

# Growing SA – key livestock enterprise profit drivers



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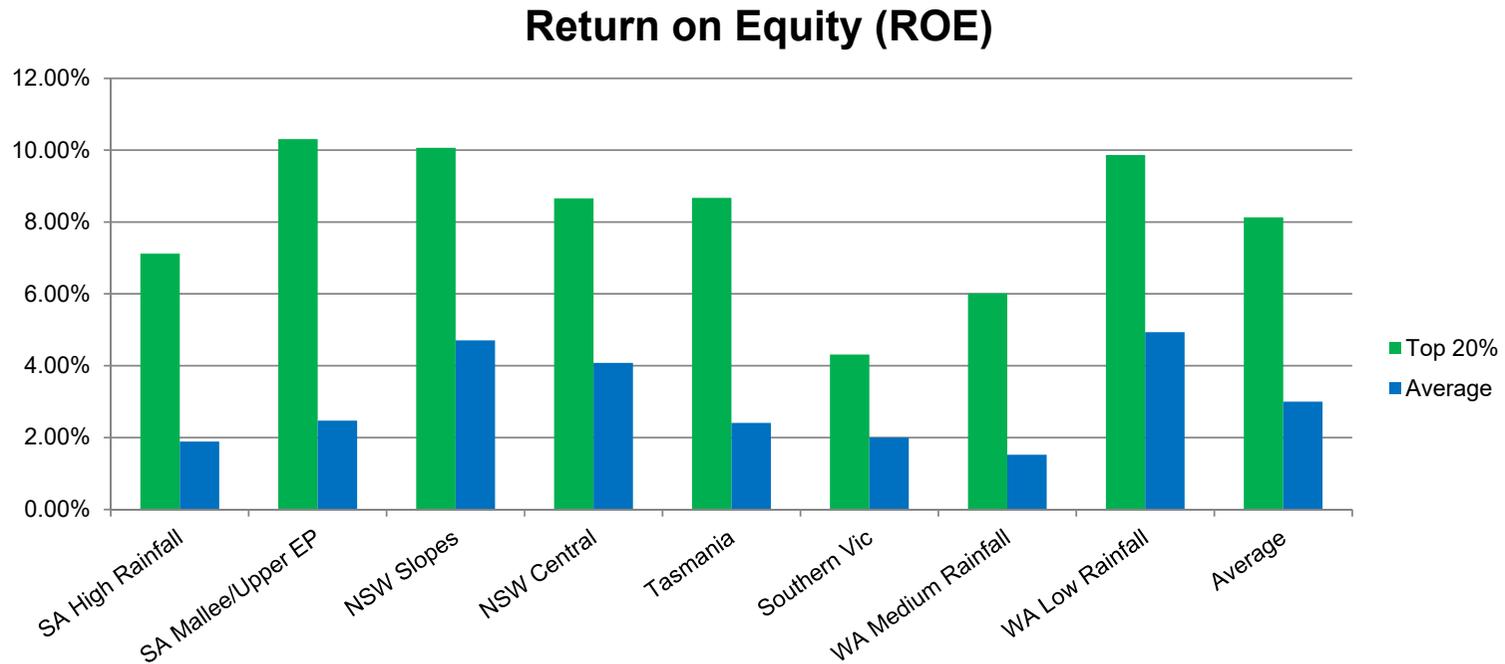
## Seasonal and commodity price influence

The data collected and analysed in these slides was collected for the three year period between 2014 and 2016. The seasonal and market conditions experienced over these years will have an influence over the results achieved in each agro-ecological zone. If seasonal conditions differ from those experienced during this time period, some of the comparisons within and between the zones and regions may change.

# 1. Background and current landscape

- Very encouraging market conditions for red meat and wool
- Allowing strong opportunities for profitability on well managed farms
- Where to from here...
- The key to long term success and sustainability will be driven by well considered investment of current profits
- The gap between average and Top 20% profit performance is huge
  - It is our collective challenge to close the gap!

