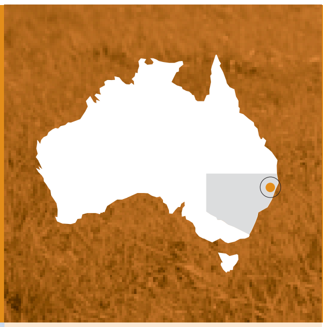
96/N13



Producer Research Support

Financial benchmarking leads to improved profitability

Walcha Advisory Service

The project

The productive and financial performance of farm businesses on the Northern Tablelands of NSW improved in 1996–97, a comparative analysis conducted by Walcha Rural Advisory Services showed.

The comparative analysis was the fifth and last of a series carried out under a Producer Research Support grant.

Objectives

Assist members of the group to raise the performance level of their farm management through the continuing use of the comparative analysis process with emphasis being put on the use of computerised technology for data collection and information exchange.

What was done

The analysis was done on a representative sample of the average grazing property in the Walcha district of NSW and typical of much of the Northern Tablelands of NSW.

Twenty-one farms, ranging from 3,100 ha to less than 500 ha were included in the survey. These covered all areas of the district's soil types and climatic variations.

What happened?

The 1996–97 comparison showed a steady improvement in return on assets, continuing a trend from 1994–95, which was the 'trough year' for this figure over the period of the study.

Profit per hectare had declined markedly in the 1994–95 study and had "stubbornly remained at that level" for two years. The 1996–97 analysis saw a "spectacular rise" of more than 100% over the previous year and a 40% rise over the long-term trend.

The same margin in this performance improvement was reflected in the gross margins on Merino enterprises which had been the major contributor to the better performance. Cattle continued to perform at about the same level as the previous year but were well up on 1994–95, although this was still only marginally better than the long-term trend.

Expenses, both fixed and variable, were up between 16 and 20% over the long term average, continuing a steady rise in the cost of production that has been evident over the last two decades.

These rises, although seemingly small at first, can have an enormous effect when commodity prices are low, as they were in the 1994–95 and 1996–97 financial years.

The productive and financial performance of farm businesses on the Northern Tablelands of NSW improved in 1996–97, a comparative analysis conducted by Walcha Rural Advisory Services showed.

The comparative analysis was the fifth and last of a series carried out under a Producer Research Support grant.

Key points

- Farm financial performance indicators vary markedly between years and seasons.

Contact details

Andrew Crawford / Kobada
Woolbrook NSW 2354
Tel 02 6777 5882
Fax 02 6777 5882

Equity levels for the group remained high in 1996–97 and, at well over 80%, were at a "safe level", according to the report's authors.

Stocking rates had recovered from the low of 8.8 dry sheep equivalents per hectare in 1994–95 to be almost 5% over the long term trend of about 10dse/ha.

Given reasonable seasons this would probably continue to rise as pastures recovered from drought and benefited from pasture improvement programs. In 1996–97 spending on fertiliser and seed alone rose 56% on the previous two years and 32% over the long term trend.

Discussion

The main summary of economic health showed:

- Return on assets showed a healthy rise over the low levels of the previous two years, to the highest level since the study started. The average 3.6% was 39% higher than the long term average of 2.6%.
- Return to equity showed an improvement over the previous year with the average rising from 2.3% to 4%.
- The average capital investment per hectare stood at $1,987 with the top 20% of farms on $2,764, compared with the bottom 20% on $1,324.
- The study showed average borrowings of $307,165 in 1996–97. Borrowings had risen over the previous year reflecting the extra capital required to re-establish pasture control weeds and buy livestock after drought.
- Equity had risen from just under 80% in 1995–96 to close to 90% in 1996–97.
- This change was due mostly to land revaluation following increased carrying capacity.
- Average loan servicing cost was $29,568, up from $23,000 the previous year.
- Output per hectare rose by nearly $50 over the previous year and was 20% over the long term average in 1996–97.
- Average output per hectare was $198 compared with the top 20% on $290; and the bottom 20% on $118. The top farm achieved $348.
- Net operating returns in 1996–97 showed significant rises. After the standard ‘owner allowance’ of $24,000, debt servicing and education costs had been deducted, the average farm made a net operating return of $59,452. The top 20% returned $156,540; the bottom 20% $742. The top farm had a net operating return of $234,712. In 1995–96, the bottom 20% were making a $12,000 loss. The average then was $6,293.

Producer Research Support

MLA Producer Research Support offers support funding of up to $15,000 over three years for groups of producers keen to be active in on-farm research and demonstration trials.

These activities include:

- Producer Initiated Research and Development
- More Beef from Pastures demonstration trials
- Prime Time Wean More Lambs demonstration trials
- Sustainable and productive grazing grants.

Contact Gerald Martin
Producer Research Support Coordinator.

Tel 08 8556 2900 or
producersupport@mla.com.au

96/N13

- When measured for farm output per $1000 invested, a measure that evens out the operating return by bringing the dollar output back to a common level of investment, there was a rise of nearly 10% over the previous year. The average farm recorded an output of $107; the top 20% $139; and the bottom 20% $78. The top farm had a farm output per $1,000 invested of $143.
- Average net farm profit per hectare was $71/ha, up from $34/ha the previous year. The top 20% of farms returned $132/ha while the bottom 20% $32/ha. The top farm returned $151/ha.
- Average carrying capacity was 10.3 dry sheep equivalents. The top 20% recorded 13.3 dse; the bottom 20% 7.6 dse with the top farm running 14.5 dse.
- When measured for dse per labor unit, the average farm was running 5,963 dse; the top 20% 8,624 dse and the bottom 20% 3,564. The top farm carried 9,098 dse.

MLA also recommends

BeefPlan

BeefPlan is a non-traditional approach to learning. Groups of like-minded beef producers, work together as a management team to focus on property management. Importantly the learning agenda is set and controlled by the group.

Contact Steve Banney - Project Coordinator
Tel 07 4093 9284 or sdb@austarnet.com.au

EDGEnetwork

EDGEnetwork offers practical field-based workshops to improve productivity and profitability for the long-term.

Workshops cover breeding, nutrition, grazing management, marketing and selling.

Call MLA on 1800 993 343 or
www.edgenetwork.com.au

Meat and Livestock Australia
Level 1, 165 Walker Street
North Sydney NSW 2060
Tel 02 9463 9333
Fax 02 9463 9393
Free Phone 1800 023 100 (Australia only)
www.mla.com.au