

# Leading Sheep MeatUp Forum

LONGREACH, FRIDAY 25 MARCH 2022





# Infrastructure investments

Costs, benefits and how they create wealth for you

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# If there's not a labour problem now – there might be shortly



Source: Mark Rober (<https://www.youtube.com/watch?v=hFZFjoX2cGg>)

Operating return

Plus

Capital return

=

Total business return





## Why you have to strive for business efficiency

$$\frac{\text{Operating profit}}{\text{Asset value}} = \text{Operating return}$$

$$\frac{\$300,000}{\$10,000,000} = 3.0\%$$

$$\frac{\$600,000}{\$20,000,000} = 3.0\%$$

# The development mentality

More production at low marginal cost



# Partial budget

- Decision frame work
- Compares alternatives
- Measures change
- Compares with status quo
- Different to averaging



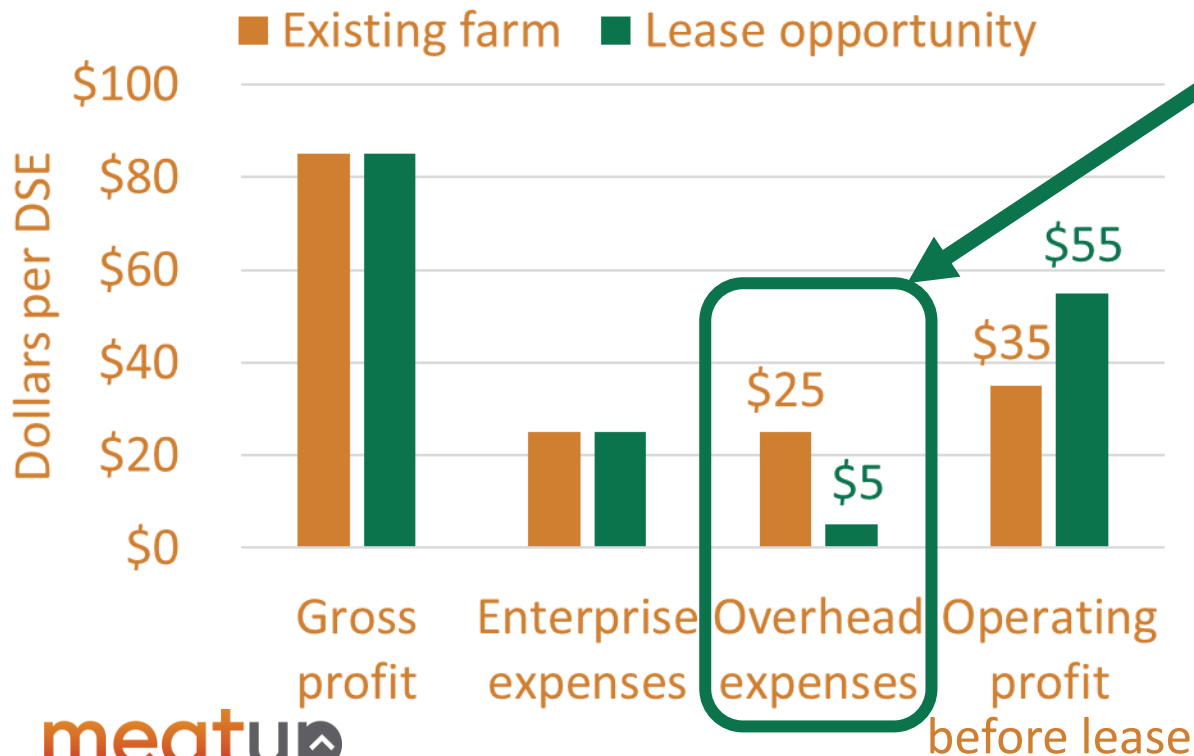
# Average versus marginal thinking



You are given the chance to lease land with scale of 2,500 DSE next door at \$35 per DSE – should you take it?