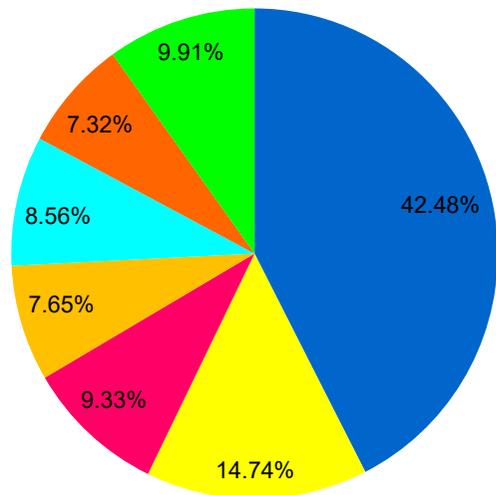
# Profit variation between Top 20% and average



MLA 'Profitable integration of cropping and livestock' project

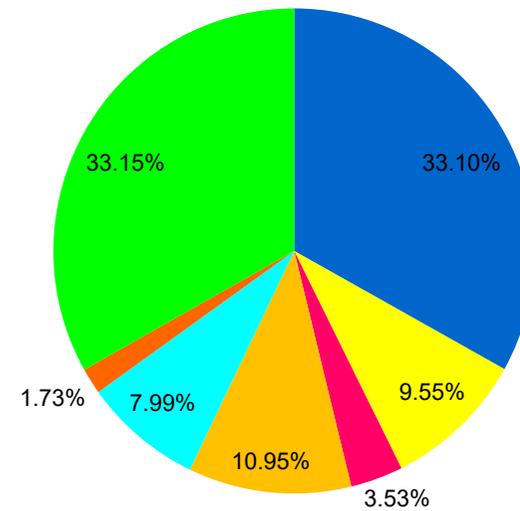
# Profit as a % of turnover

## Average



- Variable costs
- Overheads
- Financing costs
- Imputed labour
- Depreciation
- Lease costs
- Profit

## Top 20%



MLA 'Profitable integration of cropping and livestock' project

## Retaining 30% of turnover as net profit

**30%** (of turnover retained as net profit)

What are these businesses doing differently?

## 2. Profit driver framework

- The following four primary profit drivers are relevant to agricultural businesses nationally:
  1. Gross margin optimisation (*Operational*)
  2. Low cost business model (*Structural*)
  3. People and management
  4. Risk management
- It is the interaction of these four primary profit drivers that is resulting in different profit outcomes
- If one of these four is overlooked it will compromise profit potential and long term financial performance

### 3. Gross margin per hectare

= Stocking rate

x individual animal performance

less variable costs

# Building blocks to optimise gross margin



## EBIT profit per hectare = stocking rate x EBIT profit per DSE

| EBIT/DSE | \$10  | \$20  | \$30  | \$40  |
|----------|-------|-------|-------|-------|
| SR/Ha    |       |       |       |       |
| 8 DSE    | \$80  | \$160 | \$240 | \$320 |
| 10 DSE   | \$100 | \$200 | \$300 | \$400 |
| 12 DSE   | \$120 | \$240 | \$360 | \$480 |
| 14 DSE   | \$140 | \$280 | \$420 | \$560 |

EBIT = earnings before interest and tax

SR = stocking rate

Revenue less variable costs = gross margin

Gross margin less overhead costs = EBIT

## Individual animal performance is driven by...

- Reproduction rate
- Turn-off weight (or \$ sale value)
- Adult fleece value
- Low mortality

## Keeping a lid on variable costs...

- Most common variations are in supplementary feed, fodder conservation, and pasture seed costs
- Also variations in fertiliser costs...however strong advocate of **replacement Phosphorus (P)**
  - 1 DSE per hectare removes approx. 1 unit of P per annum
- Are we feeding a **10c** or a **30c** per kg diet?

## Grazing management



Soil fertility and rest periods are the secret sauce!

The animal is the guest at your open air restaurant!

