



Pasture Update

Narriootpa 2015

Logical Business Decision Making and Key Profit Drivers

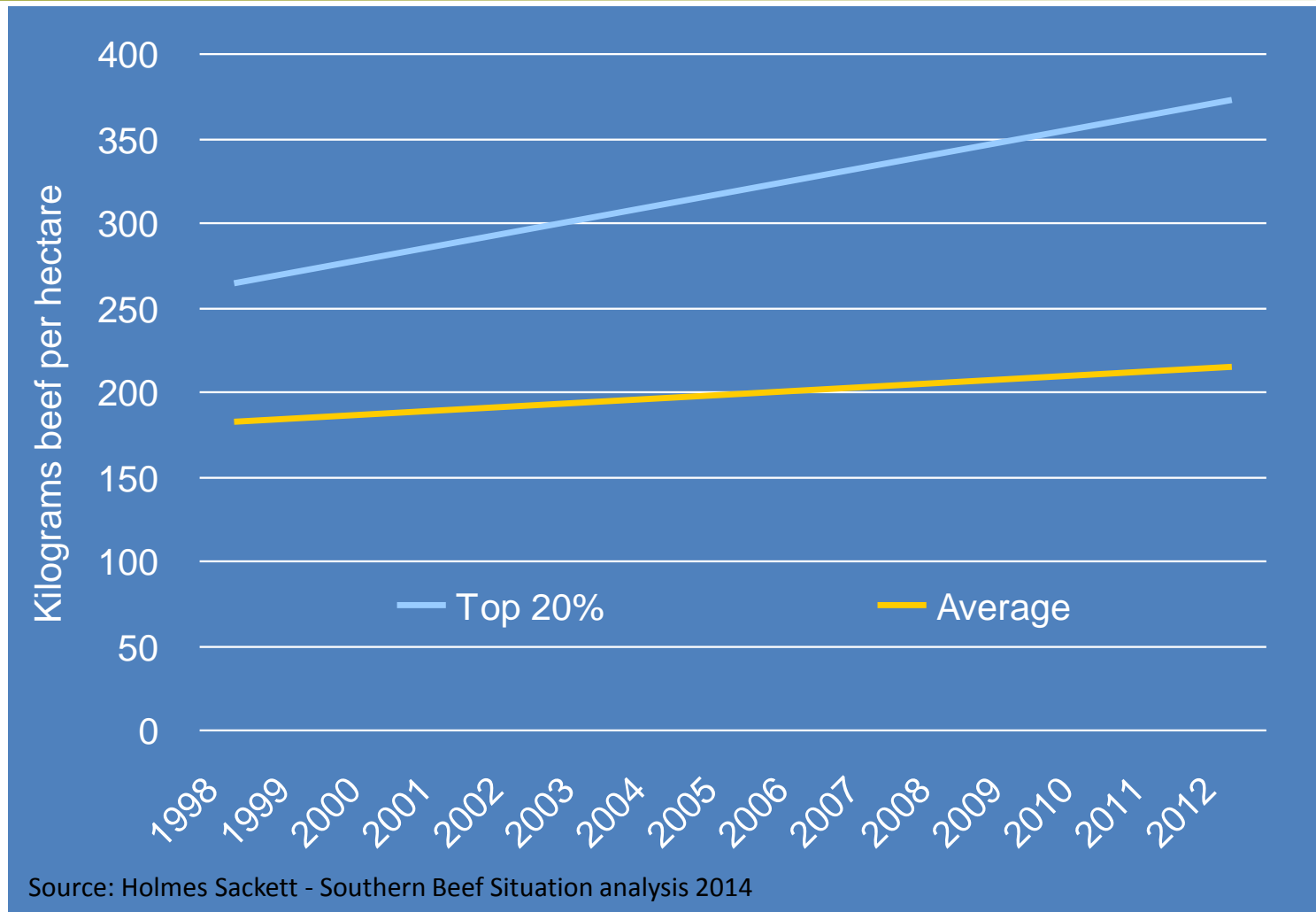
Basil Doonan



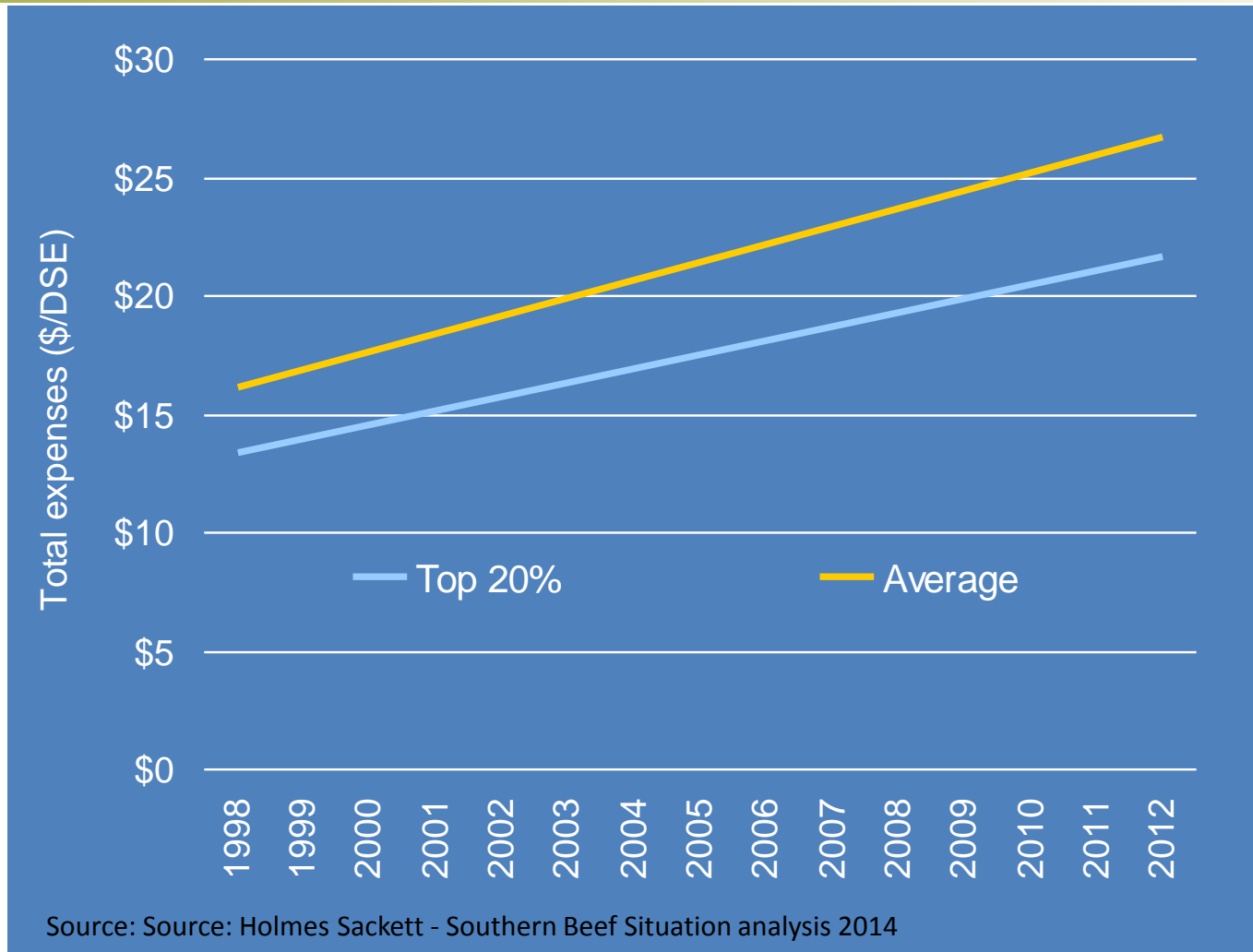
The reality!