# Marginal thinking is different



This is where the magic happens. Scale drives cost efficiency

# Average versus marginal thinking

	Average thinking	Marginal thinking
Profit after lease (\$/DSE)	\$0	\$20
Scale (DSE)	2,500	2,500
Net return from lease	\$0	\$50,000
Return on operating capital	0%	7%

# Investment analysis concept

Initial investment cost

Net annual return

Return on investment



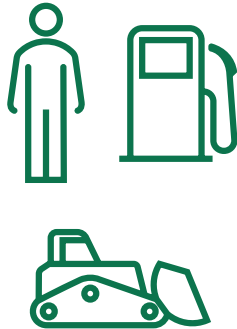
# Components – initial costs

## Initial investment cost

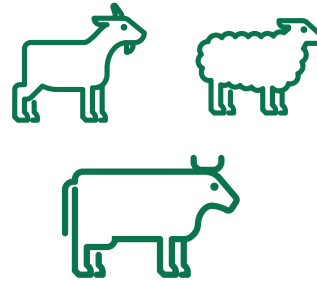
Works/  
item



Labour/  
inputs



Livestock



Opportunity  
cost



Annual return

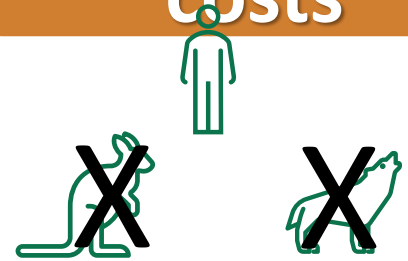
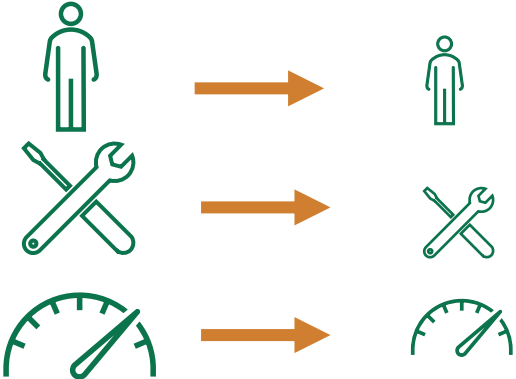
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Net benefit

More **Less** on

~~Ongoing costs~~

Less cost



# Capital value – same more production

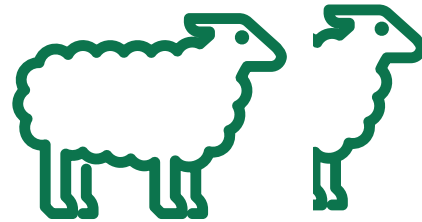
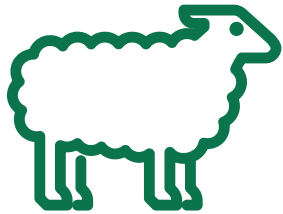
\$700/DSE