## Maintenance vs production – 40kg lambs

| Daily Growth Rate (grams) | Maintenance Intake (kg/day) | Growth Intake (kg/day) | Total Intake (kg/day) | % diet going towards production |
|---------------------------|-----------------------------|------------------------|-----------------------|---------------------------------|
| 100                       | 0.8                         | 0.4                    | <b>1.2</b>            | 33%                             |
| 150                       | 0.8                         | 0.6                    | <b>1.4</b>            | 43%                             |
| 200                       | 0.8                         | 0.8                    | <b>1.6</b>            | 50%                             |
| 250                       | 0.8                         | 1.0                    | <b>1.8</b>            | 55%                             |
| 300                       | 0.8                         | 1.2                    | <b>2.0</b>            | 60%                             |

**Pasture Principles – A practical guide to pasture management**

Doonan B, Sherriff L, Hooper P, Macquarie Franklin

## Maintenance vs production – 400kg steers

| Daily gain (kg/hd/day) | Maintenance intake (kg DM/day) | Growth intake (kg DM/day) | Total intake (kg DM/day) | % of diet going towards production |
|------------------------|--------------------------------|---------------------------|--------------------------|------------------------------------|
| 0.5                    | 5.0                            | 2.0                       | <b>7.0</b>               | 28%                                |
| 1.0                    | 5.0                            | 4.0                       | <b>9.0</b>               | 44%                                |
| 1.5                    | 5.0                            | 6.0                       | <b>11.0</b>              | 55%                                |
| 2.0                    | 5.0                            | 8.0                       | <b>13.0</b>              | 62%                                |

**Pasture Principles – A practical guide to pasture management**

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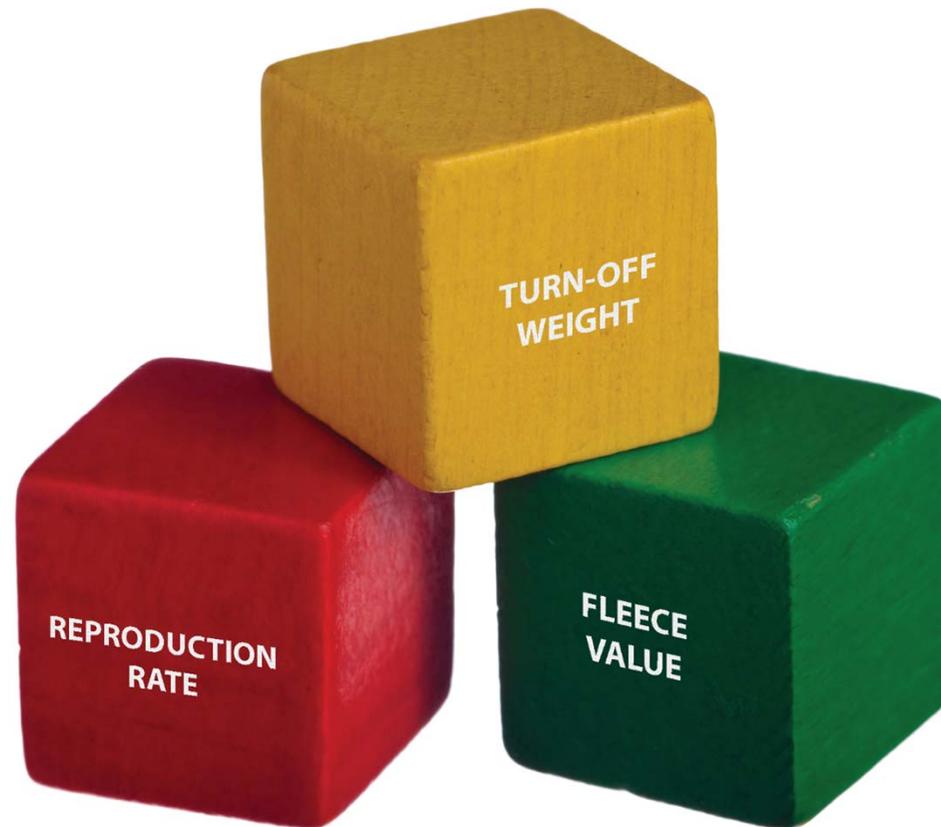
## Prime lamb stretch target

