MEAT & LIVESTOCK AUSTRALIA

Fact sheet

TASMANIA

Profitable integration of cropping and livestock

What is effective integration?

The ability to operate two or more enterprises in a synergistic manner, eliminating enterprise conflict, while ultimately achieving superior profitability.

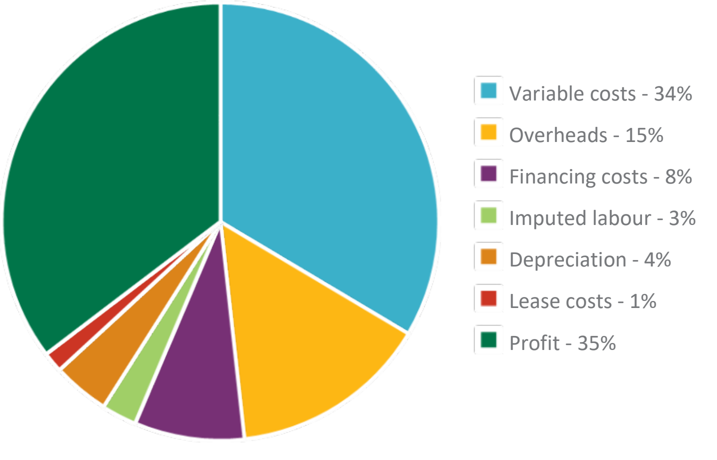
What are the indicators of profitable integration?

- >6% return on assets managed
- 30% of income returned as net profit
- >$150,000 net profit/FTE
- finance coverage ratio of >4:1.

How do we achieve these results?

- integrate the four primary profit drivers; this is crucial for strong results
- protect and preserve the profit margin of each enterprise
- implement simple, repeatable systems
- execute well-planned and timely decisions.

Top 20% Tasmania by return on equity



The top 20% of mixed farming businesses consistently retain 30 cents for every dollar they receive and 8 cents for every dollar they have invested in farm assets.

The differences in farm business performance are attributable to better management and integration of four primary farm business profit drivers by the top 20%.

Gross margin optimisation

This profit driver is influenced by both income generation and disciplined control of variable costs. It is an indicator of operational efficiency. The top 20% spend 2.6 times more on variable costs than the remaining 80%, however, they generate significantly more income from that investment. The top 20% generate $2.88 in income for every dollar they spend on variable costs, whereas the remaining 80% generate just $2.25.

Good agronomic advice and timely implementation is key to achieving superior results in cropping enterprises. For livestock enterprises, the best producers are prepared to invest more on variable costs to achieve proportionally higher livestock incomes. The best producers are focused on maximising the margin per DSE with superior feed utilisation and individual animal performance.

Key principles

- optimise crop and livestock yields while minimising variable cost per unit of saleable product
- optimise gross margin performance.

Key performance indicators

- keep enterprise variable costs to less than 40% of enterprise income for cropping and 35% for livestock
- utilise 1t of dry matter/100mm rainfall (or 1ML irrigation/ha) in livestock enterprises.

On farm actions

- optimise crop and livestock yields while minimising variable cost per unit of saleable product
- collect annual cropping and livestock information and calculate gross margins per hectare
- use this information to build a budget that tests your enterprise mix and provides a basis to measure performance
- review your crop rotation with your agronomist
- allocate crop area and growing season to maximise overall yield potential
- timing of crop operations is key, so get ready early
- set critical dates for operations (e.g. sowing, fertilising and crop protection)
- manage single versus multiple bearing ewes separately
- apply preferential treatment (feed, shelter) to multiple bearing ewes
- select sires with proven commercial value
- monitor and improve your feedbase utilisation.

Low cost business model

The overhead cost structure of the business influences business profitability. A low proportion of overhead costs relative to income allows the business to retain a greater proportion for profit. The top 20% generate $7 of income for every dollar consumed by overhead expenses, whereas the remaining 80% generate less than $5.

Key principles

- maximise profitability by using simple repeatable systems of management
- minimise the number of enterprises through profit and risk trade-offs
- optimise machinery and labour utilisation
- a profitable business is in a strong position to grow.