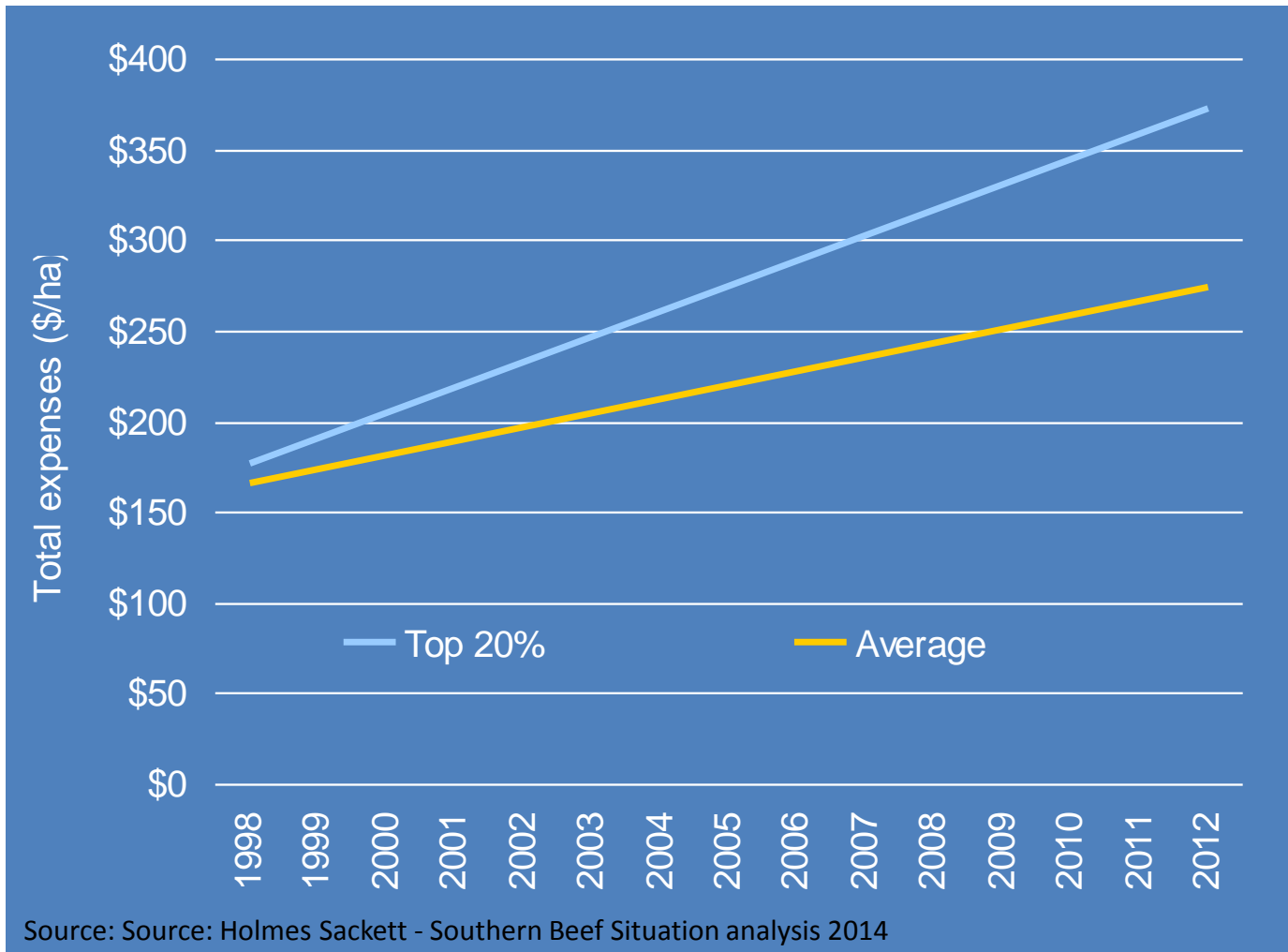
Best- have increased production faster



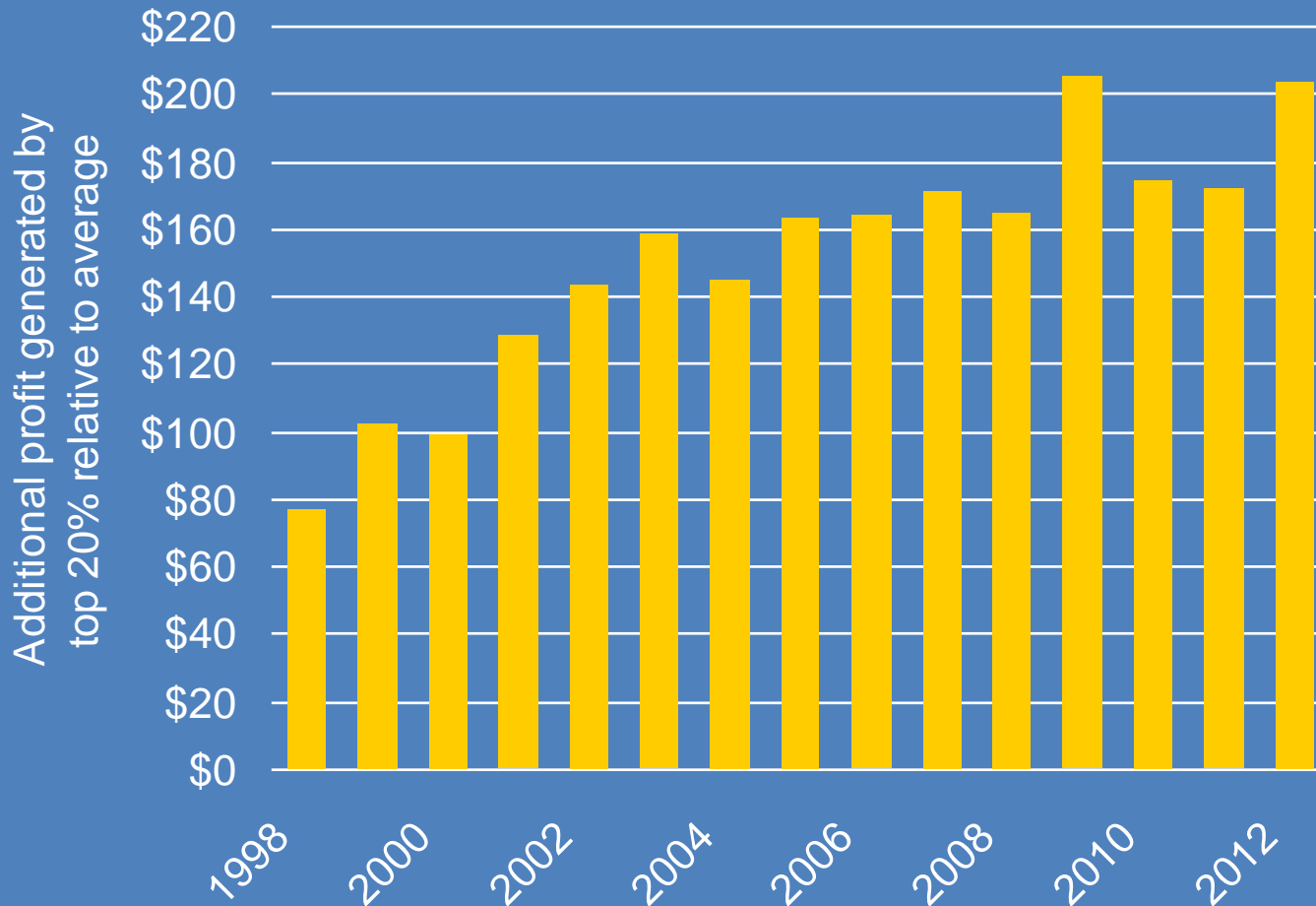
Best - widened the gap in costs/DSE!



Best – have higher costs/ha!

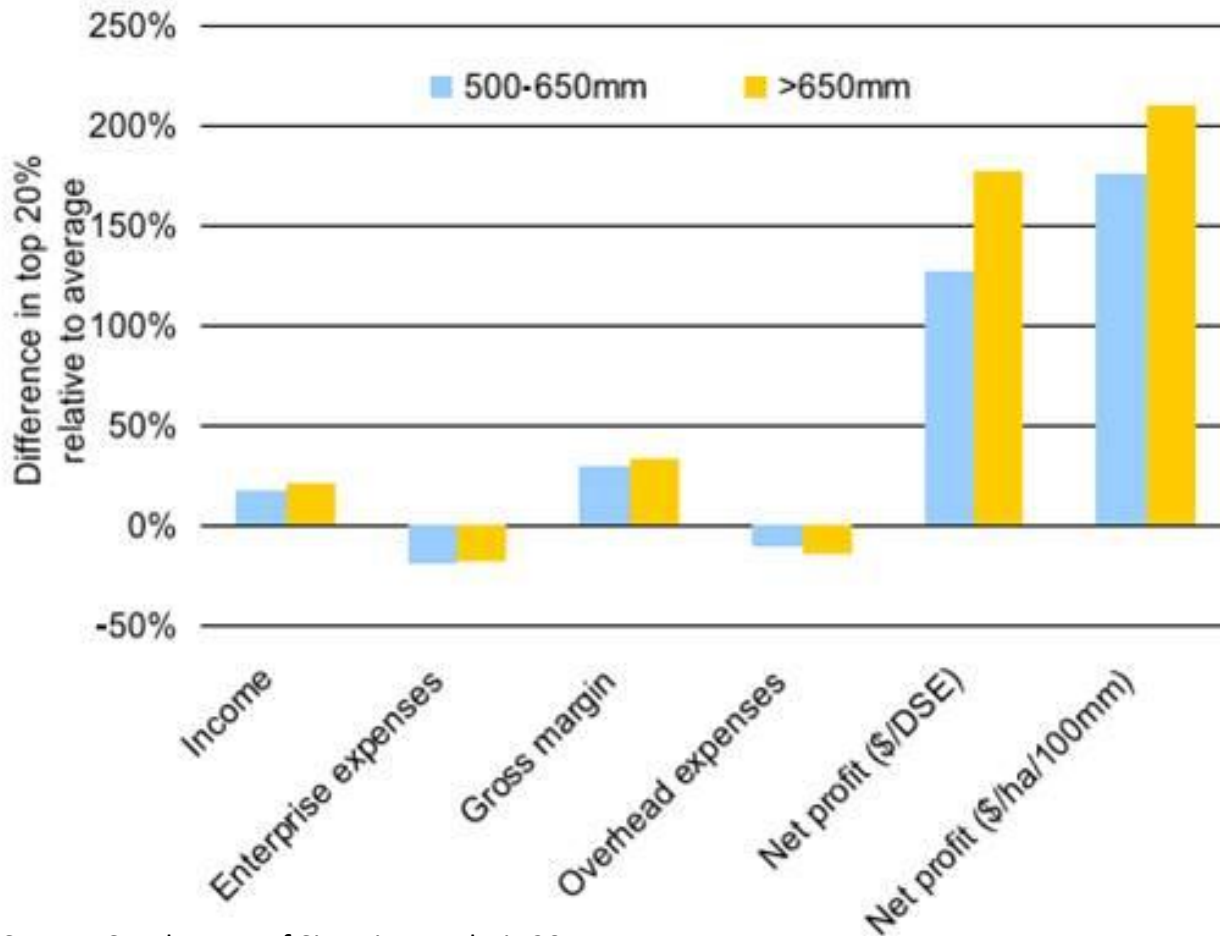


The profit gap is increasing!



Source: Source: Holmes Sackett - Southern Beef Situation analysis 2014

Best - Profit is more than 100% higher



Source: Southern Beef Situation analysis 2014

Profit Driver 1

“Learn from the best wherever they are!”

Background

- For this discussion we're talking about two groups
 - The Best
 - The Average* (**MOST**)
- The best producers have businesses that:
 - Are very profitable (successful)
 - Cope well with systems shocks
 - Price is the perfect example

How a profitable business should evolve!

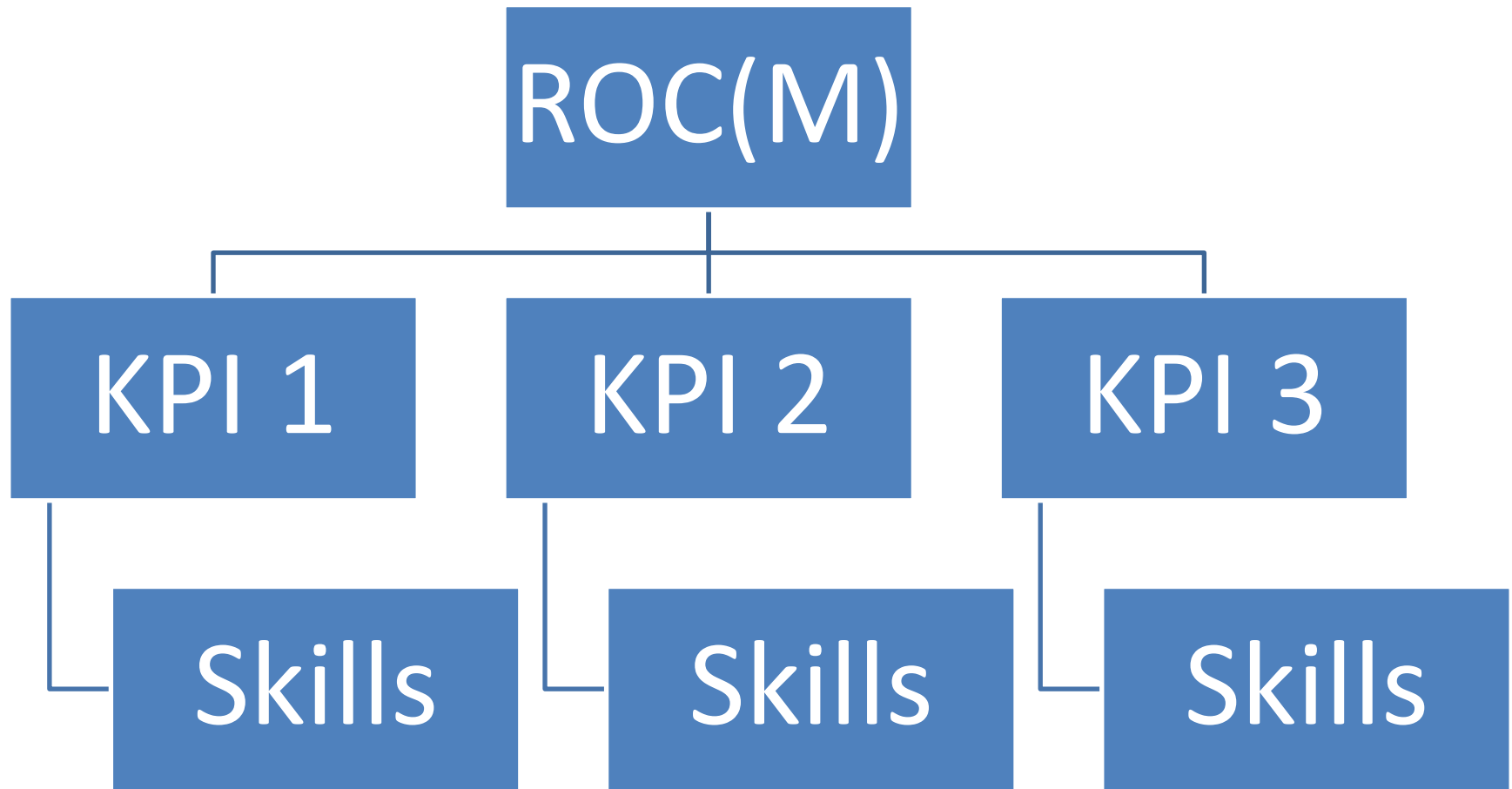
- As a function of logical business decision making
 - Marginal analysis at the whole farm or part farm level
 1. Efficiency
 2. Net worth
 3. Cashflow
 4. Risk
 - Business benchmarking (learning process)
 1. Identify areas to improve (CSFs)
 - Ok
 2. Find top 5-10% (the benchmarks)
 - Good
 3. Document (understand) best practice
 - Poor
 4. Adapt the practice
 - Hopeless
 5. Monitor and continuously improve
 - Hopeless
- And the Top 10-20% do this well
 - Simple success model

Successful farming businesses are based on:

1. A desire to farm for profit
 - Rather than how you want to farm
2. An understanding of the resource base
 - And its suitability to the production system
3. An understanding of the business
 - Including profit and risk but especially MC vs MR
4. An understanding of the production system
 - How that drives profit
5. A high level of skill associated with the key profit drivers



So business analysis might look like.....