\$700/DSE

12,000 DSE



14,000 DSE

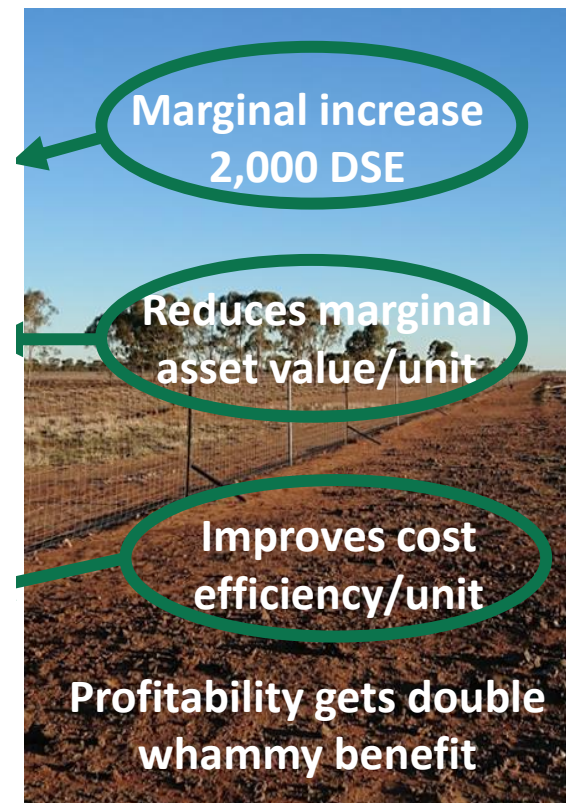


\$8.4 Million

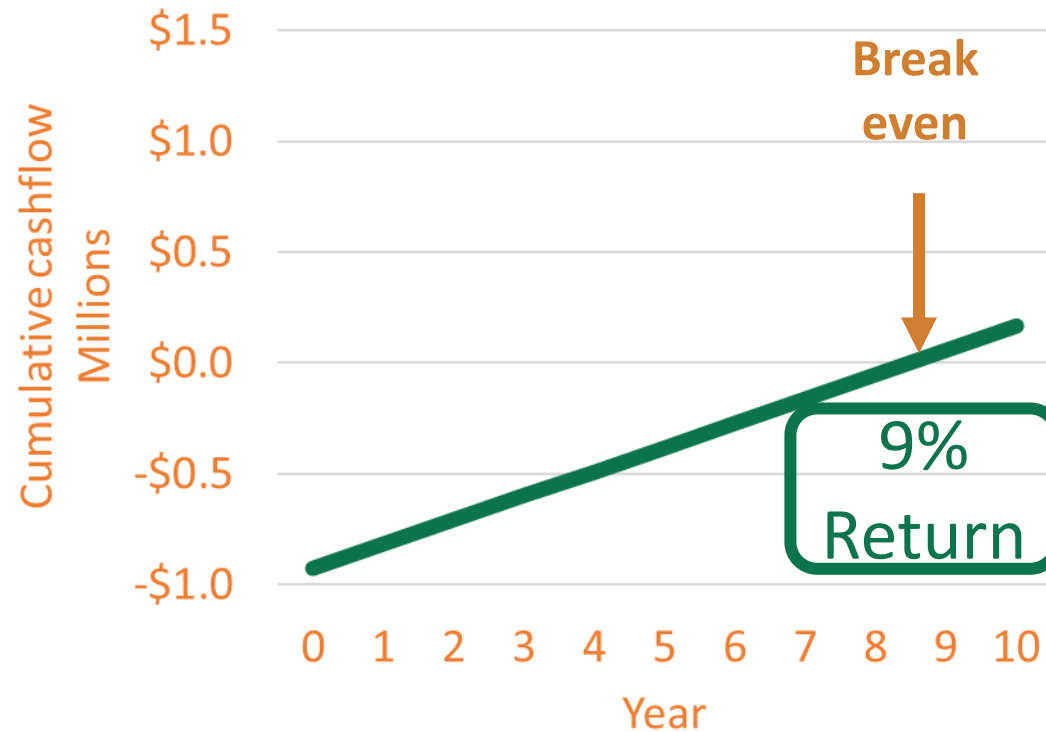
\$9.8 Million

# Intensity (lift) - the development approach

	Existing
Stocking rate (DSE)	12,000
Land value (\$ gross)	\$8,400,000
Investment (\$/DSE)	\$700
Livestock capital (\$/DSE)	\$200
Total investment (\$/DSE)	\$900
Profit (\$/DSE)	\$35
Profitability (ROAM)	3.9%



