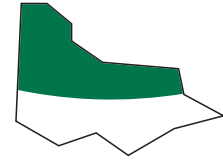


Fact sheet

NORTHERN VICTORIA

Profitable integration of cropping and livestock



Profitable mixed farming businesses seek synergy, not conflict, between their cropping and livestock enterprises. They do this by:

- implementing the key profit drivers for both cropping and livestock enterprises
- eliminating enterprise conflict.

What are these businesses doing differently?

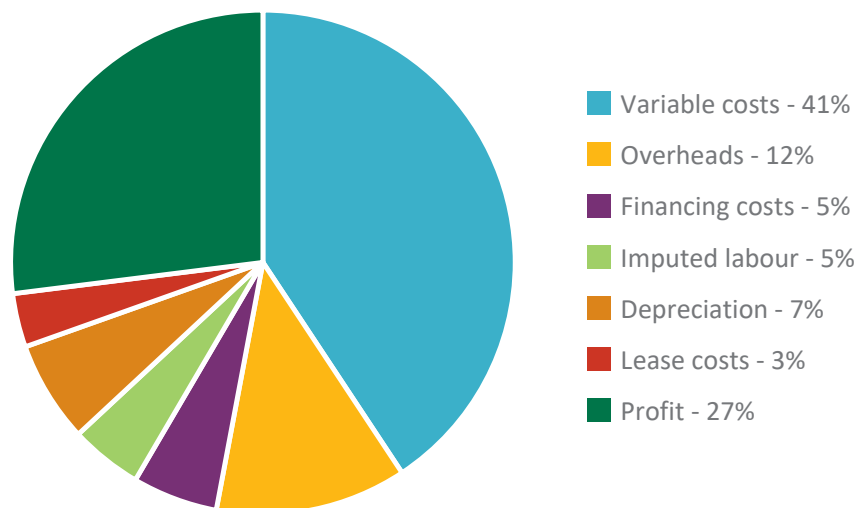
This superior profitability is a function of the following four primary profit drivers:

- gross margin optimisation
- low cost business model
- people and management
- risk management.

We refer to this as the profit driver framework. Whole-of-business performance will be compromised, at some point in time, without appropriate attention and consideration to all four of these primary profit drivers.



Top 20% nationally by return on equity



Nationally the top 20% of mixed farming businesses retain 30% of their turnover as net profit.

Northern Victoria

This zone is representative of the lower rainfall, warmer climate and lighter soils of the mixed farming regions of northern Victoria.

Whole-of-business performance

Whole-of-business performance is the best indicator of how successfully a mixed farm business is integrating cropping and livestock enterprises.

Table 1: Northern Victoria whole-of-business performance indicators

Benchmark	Max/Min	Top 20%	Other 80%
Return on assets managed (ROAM)	4.0%	3.9%	2.2%
Return on equity (ROE)	2.4%	1.5%	-1.8%
Profit as % of turnover	16%	11%	-11%

The region experienced two consecutive seasons of well below average annual rainfall (that is, approximately 55–65% of long-term average) in FY15 and FY16.

Despite this, the top 20% of businesses in northern Victoria still managed to achieve better results than the rest, including a ROAM 75% greater and a ROE double the rest.

Gross margin optimisation

The gross margin optimisation profit driver is influenced by income generation and disciplined variable cost control. The three key principles are to:

- target superior gross margin performance in both cropping and livestock enterprises
- aim to optimise crop yield and livestock income in a cost-effective way
- ensure a disciplined and balanced approach to variable cost inputs.

Cropping

Table 2: Northern Victoria cropping gross margin performance

Benchmark	Max/Min	Top 20%	Other 80%
Income (\$/ha)	\$617	\$542	\$307
Variable costs (\$/ha)	\$136	\$293	\$200
Gross margin (\$/ha)	\$253	\$250	\$107

The top 20% achieve higher income (\$235/ha or 76%) from higher water use efficiency, but only required slightly higher variable costs (\$93/ha or 46%) to achieve it. They are simply more cost effective, which means it is not what you spend, but how you spend it, for example timing and agronomy.

Livestock

Table 3: Northern Victoria livestock gross margin performance

Benchmark	Max/Min	Top 20%	Other 80%
Income (\$/DSE)	\$84	\$72	\$60
Variable costs (\$/DSE)	\$23	\$35	\$34
Gross margin (\$/DSE)	\$50	\$37	\$26

Livestock is the other side of the same coin, that is the top 20% of businesses spend the same, but earn more income from that expenditure.

Low cost business model

The low cost business model profit driver is related to the overhead cost structure, which is unique to each business. The key principles are:

- strive to develop simple and scalable farming systems
- avoid unnecessary complexity
- utilise machinery and labour efficiently as these are significant profit drivers.

Table 4: Northern Victoria low cost business model benchmarks

Benchmark	Max/Min	Top 20%	Other 80%
TPML % income	39%	43%	46%
Turnover/FTE	\$495,942	\$367,962	\$290,950
Finance costs as % income	10%	15%	13%

As the top 20% are achieving substantially higher labour and machinery productivity, they have lower-cost business models..