Awareness

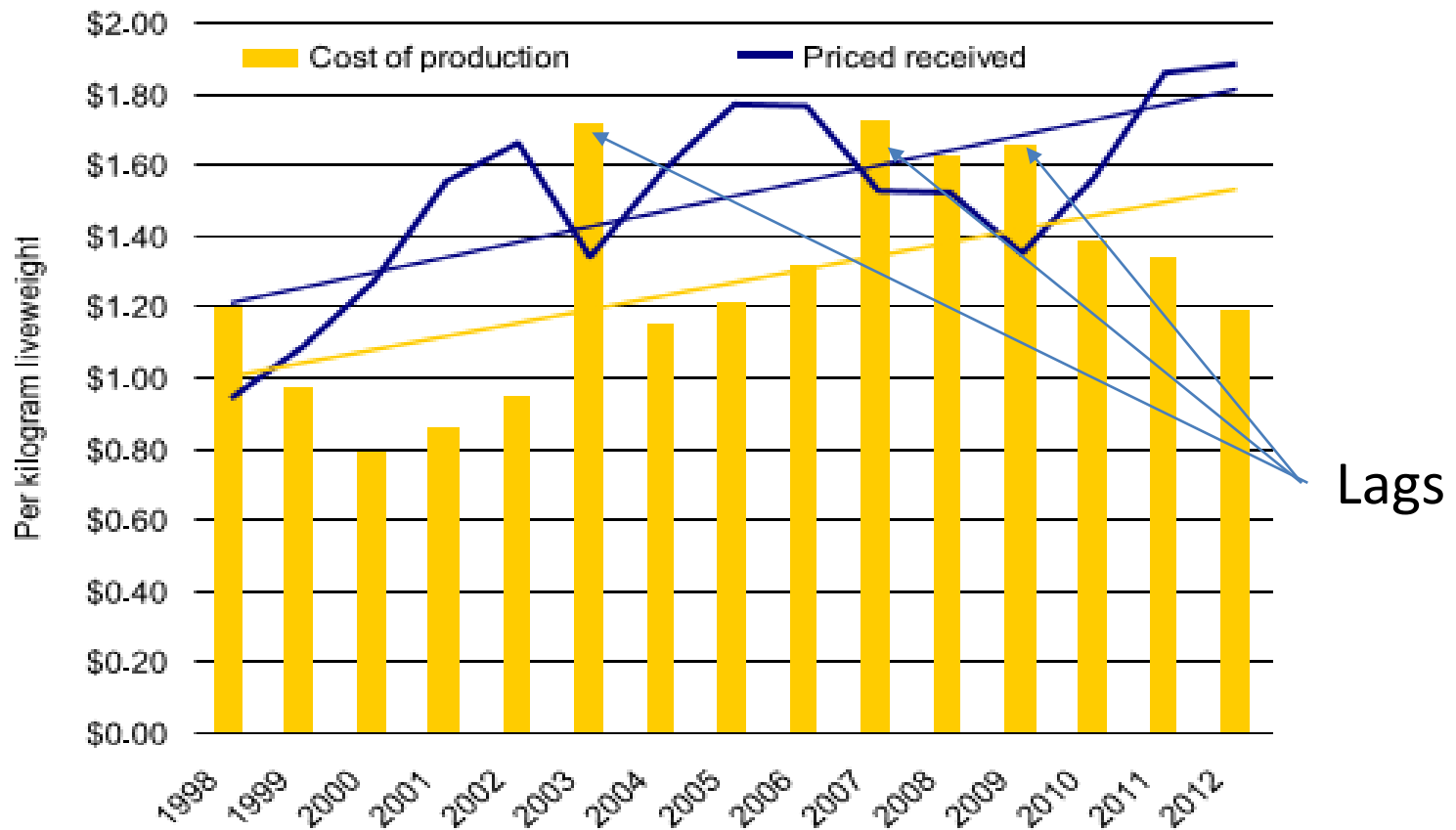
Awareness Test

1. A desire to farm for profit

- It is obvious that:
 - Most producers do not actively look for profit
 - They have an overwhelming desire to farm the way they want
 - Generally compromises profit (hobby)
 - So they actively *hope* for profit
 - As price increases they gravitate towards this (rapidly)
 - Compromises short-term profit
 - Introduces sticky costs
 - Are great at working backwards from this and justifying it with bush economics

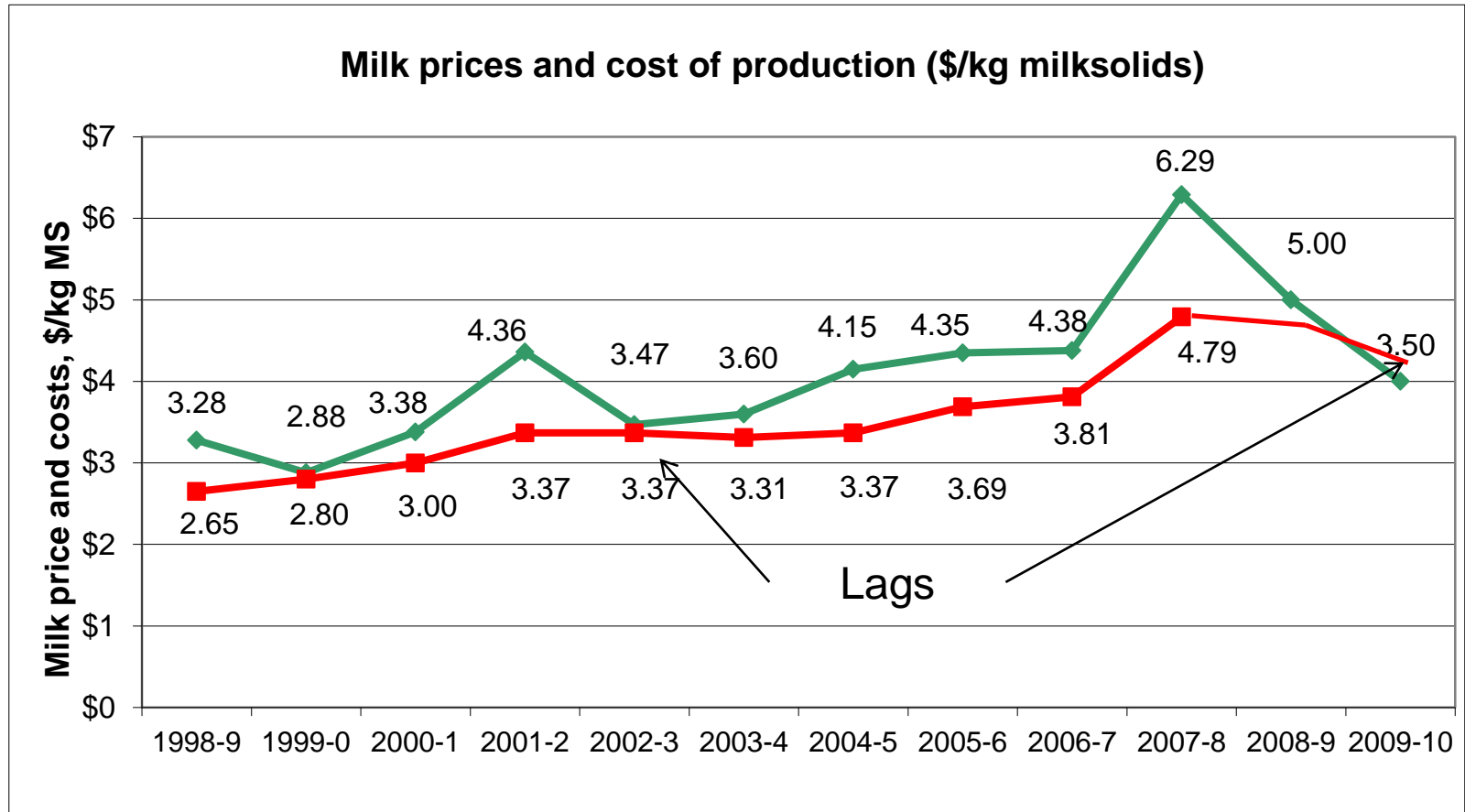


Example: As price increases.....



Source: Southern Beef Situation analysis 2014

Example: As price increases.....



Reaction to price

	2006-07		2007-08	
	Average*	Top 10%	Average*	Top 10%
Milk price	4.39	4.39	6.33	6.33
Increase in farm value			15%	35%
ROC	5%	12%	8%	16%
MS	151,000	165,000	172,000 (10%)	204,000 (24%)
N/ha	144	192	212 (47%)	232 (21%)
Grain/cow	800	1,100	1,150 (44%)	1,200 (9%)
Pasture harvested/ha	9,210	11,290	9,320 (1%)	12,350 (10%)



No reaction to price

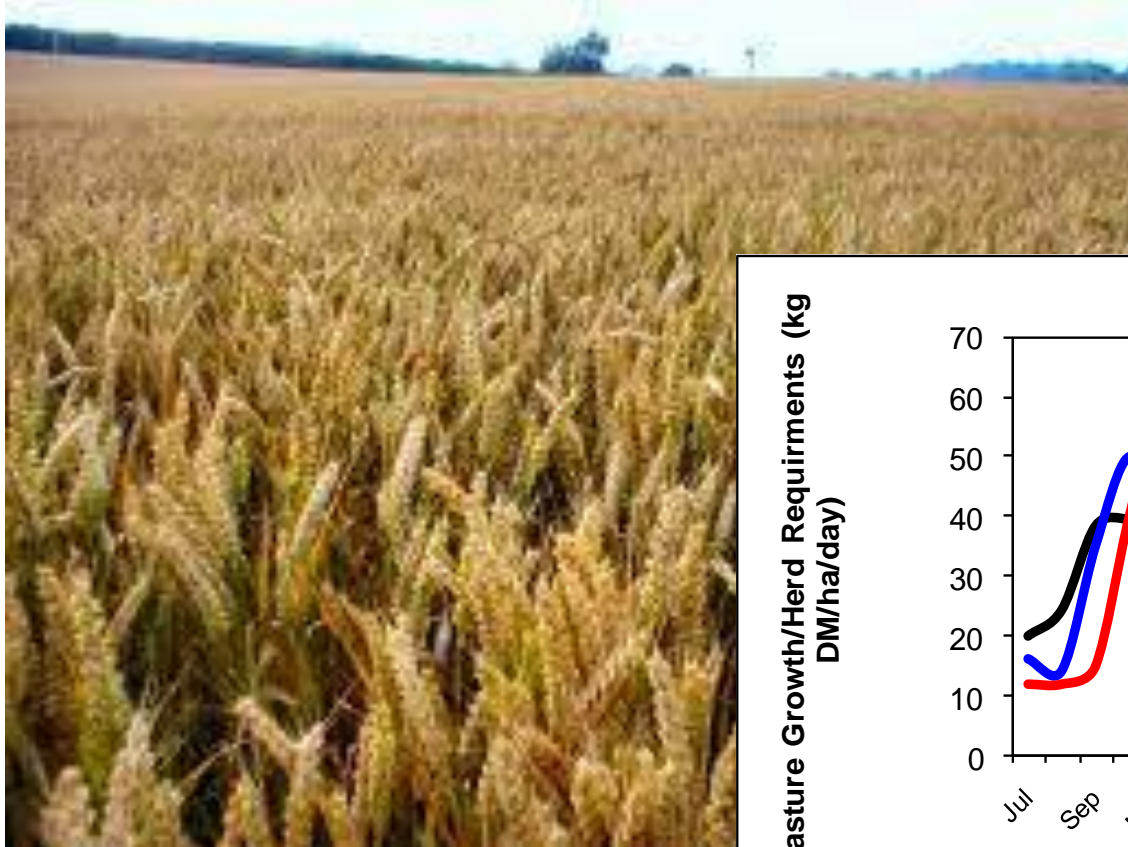
	2006-07	2007-08
	Average*	Average*
Milk price	4.39	6.33
ROC	5%	10.5%

	2012-13	2013-14
	Average*	Average*
Milk price	5.01	6.90
ROC	4.6%	9.9% (19.5%)

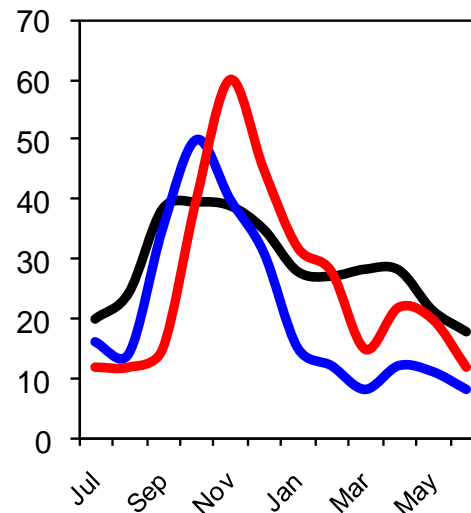
Profit Driver 2

***“Run a business not a hobby
and look for profit!”***

2. An understanding of the resource base



Pasture Growth/Herd Requirements (kg DM/ha/day)