# More profit – but does it wash it's face?



## Investment

Fencing	\$526,000
Addtnl livestock	\$400,000
<b>Total</b>	<b>\$926,000</b>

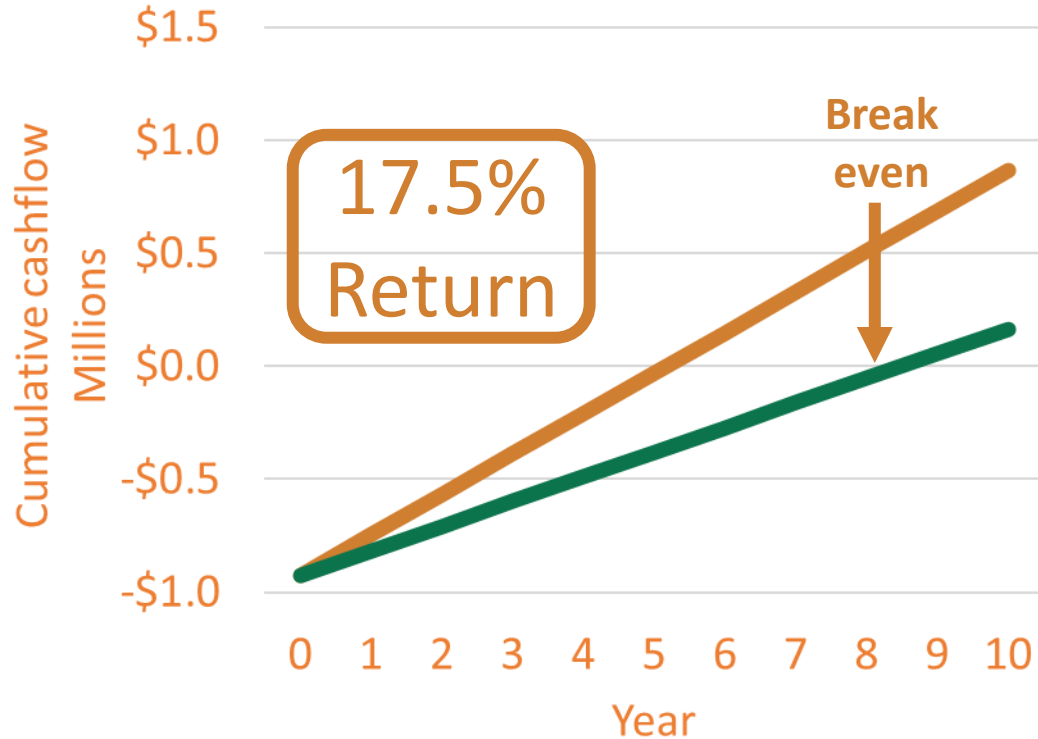
## Annual benefit

**What happens if these inputs change?**

Livestock GM	\$110,000
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# Know what it takes to create a business case



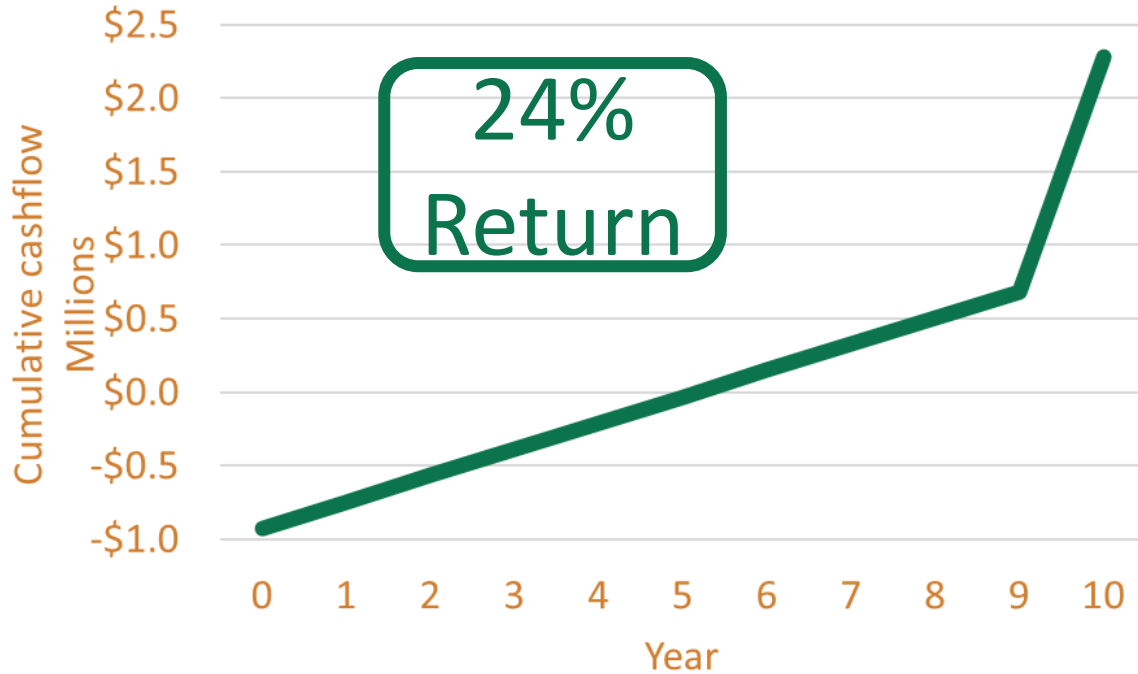
## Investment

Fencing	\$526,000
Addnl livestock	\$400,000
<b>Total</b>	<b>\$926,000</b>

## Annual benefit

\$60 x 2,000 xtra DSE	\$120,000
\$5 x 12,000 DSE	\$60,000
<b>Livestock GM</b>	<b>\$180,000</b>