Key performance indicators

- greater than 6% ROAM
- greater than $100 operating profit/ha/100mm rainfall
- greater than $150,000 net profit/FTE
- total plant machinery and labour (TPML) costs less than 25% of income.

On farm actions

- implement simple, repeatable systems of management
- achieve high machinery and labour utilisation
- rationalise the total number of enterprises
- get your own business model profitable, then grow it.

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.

People and management

The choices we make, as a manager, will have a significant influence on the profit outcome of our business. The top 20% producers typically view their business as a whole and continually strive to improve performance results.

Effective decision making is a key factor in good management. Top 20% businesses generate $174,700 more income per employee and retain a $140,000 greater margin per employee, after allowing for costs. They do this by planning their operations effectively and executing these plans efficiently. Everybody in the business knows what the business plan is and understands the role they play in delivering it.

Key principles

- continual improvement in implementation of the business plan
- adaptable, well thought-out operational plans
- maximised team performance.

Key performance indicators

- net profit/FTE of greater than $150,000.

On farm actions

- invest in your skills and the skills of those around you
- focus on elements that you and your team can control
- differentiate between strategic and operational matters
- present the overall business plan and communicate who is accountable for what
- measure, monitor and review team performance with opportunity for 360° feedback.

Risk management

Risk comes in multiple forms, including financial risk, climate risk, market risk and workplace risk, to name just a few. Top 20% businesses are better able to withstand negative impacts because a higher proportion of income is available to absorb any shocks. Monitoring the business's performance against budget, combined with regular forecasting, is a powerful tool for anticipating and managing risk.

Key principle

- develop a business model that can withstand volatility of markets and other external influences.

Key performance indicators

- net profit/FTE of greater than $150,000
- low volatility in income to variable cost ratio from year to year, with target less than 40% for cropping and less than 35% for livestock.

On farm actions

Develop a business model that can withstand volatility of markets and other external influences:

- understand the trade-off between risk and return
- manage risk factors with specific mitigation strategies (i.e. reduce, avoid, transfer or accept)
- optimise gross margins and rationalise overhead expenditure to improve returns
- negotiate agreements with suppliers and customers
- have available equity as a buffer to deal with unexpected challenges.

Glossary

Operating profit – retained income after meeting all operating expenses except interest costs and tax

Net profit – retained business profit after meeting finance costs

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

Return on assets managed (ROAM) – is the operating profit expressed as a percentage of the value of farming assets managed

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

Key benchmarks and targets for an integrated business

The following benchmarks are targets for businesses to aim for and the stretch targets are what is possible and being achieved by the top 20%.

Table 1: Whole-of-business performance benchmarks

	Benchmark	Stretch target
Return on equity	5%	8.5%
Return on assets managed	6%	8.5%
Profit as % of income	30%	35%
Cropping gross margin per ha	$2,100	$2,300
Livestock gross margin per ha	$650	$800

Matching enterprises with the natural resource base

In determining a suitable mix of enterprises, profit and risk are only two aspects of a multifaceted decision-making process.

At the core of this process is the matching of land class to a range of suitable enterprises.

The most fertile and well-drained arable soils are dedicated to cropping – both dryland and under irrigation.

Permanent pasture and livestock production is focused on areas too heavy (prone to waterlogging) or too rocky for irrigation and cropping.

Livestock fit in around the more lucrative cropping program, although crop species that complement livestock production (e.g. pasture seed and cereal crops) are chosen to optimise the integration of crops and livestock.

The final piece of the puzzle is to build strong relationships with key industry contacts across the enterprise mix. Being able to develop and maintain lucrative crop and livestock contracts relies on seeking out and building relationships with the right people.

Useful resources

Relevant training programs available are:

- Pasture Principles (Macquarie Franklin or Rural Directions Pty Ltd)
- MLA's Southern BusinessEDGE (available in Tasmania through Macquarie Franklin or visit www.mla.com.au/events to find a workshop near you)
- MLA's Profitable Grazing Systems. Supports programs developed by industry providers for producers. Covers a range of subject areas including business, people, reproduction and genetics, value chain and feedbase (www.mla.com.au/PGS).
- MLA's Making More from Sheep and More Beef from Pastures manuals (makingmorefromsheep.com.au and mbfp.mla.com.au)

Disclaimer

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