55 : 5

## Beef enterprise target

18 x 18

# Balance of performance across key flock traits



## Dual purpose flock targets

**120%** weaning

**\$120** per head minimum for lambs

**\$60** adult fleece value

## Wool focus flock targets

**100%** weaning

**\$100** per head for sheep sales

**\$80** adult fleece value

## Maternal composite flock targets

**150%** weaning

**\$135** per head minimum for lambs

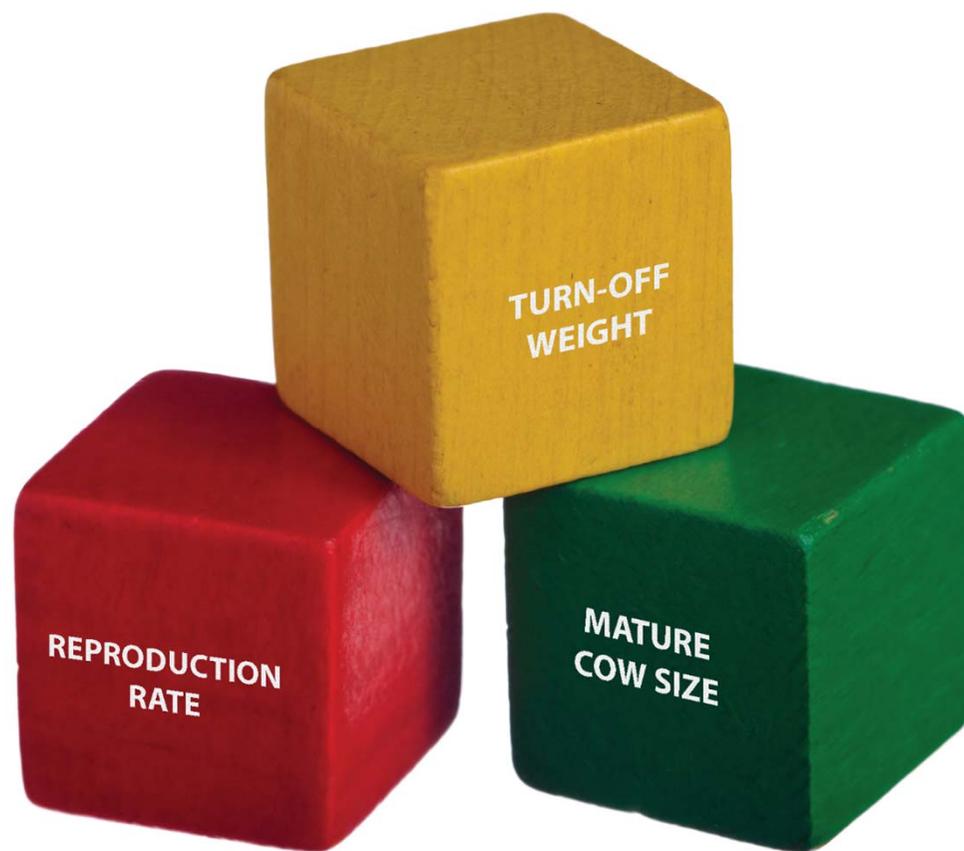
**\$15** adult fleece value

## Summary of targets by flock type

| Flock type         | Weaning % | Lamb \$ value | Adult fleece value |
|--------------------|-----------|---------------|--------------------|
| Dual purpose       | 120%      | \$120         | \$60               |
| Wool focus         | 100%      | \$100         | \$80               |
| Maternal composite | 150%      | \$135         | \$15               |