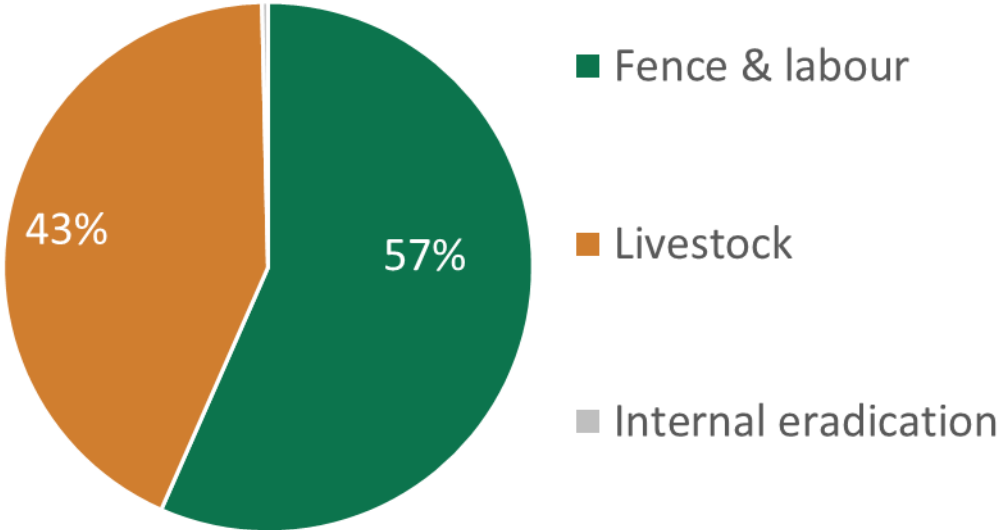
# If the market values it – production adds capital value



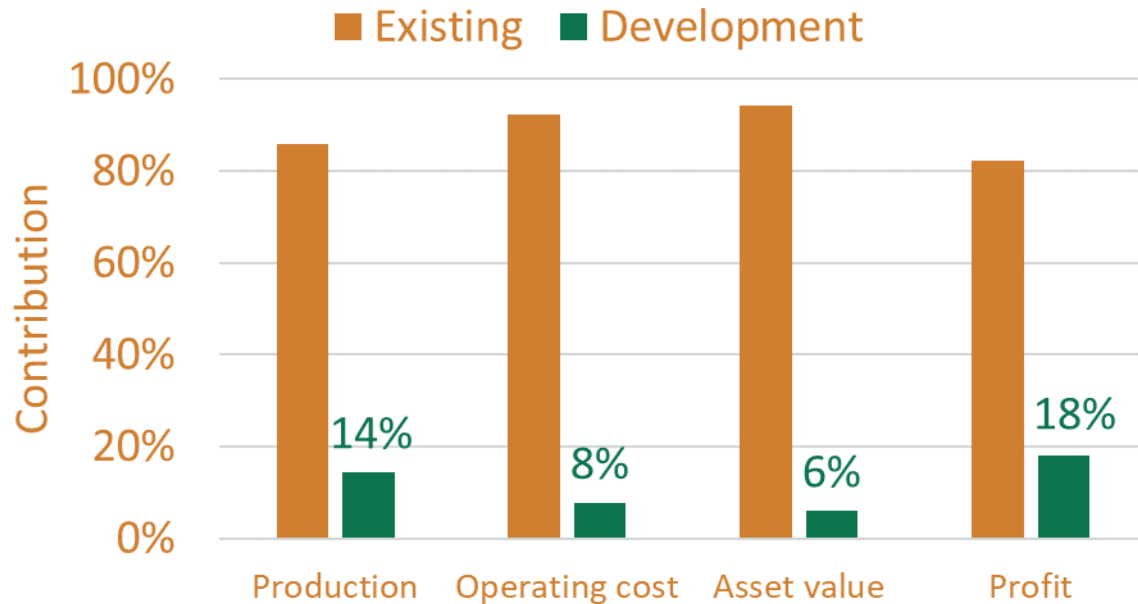
Additional capital growth of land (5%pa) additional 2,000 DSE = \$880,000