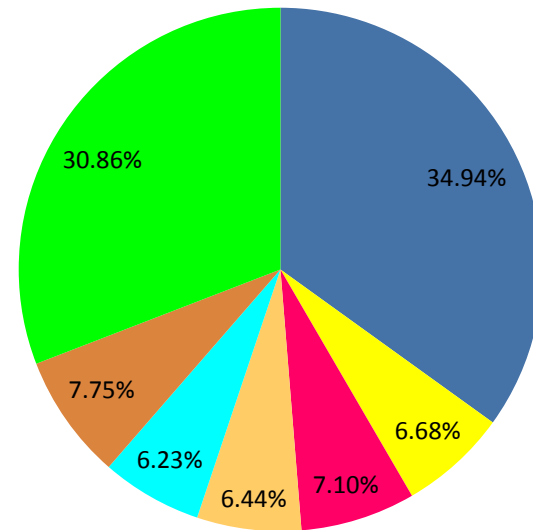
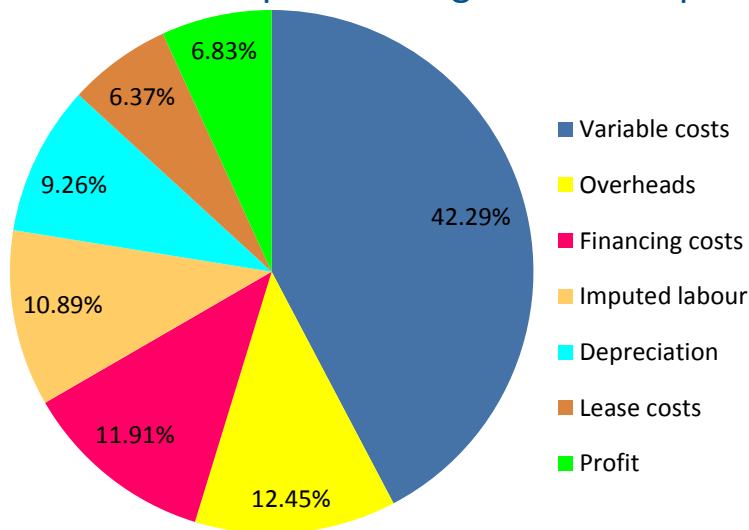


— Herd requirements
— Elliott Growth Rate
— Brittons Swamp Growth Rate

Month

Resilient Farm Business Models

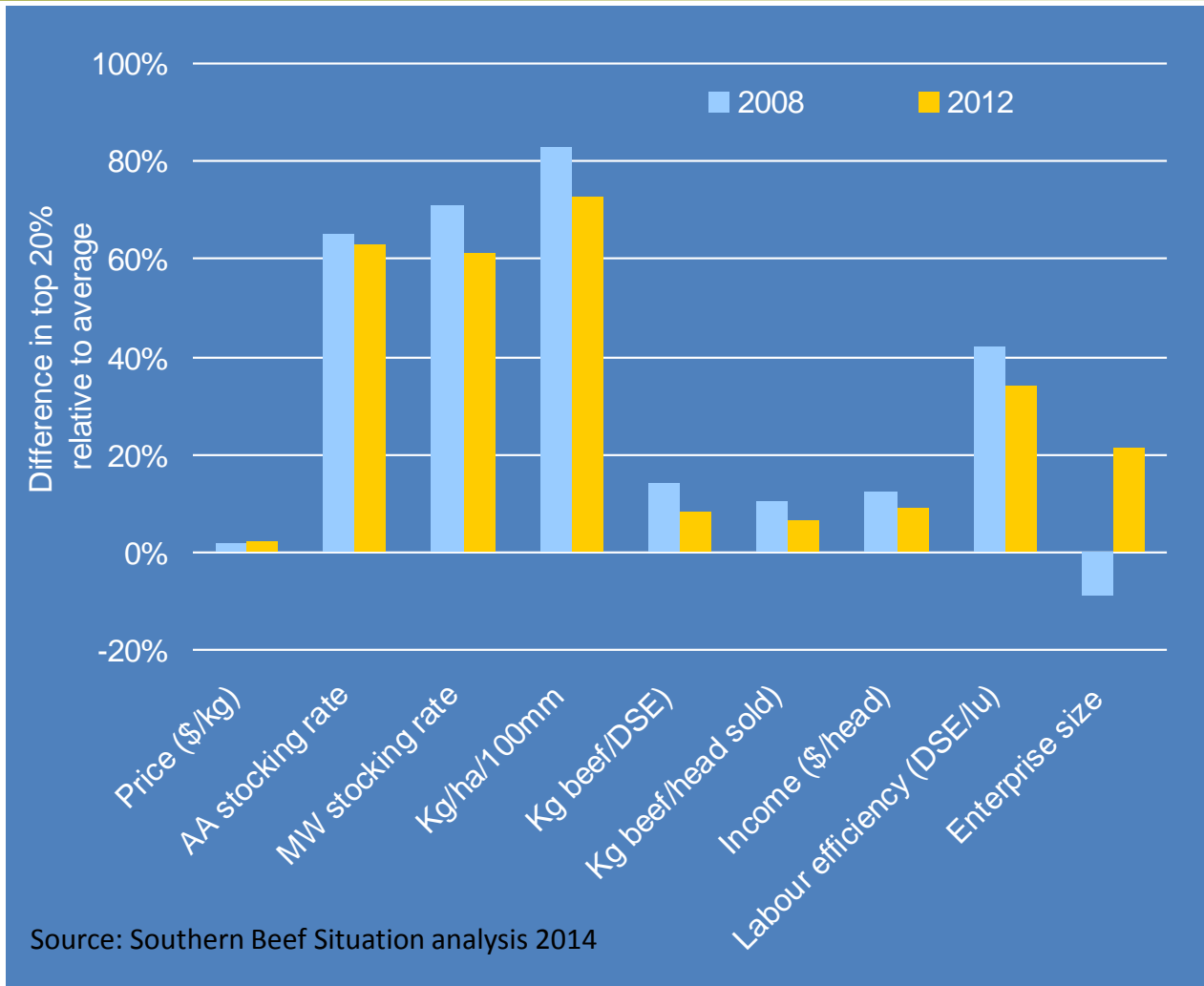
- Identical resources
- Identical season and climate
- Retaining 30% of turnover as net profit
 - Handle a 20% to 30% production shock and remain profitable
 - Provides scope to fund growth from profits rather than increased debt



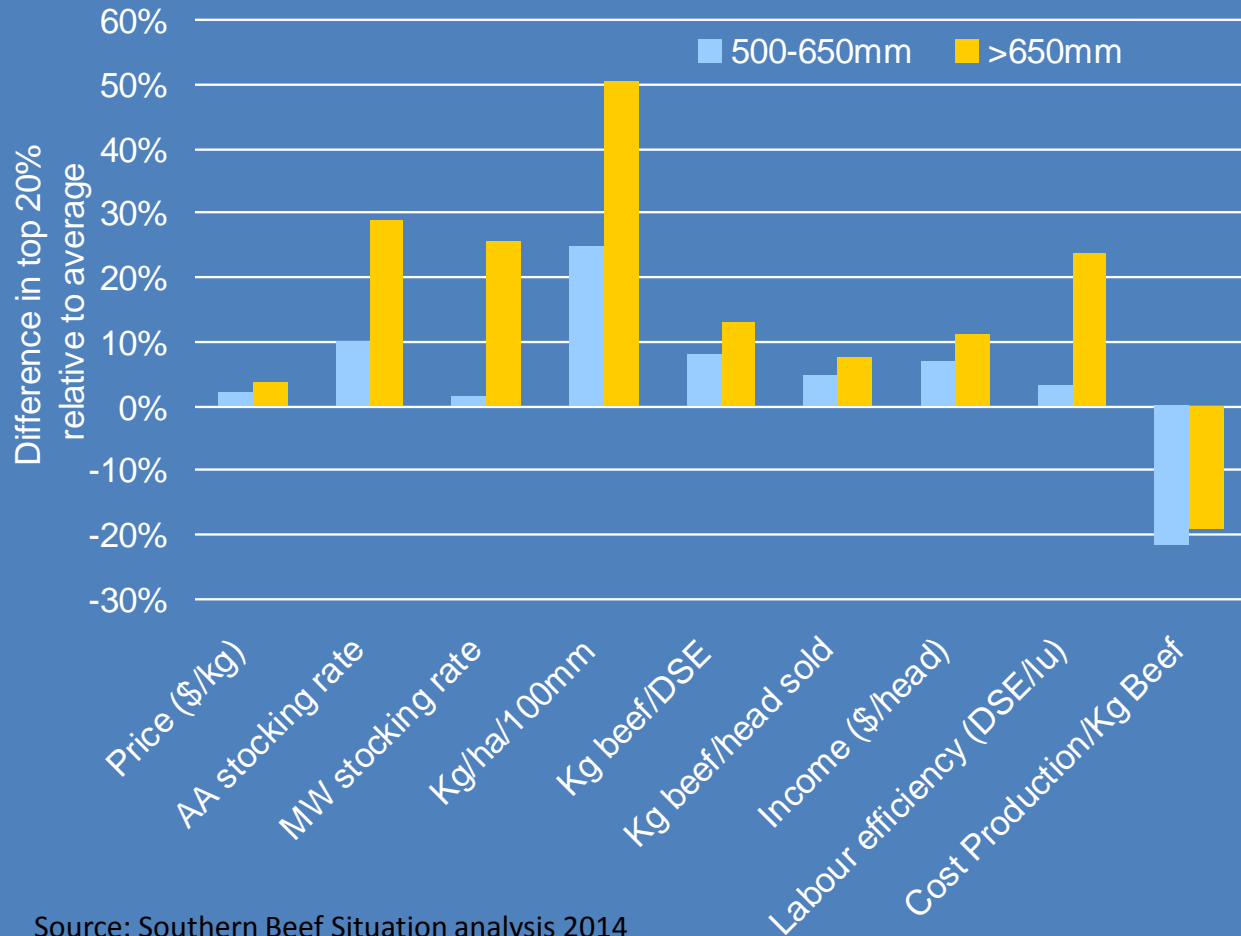
Trends of the best (CA)

	Average*	Top 10%
Area (ha)	1047	1116
Area to crops (%)	25	38
Grain yield (t/ha)	2.0	3.4
Fertiliser (\$/ha)	36	72
Interest (\$/ha)	26	42
Contractors (\$/ha)	15	27
Labour use (DSE/FTE)	3,271	5,045
Pasture utilisation (t DM/ha)	1.2	4
Stocking rate (DSE/ha)	3.3	10.6
ROC	0.8	6.2

Across time! (CA)



Across space! (CA)



Source: Southern Beef Situation analysis 2014

To try to be the best.....

- We've done what the best do
 - bigger farms
 - more fertiliser
 - more chemicals
 - more nitrogen
 - new genetics
 - new pasture species
 - new pasture varieties
 - more contractors
 - more debt
- And we've had the cash to pursue these



Unfortunately.....

- These are associative, not causal
 - That is:
 - These are *characteristics of* the better producers
 - They are not the *cause of* their success



Done a good job in this area

	Average* (2004)	Average* (2014)
Area (ha)	680	1047
Area to crops (%)	15	25
Grain yield (t/ha)	1.75	2.0
Fertiliser (\$/ha)	15	36
Interest (\$/ha)	6	26
Contractors (\$/ha)	8	15
Labour use (DSE/FTE)	1,230	3,271
Pasture utilisation (t DM/ha)	1.1	1.2
Stocking rate (DSE/ha)	3 (3.1)	6.9 (3.3)
ROC	3	0.8