People and management

The choices we make, as managers, will significantly influence the profit outcome of our business. The three key principles are:

- strive for continual improvement in implementation
- develop adaptable, well thought-out operational plans
- seek to maximise team performance.

Risk management

Effective risk management primarily involves eliminating internal management risk. The three key principles are:

- recognise and believe that low risk, high margin agriculture is possible
- develop a resilient business model
- identify and mitigate key production and business risks.

What does successful integration look like?

Eliminate enterprise conflict

Successful businesses eliminate enterprise conflict as a first step to creating synergies from integrating cropping and livestock enterprises.

The primary reason often given for integrating cropping and livestock enterprises is to help manage commodity price risk (that is, when grain prices are low, livestock prices are high and vice versa) and/or seasonal risk. Thus, many businesses use enterprise diversification as a risk management tool. However, overcomplicating the enterprise structure can create new risks which negate the benefit from managing commodity price risk or seasonal risk.

The principle is to avoid any internal management risk that can be created through the process of diversification. The critical success factor, in a mixed enterprise context, is balancing the tensions that exist between cropping and livestock enterprises.

There are three potential outcomes that can arise from managing these tensions. They are:

- a win-win outcome from integration that results in a benefit or uplift to both enterprises
- a win-lose outcome where one enterprise gains, but at the expense of the other
- a lose-lose outcome where both enterprises are detrimentally affected.

Table 5: Potential integration scenarios in mixed enterprise

Crop	Livestock	
	Win	Lose
Win	<ul style="list-style-type: none"> • Finishing spring lambs on legume stubbles • Using a pasture phase to build organic carbon 	<ul style="list-style-type: none"> • Large paddock sizes are great for cropping, but not for grazing • Reduced winter feed supply because of locked up crops
Lose	<ul style="list-style-type: none"> • Shearing in April • Cereal or grassy based pastures in the crop rotation 	<ul style="list-style-type: none"> • Sowing fodder crops in May • Operational timeliness in both enterprises being compromised

Effective integration is about optimising the win-win scenarios and minimising the impact of unavoidable win-lose scenarios on the performance of the whole business. Minimising the impact of win-lose scenarios requires prioritising or protecting the choice that will preserve the most profit margin for the business as a whole.

On farm actions

- do an audit of your own win-lose framework
- develop an annual operations plan that focuses on achieving timeliness for all critical events
- review how often you handle your livestock and look for opportunities to avoid duplication
- match the scale of each of your enterprises to your investment in labour and machinery
- develop job descriptions and implement annual reviews with all team members
- manage risk by investing time and energy into the things that are within your control.

Simplicity pays

Strive to develop scalable farming systems and avoid unnecessary complexity.

Simplicity facilitates:

- greater focus
- less enterprise conflict
- better labour productivity
- better utilisation of equipment and infrastructure
- enhanced mindset and wellbeing.



Business case for mixed farming

The business case for adding livestock to a cropping business generally comes down to one or more of the following:

- livestock being part of the solution to optimise gross margins on high frost risk or waterlogged areas
- livestock assisting with ryegrass management and control
- lambs finishing on legume stubble being a profitable use of a by-product
- a pasture phase being the most profitable legume available to the crop rotation
- grazing crops in high rainfall areas to increase income.

The business case for adding cropping to a livestock business generally comes down to the following:

- higher cropping gross margins (but beware of extra overhead costs)
- a cropping phase assisting with weed management and building soil fertility in longer-term pastures
- aeration from tillage assisting with overcoming compaction and water infiltration issues
- grazing crops filling a winter feed gap
- crop stubbles providing a good maintenance diet for breeding stock.

Glossary

FTE – full-time equivalent labour unit based on hours worked by family members and paid employees

Max/Min – the maximum result achieved for an income benchmark, or the minimum achieved for a cost benchmark

Range – lowest to highest result achieved

Return on assets managed (ROAM) – operating profit (or EBIT – earnings before interest and tax) divided by total assets managed

Return on equity (ROE) – profit divided by net worth or equity

Top 20% – the average of the top 20% of businesses within the sample, measured by ROAM

TPML – total plant, machinery and labour including all costs associated with these items

TPML % income – total plant, machinery and labour as a percentage of total income

Turnover/FTE – total income or turnover per full-time equivalent labour unit

Variable costs – those costs that vary with production, also known as direct or input costs

Useful resources

For those looking to implement these profit drivers, there are some MLA programs available:

- Making More from Sheep www.makingmorefromsheep.com.au
- MLA's Southern Business EDGE (available in Victoria through RMCg or visit www.mla.com.au/events to find a workshop near you)
- More Beef from Pastures mbfp.mla.com.au
- Pasture Principles (Macquarie Franklin Pty Ltd or Rural Directions Pty Ltd)
- Profitable Grazing Systems www.mla.com.au/pgs

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Disclaimer

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