- Prepare for the risk event (mitigate) and make provision for it.

What the best do…

Indicators:

- > four times finance cover ratio
- cost of production at or below decile 2 pricing

Actions for you:

- ✓Understand your own risk profile (drought, flood, prices, markets, etc.)
- ✓Know your average cost of production
- ✓Plan for risk: key dates, trigger points and pre-set decisions
- ✓Create a relationship with your suppliers and customers
- ✓**??? (Get someone to help you)**

Integrating livestock and cropping

Do we need to sow …

- a grass seed crop, carrot seed crop, clover seed crop, and poppies
- two different cereal crops
- three different wheat varieties

Do we need to run…

- four different livestock enterprises (Prime lamb, SR Merino, cattle and sheep trading)
- two different lambings in both breeding enterprises
- four different shearings every year.

Look for synergies (win : win scenarios)

Example of a true win : win scenario

Integrated brassica–cereal crop combinations:

- kale/radish/canola sown into stubbles in February
- harvest with lambs/calves/dairy heifers
- sow spring wheat for cereal production

	Yield/ha	Conversion	Price	
Kale	6.0 t DM	10 : 1	$1.60/kg LW	
Spring wheat	6.5 t grain		$250/t	
Total income				
Variable costs	40%			
Gross margin				**= $1551**

Synergies:

- ✓ **Soil improvement**
- ✓ **Weed control**
- ✓ **Nutrient cycling**
- ✓ **Gives pastures a rest**
- ✓ **Out-of-season fattening**
- ✓ **Low risk : high return**

Your opportunity to improve profitability

Many producers have **internal capacity** to increase profitability:

- ✓ Allocate highest and best land use
- ✓ Simplify enterprise m
- ✓ Improved agronomy
- ✓ Improved timeliness
- ✓ Performance targets
- ✓ Improved feed utilisa
- ✓ Better cost managen
- ✓ Improved implement
- ✓ Systems approach to machinery and labour

Play to your strengths
Address your weaknesses
Make a plan
Be accountable
???(Get some help)

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Tools, resources and training

Training:

- Pasture Principles course
- BusinessEDGE

Decision support tools:

http://dpipwe.tas.gov.au/agriculture/investing-in-irrigation/farm-business-planning-tools

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