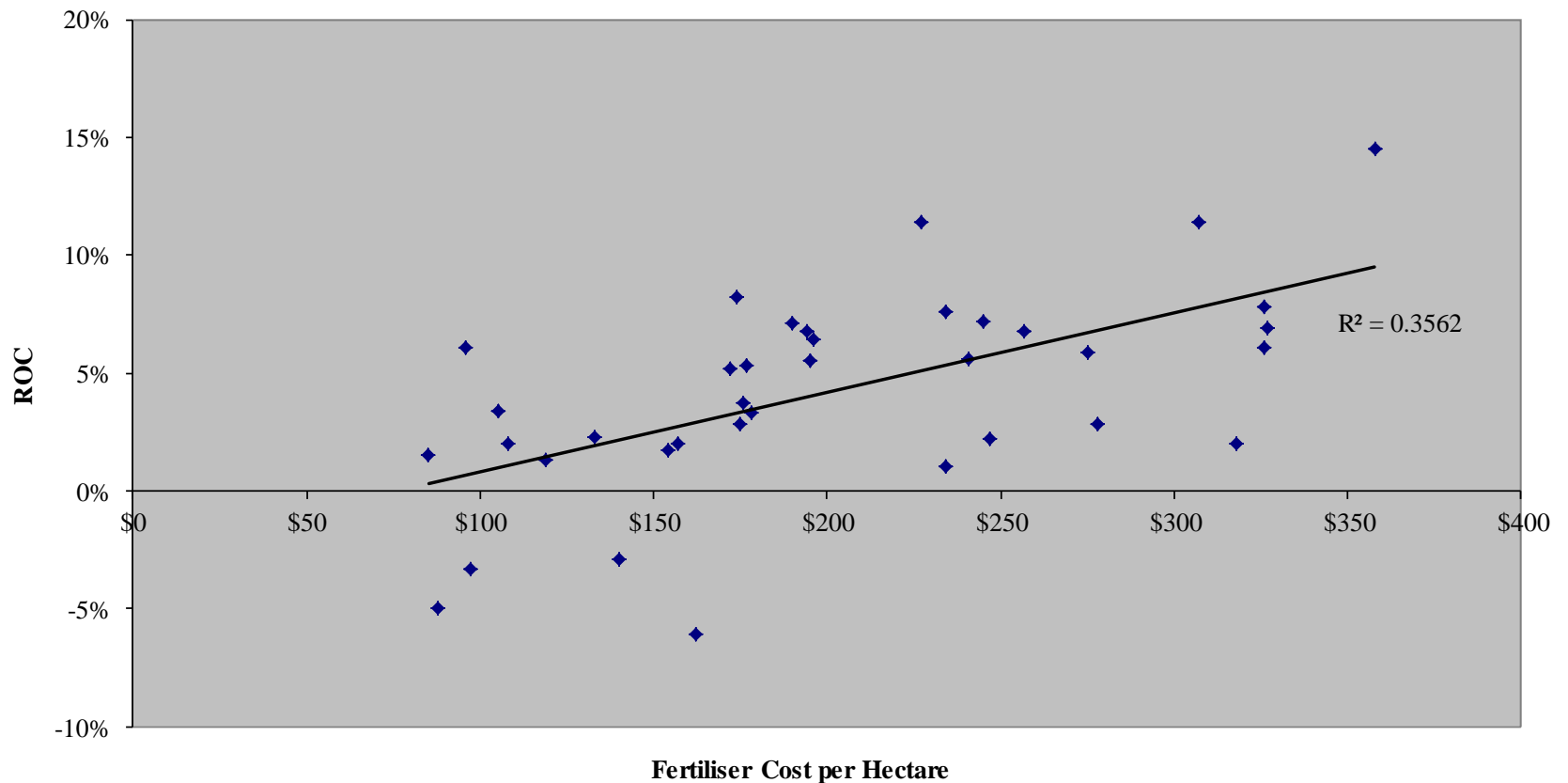
* 2014 dollars

ABARES 2004 and 2014



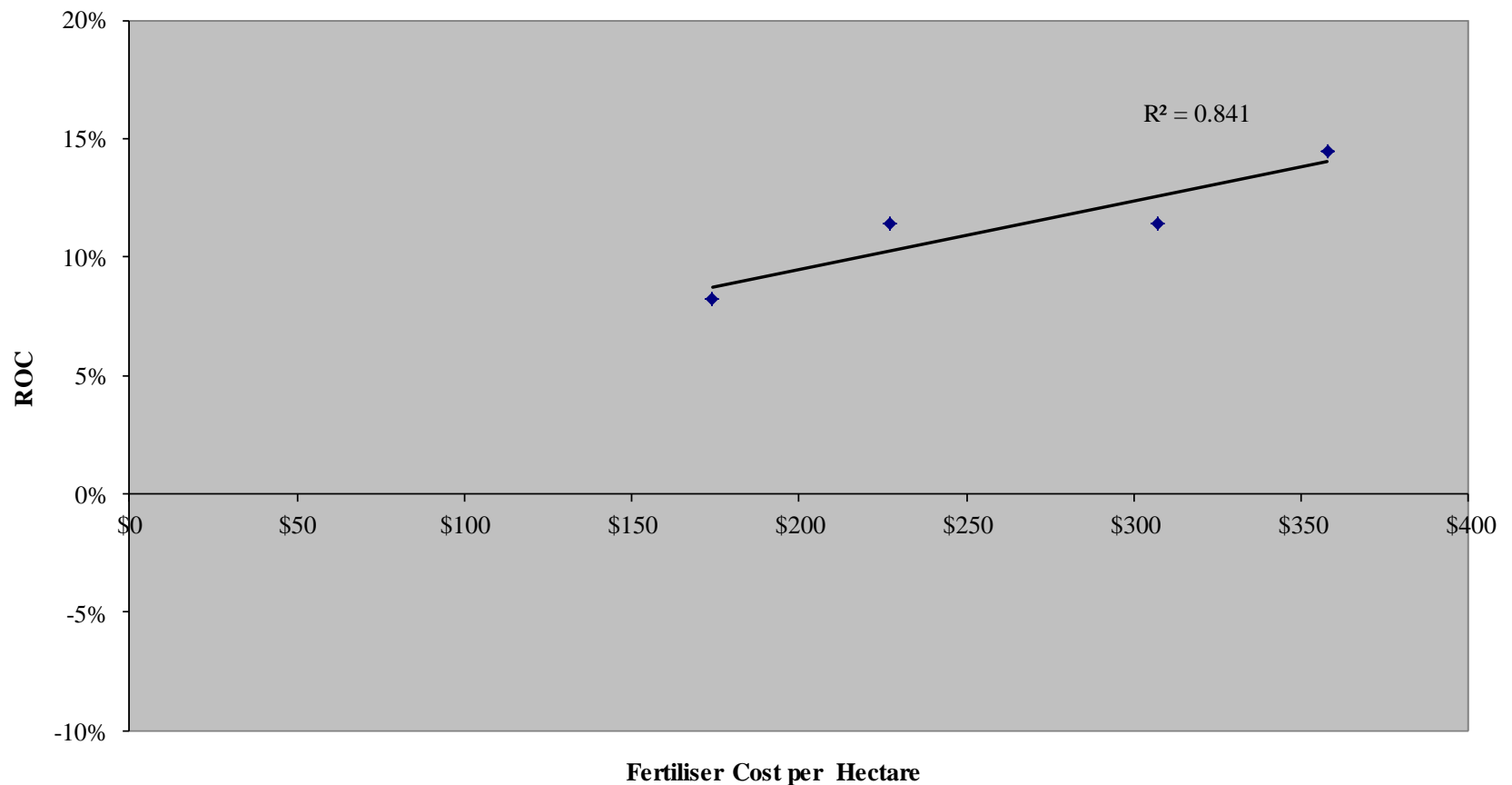
Profit vs. fertiliser cost

ROC v Fertiliser Cost per Hectare (all)



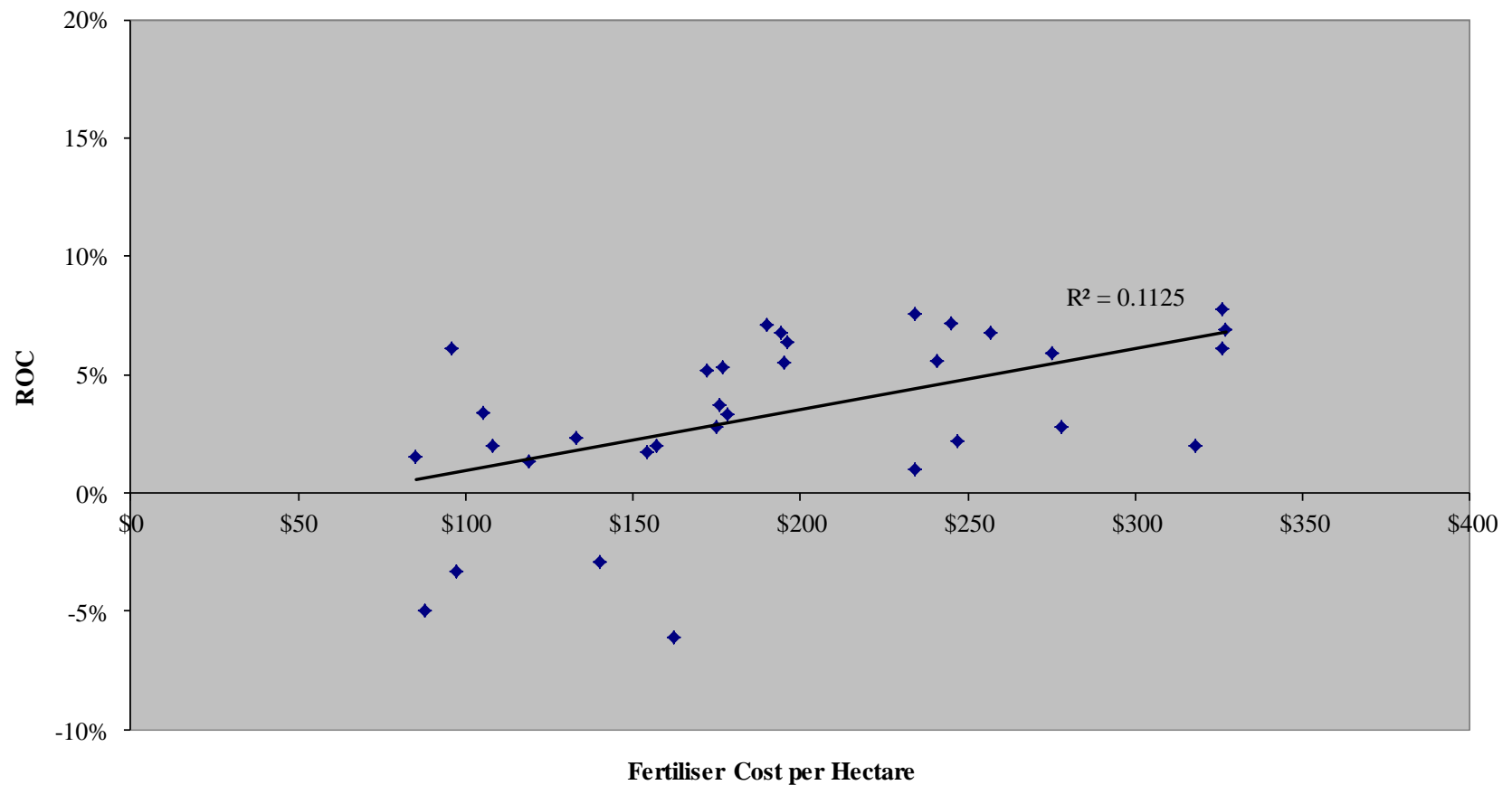
Profit vs. fertiliser cost

ROC v Fertiliser Cost per Hectare (top 10%)



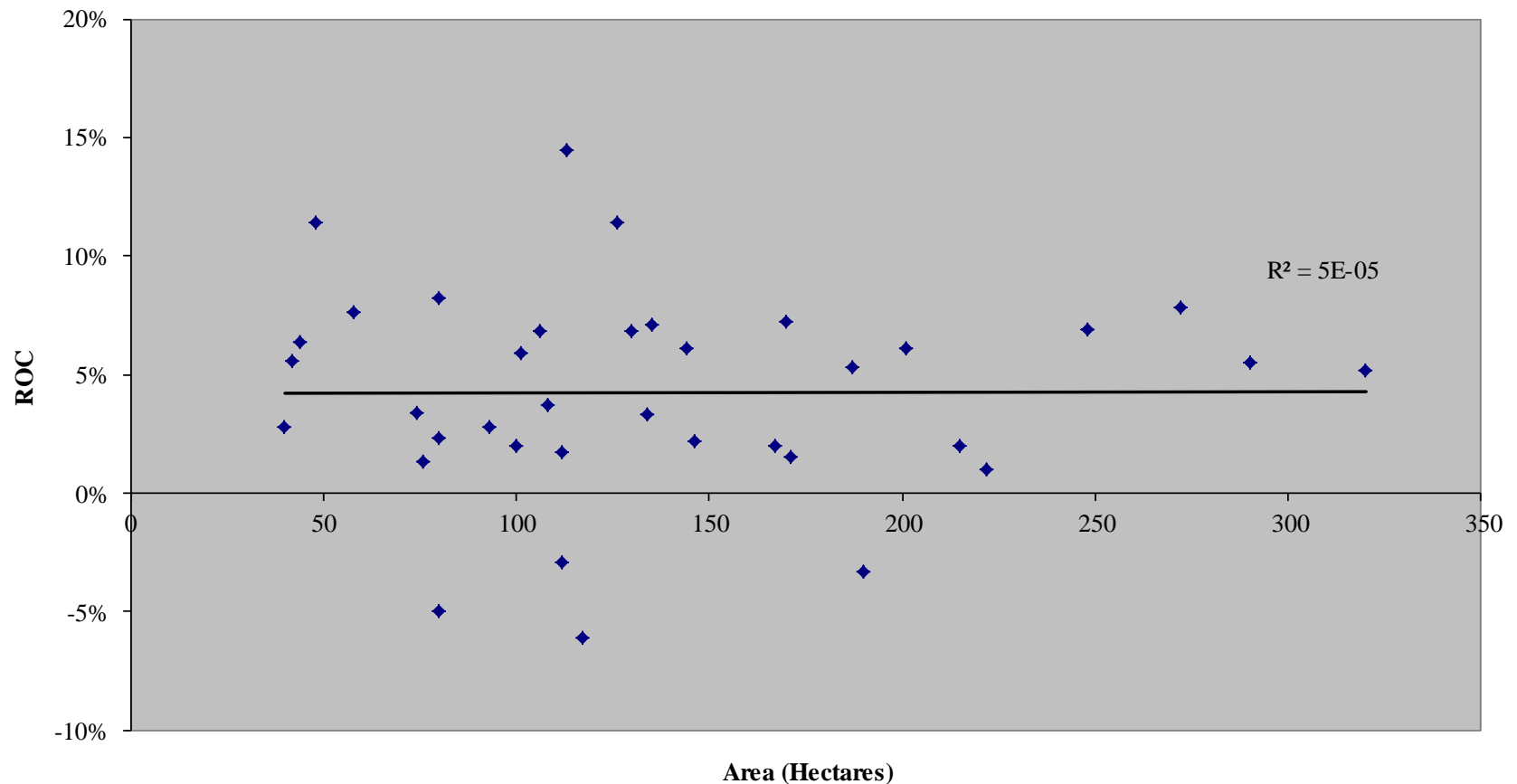
Profit vs. fertiliser cost

ROC v Fertiliser Cost per Hectare (90%)