## Balance of performance across key herd traits



## Beef herd targets

**90%** weaning

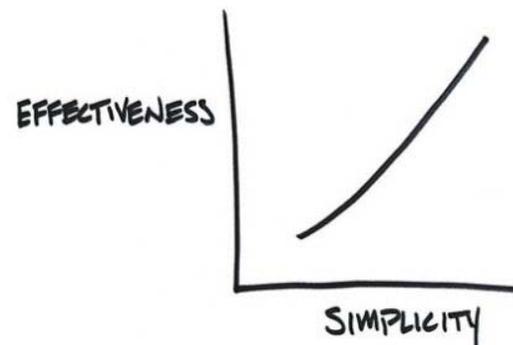
**\$1,800** sale value on steers



## 4. Low cost business model

### Key principles

1. Achieve high levels of utilisation from labour
  - a) Labour approximately 70% of overhead costs in a grazing business
2. Avoid unnecessary enterprise complexity
  - a) Complexity increases internal management risk
3. Stretch target of \$600,000 in turnover per labour unit



## 5. Current opportunities to invest wisely

- Strong commodity pricing is creating additional investment capacity on well managed farms
- Seek to invest wisely now to create new wealth or be able to maintain profit margins at lower commodity pricing
- Often our wish list is longer than available resources...so there is a need to prioritise!
- Recommend MLA Southern BusinessEDGE workshops
  - Optimisation of EBIT
  - Rational allocation of capital
  - Long term wealth creation strategies

## Potential areas to invest

- Skill building
- Debt principle reductions
- Infrastructure investments to reduce or eliminate labour
- Balanced business growth through land acquisition
- On-farm productivity enhancements
- Off-farm investment
- Preparedness for independent retirement and future succession



## Use the profit driver framework as a filter

The following four primary profit drivers are relevant to agricultural businesses nationally:

1. Gross margin optimisation (*Operational*)
2. Low cost business model (*Structural*)
3. People and management
4. Risk management

**Challenge yourself around how the investment opportunity aligns with this framework...critical thinking is required!**

## On-farm productivity enhancements

- Soil amelioration (correcting soil pH or sodicity)
- Claying or delving
- Replacement phosphorus
- Genetics aligned with key enterprise profit drivers
  - Adult fleece value, fertility, daily growth rates
- Management of the feed base
- Optimisation of stocking rate



# Infrastructure investments to reduce labour

- Laneways
- Grids
- Consistent, low management water supply
- Yards and handling facilities
- Remote water monitoring



## Return on investment from livestock grids

| No times per day | Grid cost | Annual benefit | Internal rate of return |
|------------------|-----------|----------------|-------------------------|
| 1                | \$5,000   | \$608          | 3.7%                    |
| 2                | \$5,000   | \$1,217        | 20.6%                   |
| 3                | \$5,000   | \$1,825        | 34.6%                   |
| 4                | \$5,000   | \$2,433        | 47.7%                   |
| 5                | \$5,000   | \$3,042        | 60.3%                   |
| 6                | \$5,000   | \$3,650        | 72.7%                   |
| 7                | \$5,000   | \$4,248        | 85.0%                   |
| 8                | \$5,000   | \$4,867        | 97.2%                   |

## High performing grazing businesses – key indicators

- Retaining 30% of turnover as net profit
- Adult fleece value > \$60
- Average turn-off weight > 48kg LWT in dual purpose and prime lamb
- Stretch target of \$600,000 in turnover per labour unit
- Robust reproduction rates in accordance with flock type
- Objective and rational allocation of capital
- Robust and early provisioning for retirement
- Provisioning for succession events also starting early
- Replicating Top 20% performance is the key to wealth creation

## Summary of key messages

- Replicating Top 20% performance is **within your control**
- It requires simultaneously **optimising gross margins** and developing a **low cost business model**
- Be **disciplined** and **objective** with investment choices to create long term value within your business
- Know and **nail the profit driver targets** for your chosen enterprises
- It requires **skill, courage, and discipline** to achieve this!

GREAT THINGS  
NEVER COME FROM  
COMFORT ZONES