# Cost proportions differ by project

Budget on more livestock if production increases



# More production from not much more cost can deliver substantially more profit



# Which thongs are mine?

A



B



C



D



E



Rate the confidence of your response 1-10  
(Where 1=No confidence 10=complete confidence)

**A good investment decision is  
an informed investment  
decision.**

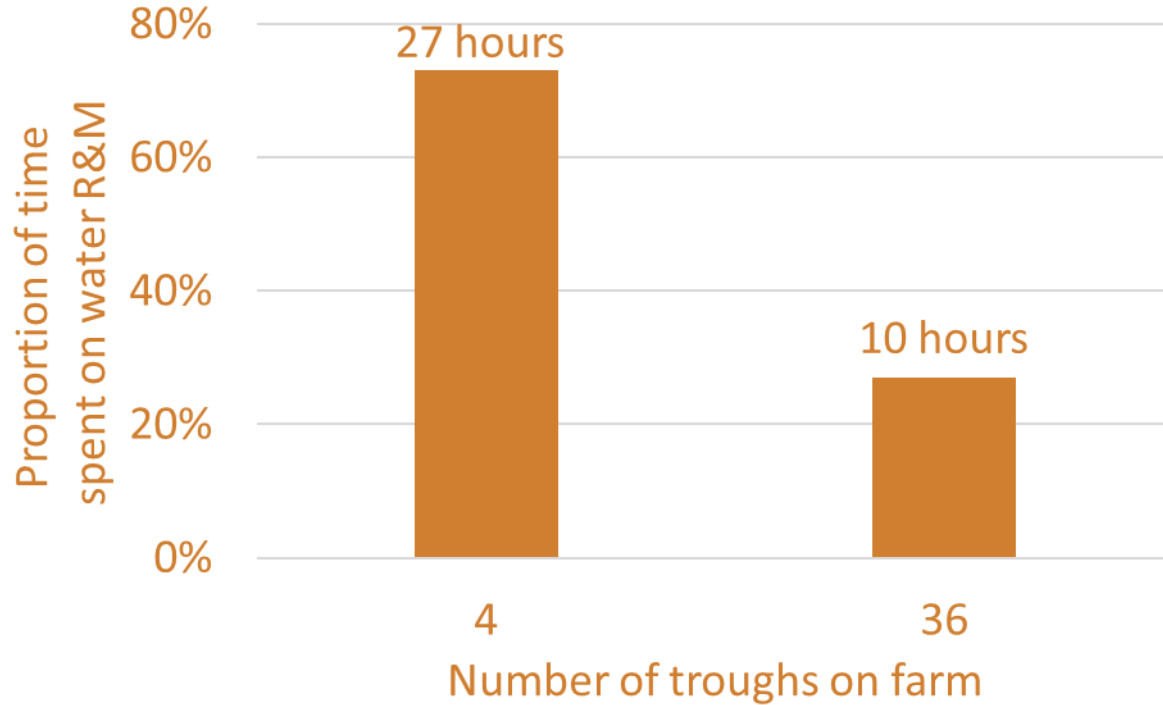
**You need to understand your  
own business**



**ange**

# Infrastructure Repairs Audit

## Where is the time going?



# What are the opportunities?

- Satellite yards or laneways (labour)
- Water monitoring (labour)
- Road grading (labour)
- Shearing infrastructure (opp cost)
- Handling infrastructure (labour)
- Grain storage and feeding infrastructure (labour/production)





# Other – Non-financial reasons?

- Attracts labour (machinery/handling)
- Longevity of work life
- Not dreading operational tasks
- Workplace safety
- Frees time – for personal needs



# Take home messages

1. Development = internal growth
2. Consider returns relative to cost
3. Capex can offset R&M costs
4. Outcome is specific to circumstance



# Tools and resources

- Business EDGE course

A link can be found in the Forum proceedings



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