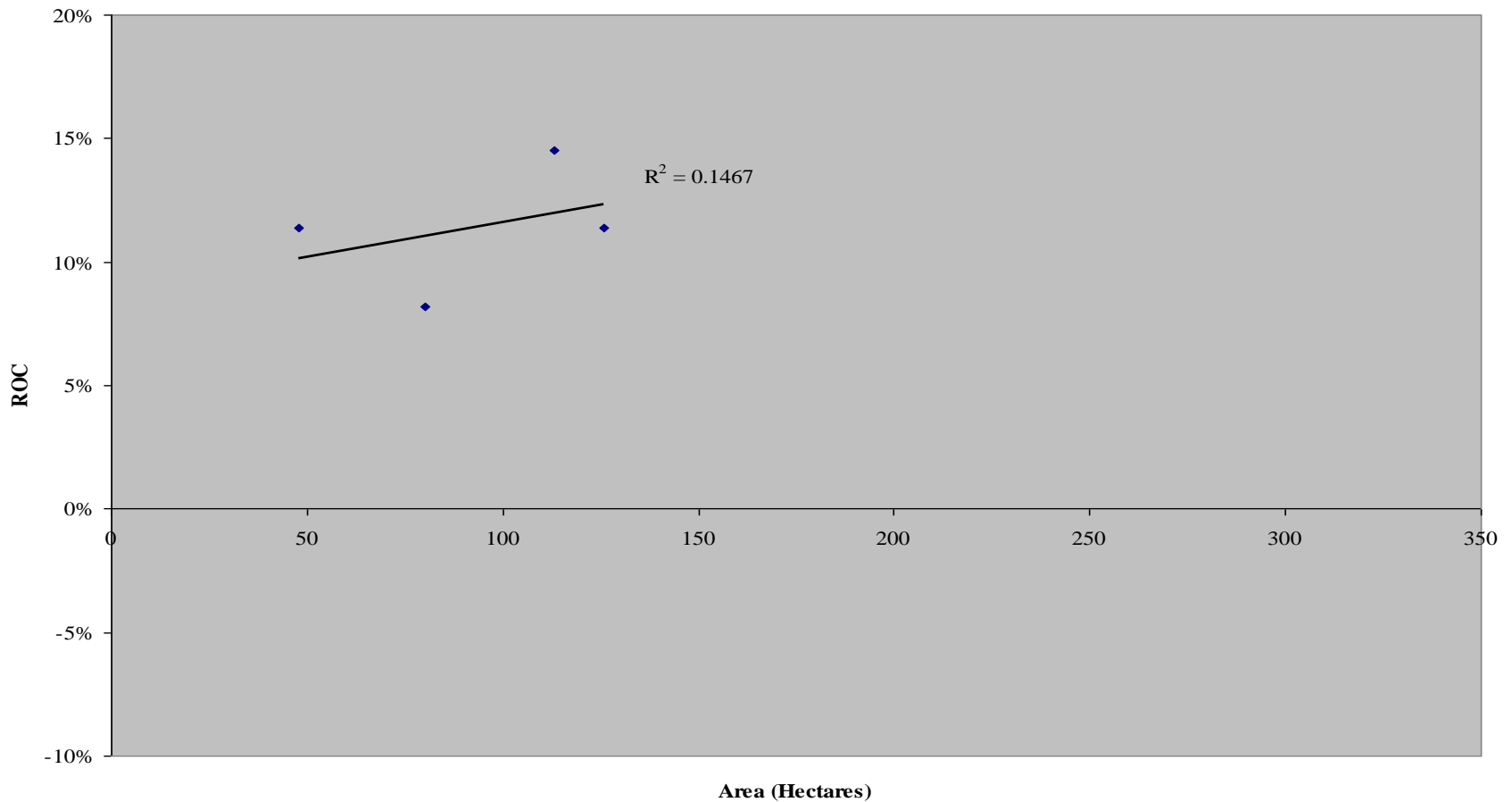
The myth: “*get big or get out!*”

ROC v Home Farm Area (all)



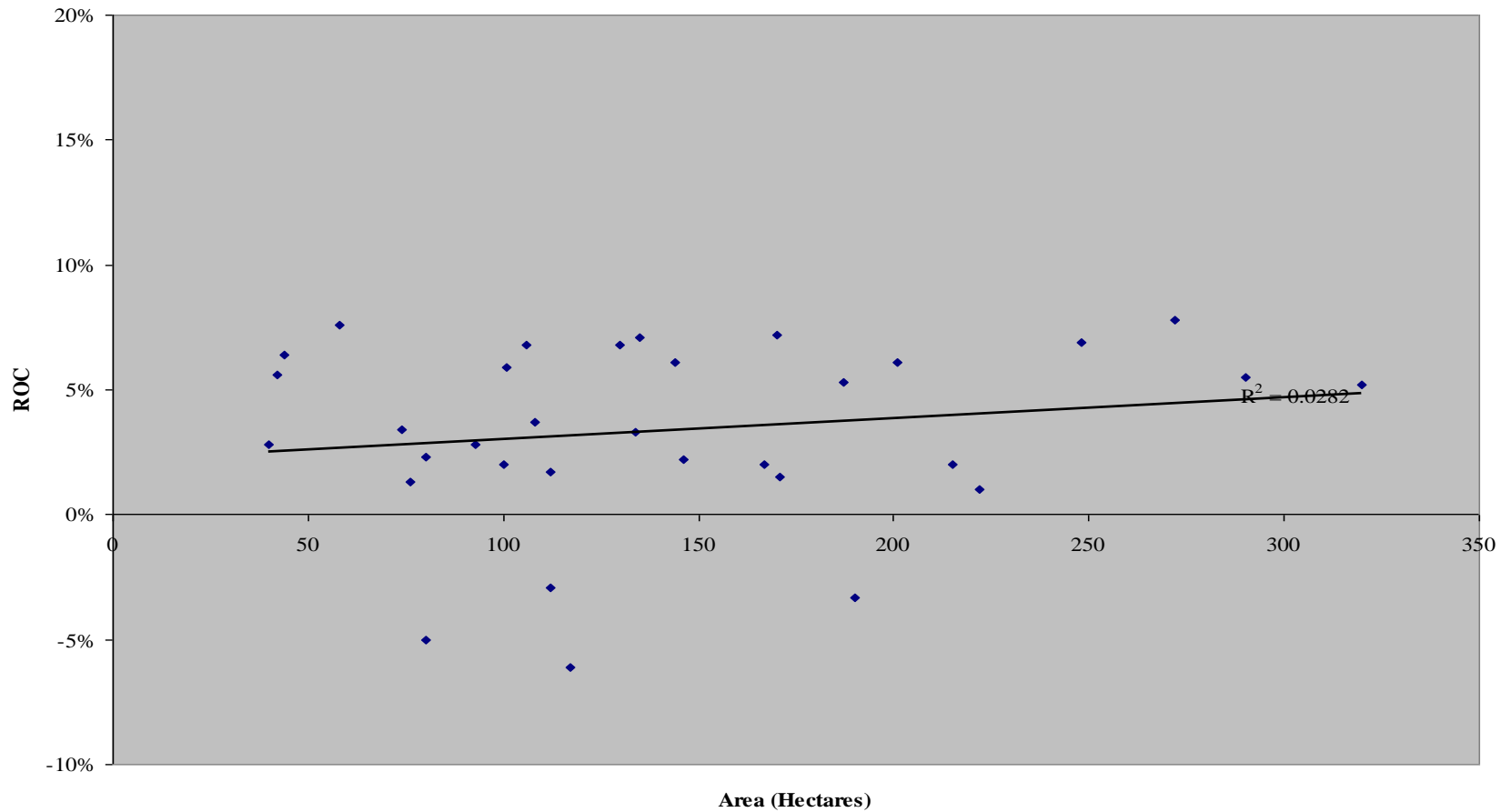
The myth: “*get big or get out!*”

ROC v Home Farm Area (top 10%)



The myth: “*get big or get out!*”

ROC v Home Farm Area (90%)



Franchising!

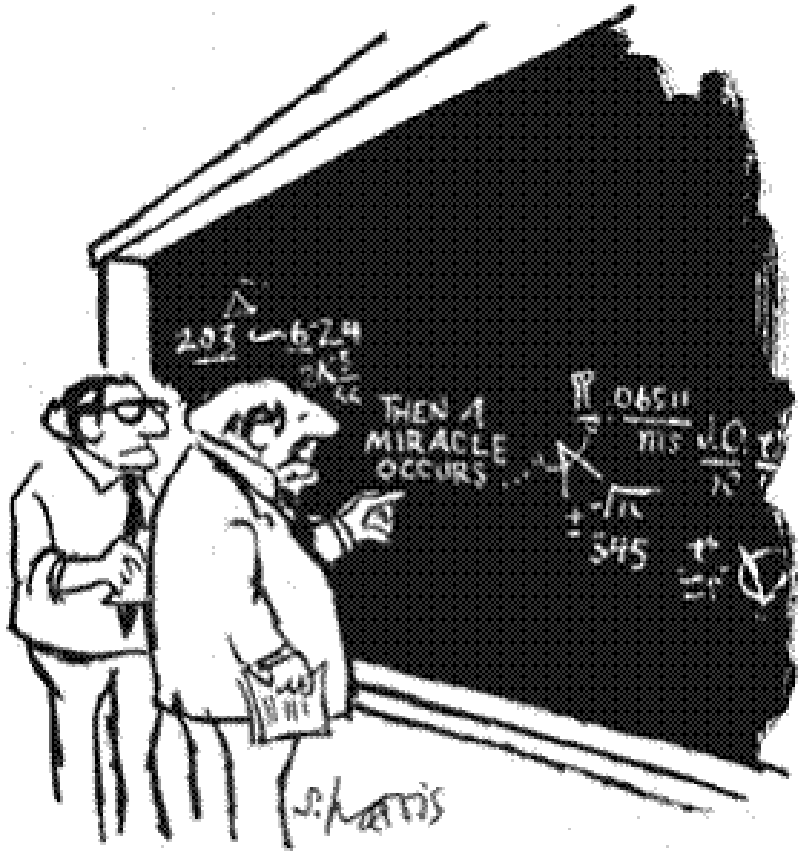


Having said that....

- The most profitable farms tend to be bigger in a lot of samples
 - But they were smaller, profitable and grew
 - Rather than got big to get economies of scale
- AND all businesses must grow
- BUT growing an unprofitable business....



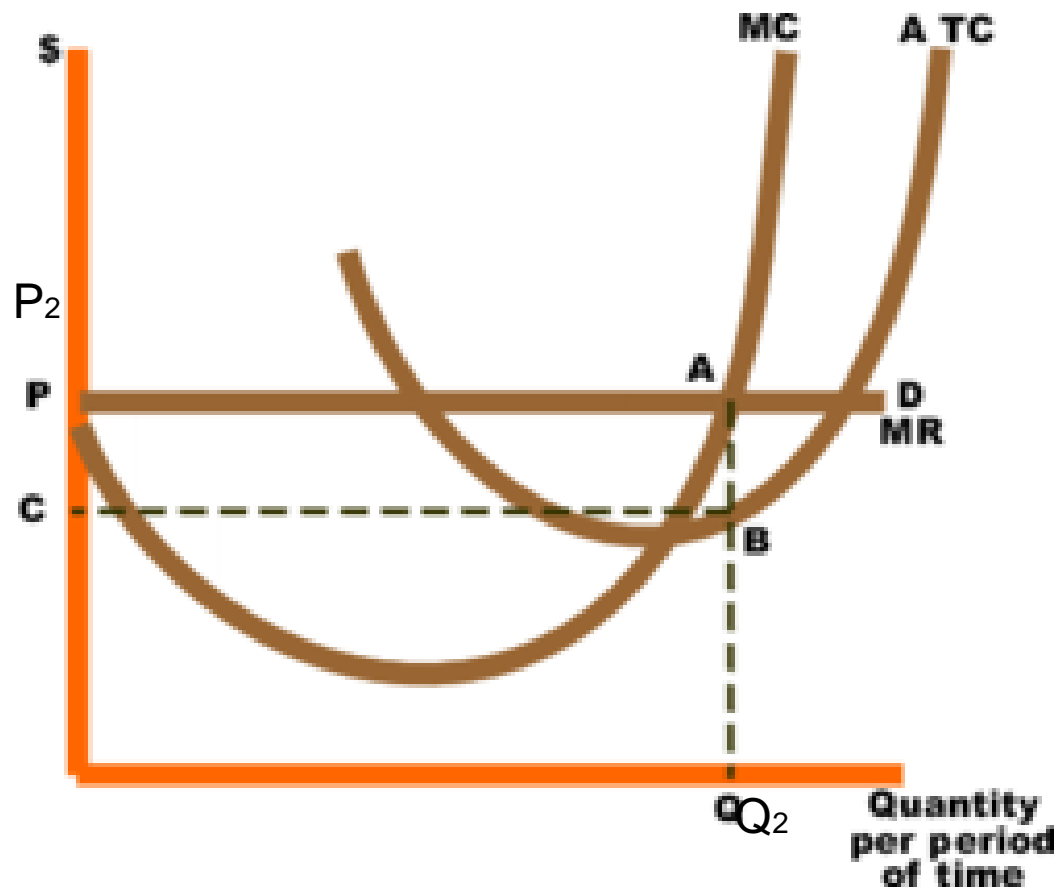
Profit Driver 3



“How you do something is as important as what you do”

"I THINK YOU SHOULD BE MORE EXPLICIT HERE IN STEP TWO."

3. An understanding of the business



Profitable decisions

- Economists are logical
- There is obviously a difference between profitable and unprofitable decisions
 - Less obvious is the difference between a profitable decision and the most profitable decision
 - A less profitable decision will often preclude a more profitable one
- The MC:MR analysis can be complex
 - Oversimplifying it usually gives the wrong answer
 - But often the one you want



Risk/Robustness

- Its all about price!
- 20-30% decrease from average will test system robustness



Profit Driver 4

“Commodity prices will always be volatile – develop a robust system”

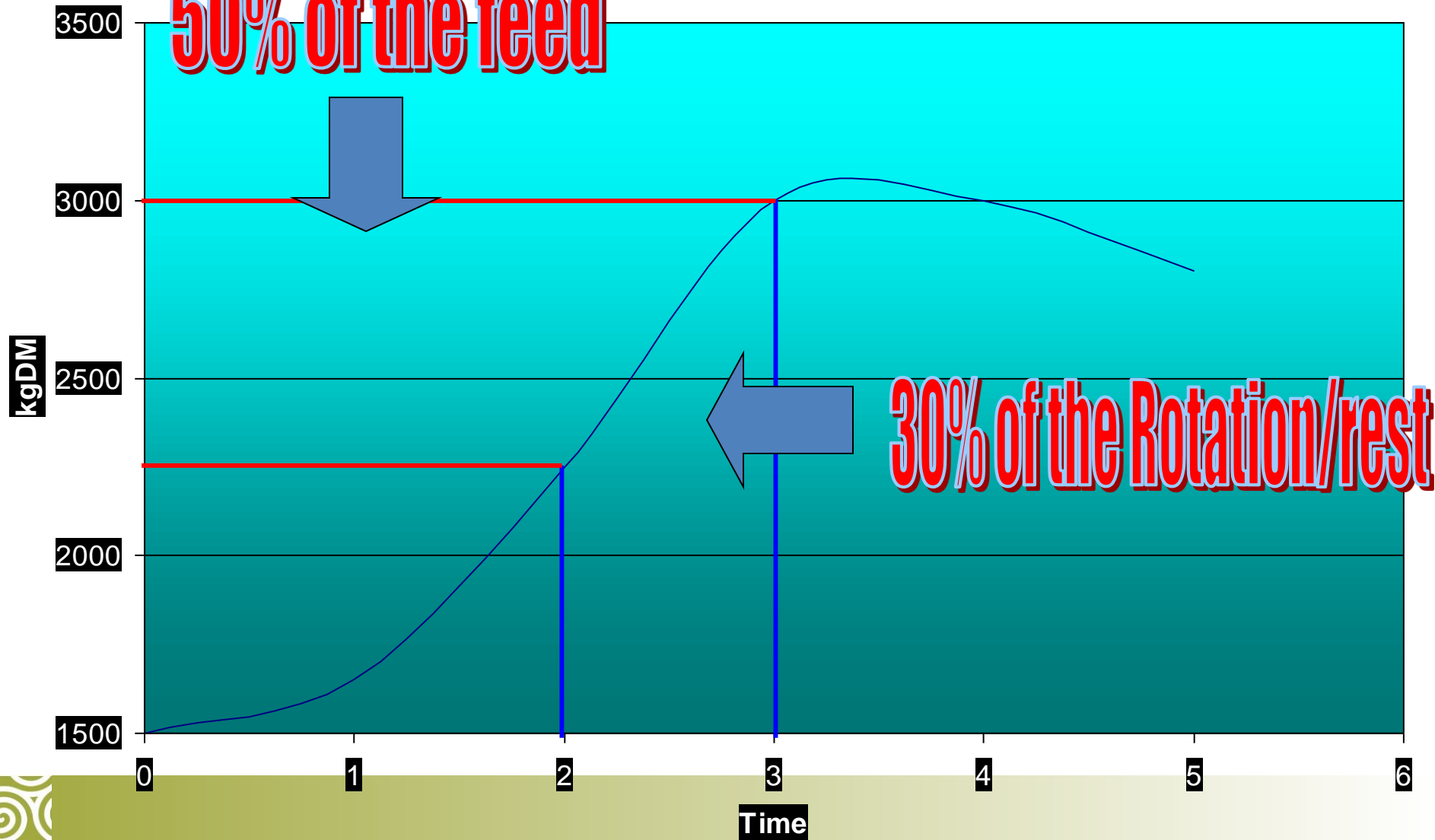
4. An understanding of the production system

	Profit
Technical/Tactical/Animal-Feedbase interface	70%
Business	40%
People	30%
Operational	15%

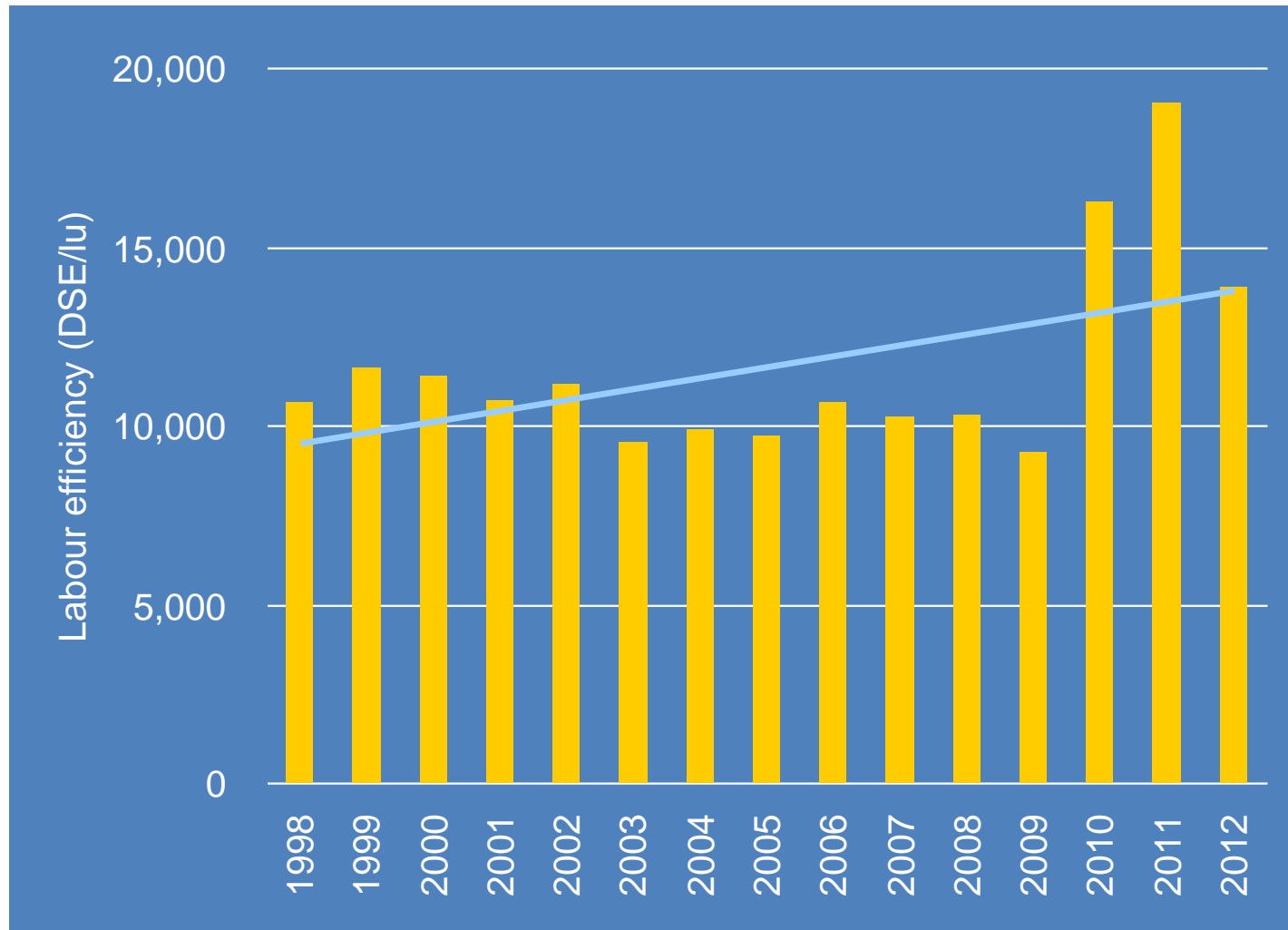
Hoekema 2002

Business foundation/dynamic

50% of the feed



Labour efficiency is a good news story



LUE = Team work



Profit Driver 5

***“Be very good at the things
that count”***

5. A high level of skill associated with the key profit drivers

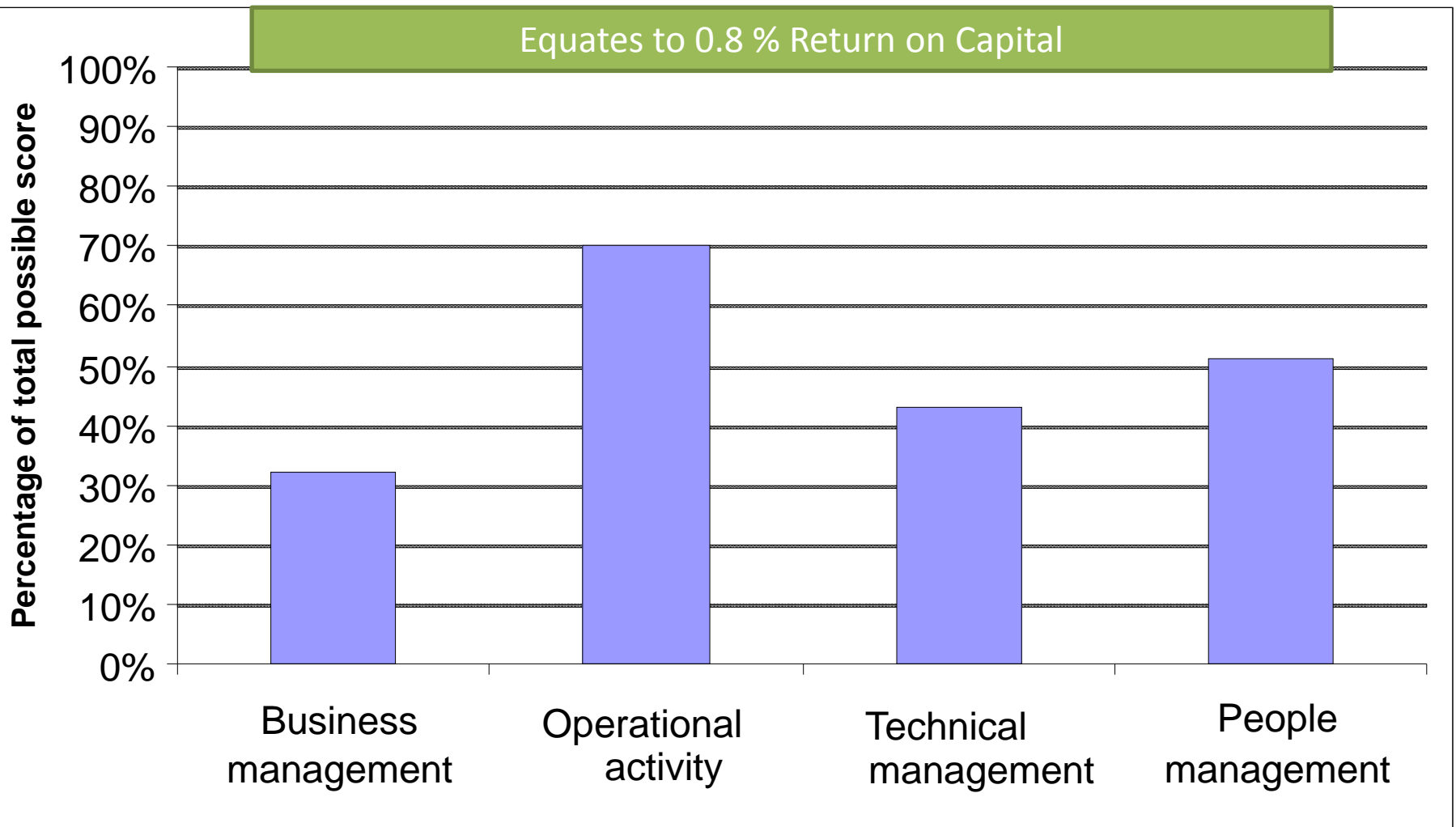
- Its no use knowing what to do if you cant do it!
 - Implementing good decisions is critical to business profit
 - Under game day pressure
 - Vs armchair critic



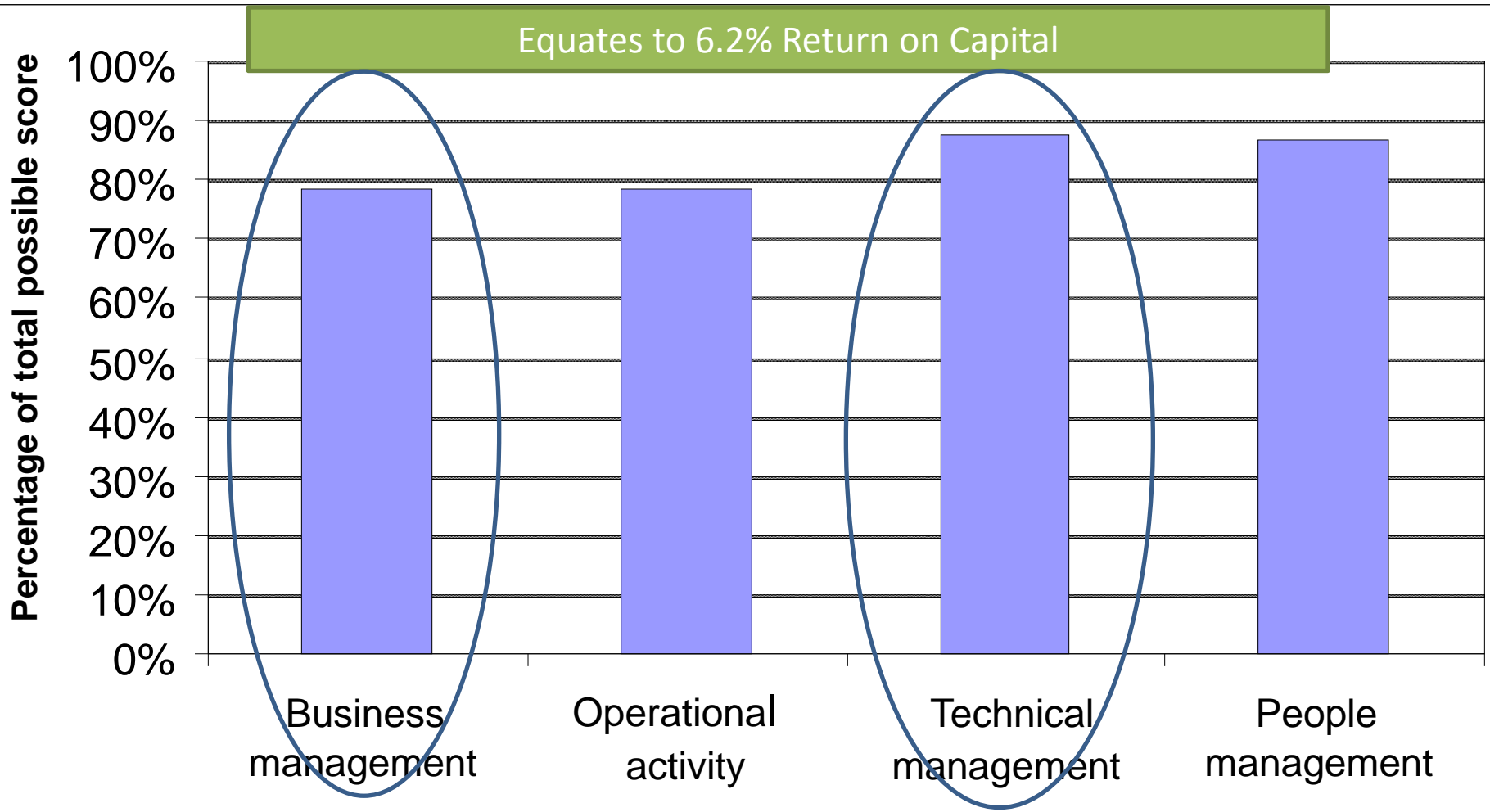
Skill is the missing variable



Audit results - Average



The best



Link to skills

- Strong link between ROC and skill
 - The difference between a good producer and an average producer is two weeks?
 - That's skill
- We audit our clients!
 - And remunerate on skill!
 - Remuneration is a function of skill – not experience

Australia - a great sporting nation

Analysis of countries at the 2012 Olympics

Country	Gold medals	Population (million)	Medals/million people
USA	46	275	0.16
China	38	1261	0.03
Russia	24	146	0.16
Australia	7	20	0.35
Japan	7	126	0.06
New Zealand	6	4	1.5
South Africa	3	45	0.07

A professional approach



- 60 World champions
- same resource base
- better managed



The TIS aims to provide leadership and quality athlete and coaching services to assist TIS athletes in realising their potential to become successful international athletes.

Recreational golfers splurge on technology aiming to emulate the pros but their inflated egos fail to deliver

We're not alone?

Wasted millions

- Each year Australian golfers spend \$300m to upgrade their equipment
 - Over the last 10 years average handicap has increased
- They're now hitting the ball further in the wrong direction
 - We always tend to believe that our skill are higher than they actually are!

By JOHN COOMBER

Golfers are spending more on equipment than on food, drink and travel combined. It's a waste of money, say experts, because the technology that grew out of international weapons programs.

They swing space-age clubs with gigantic iron heads and shafts that contain more technology than an average family car.

They happily splash out \$300 million a year on their equipment, upgrading clubs and bags. The average club comes with a bag of clubs worth \$1,000. Superstars like Tiger Woods have bags worth \$10,000.

And here's the rub:

They don't get any better.

According to a detailed survey of golfers in Australia, the average handicap has increased by one stroke a year over the last 10 years. It's not just a waste of money, it's a waste of time.

"One would think that we all must now play better golf — we do not," was the conclusion of survey. The survey was conducted by the Australian Golfing Union.

"The main mistake, according to former touring professional Al Bland, is that people think they can improve by buying more equipment.

Like most things in golf, there is no simple explanation.

Nearly all the people who are obsessed with golf are also obsessed with technology. They believe that they can improve by buying more equipment, but they don't know how to use it.

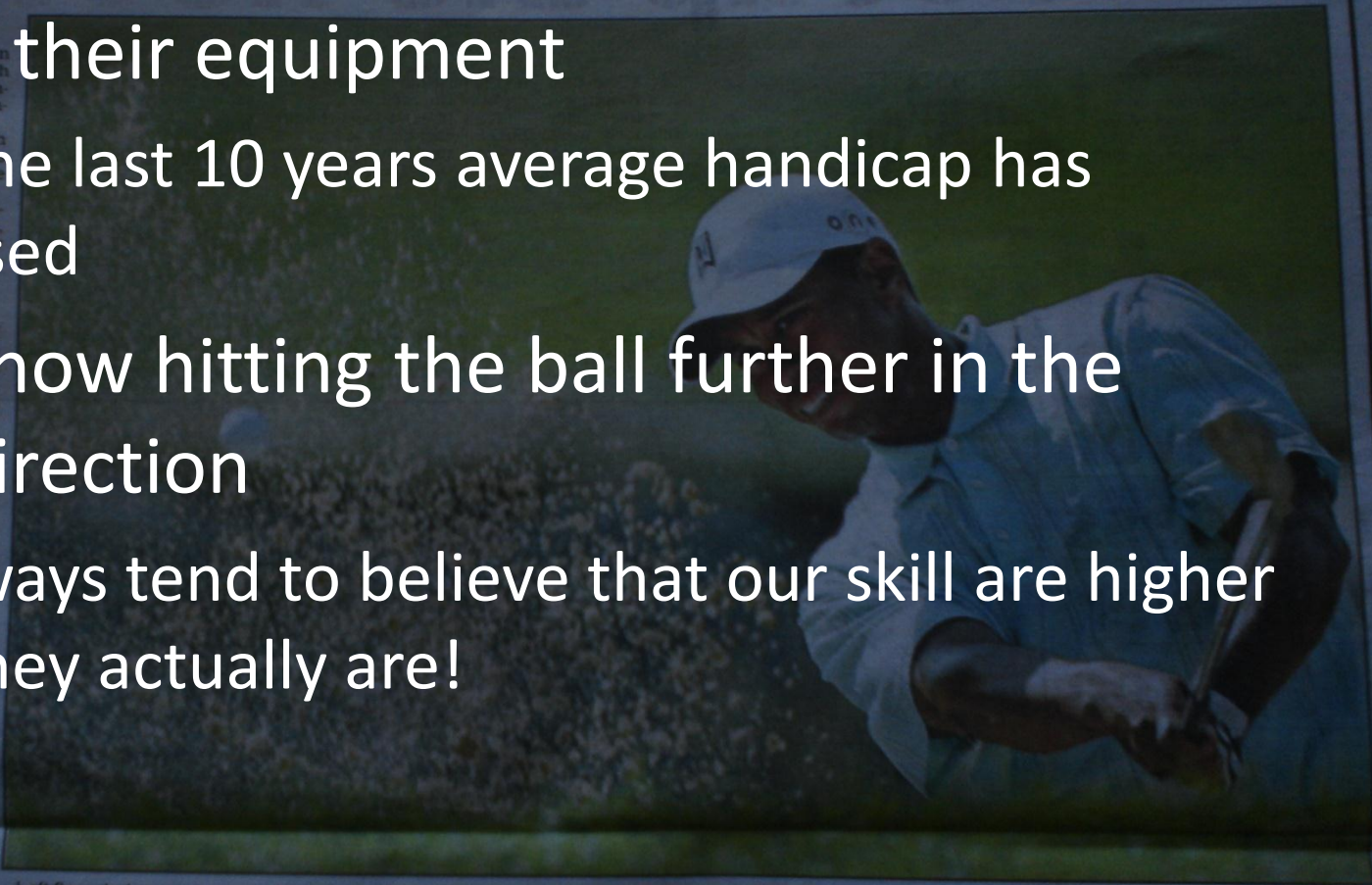
The main mistake, according to former touring professional Al Bland, is that people think they can improve by buying more equipment. They don't know how to use it.

"You can buy a \$1000 driver but it's not necessarily going to make you hit the ball any further," said Ogle, now a club professional at Bonnet Down in Sydney.

"Too many people just buy on the spot at the moment in America or Holland and the handicap goes from 14 to 17 and they're wondering why.

"They've bought the best equipment, but it's not necessarily going to make their game any better."

When they do buy new clubs they must have them fitted to suit the



Left floundering . . . many social golfers fail to improve because they over-estimate their ability to use the equipment of professionals like Tiger Woods

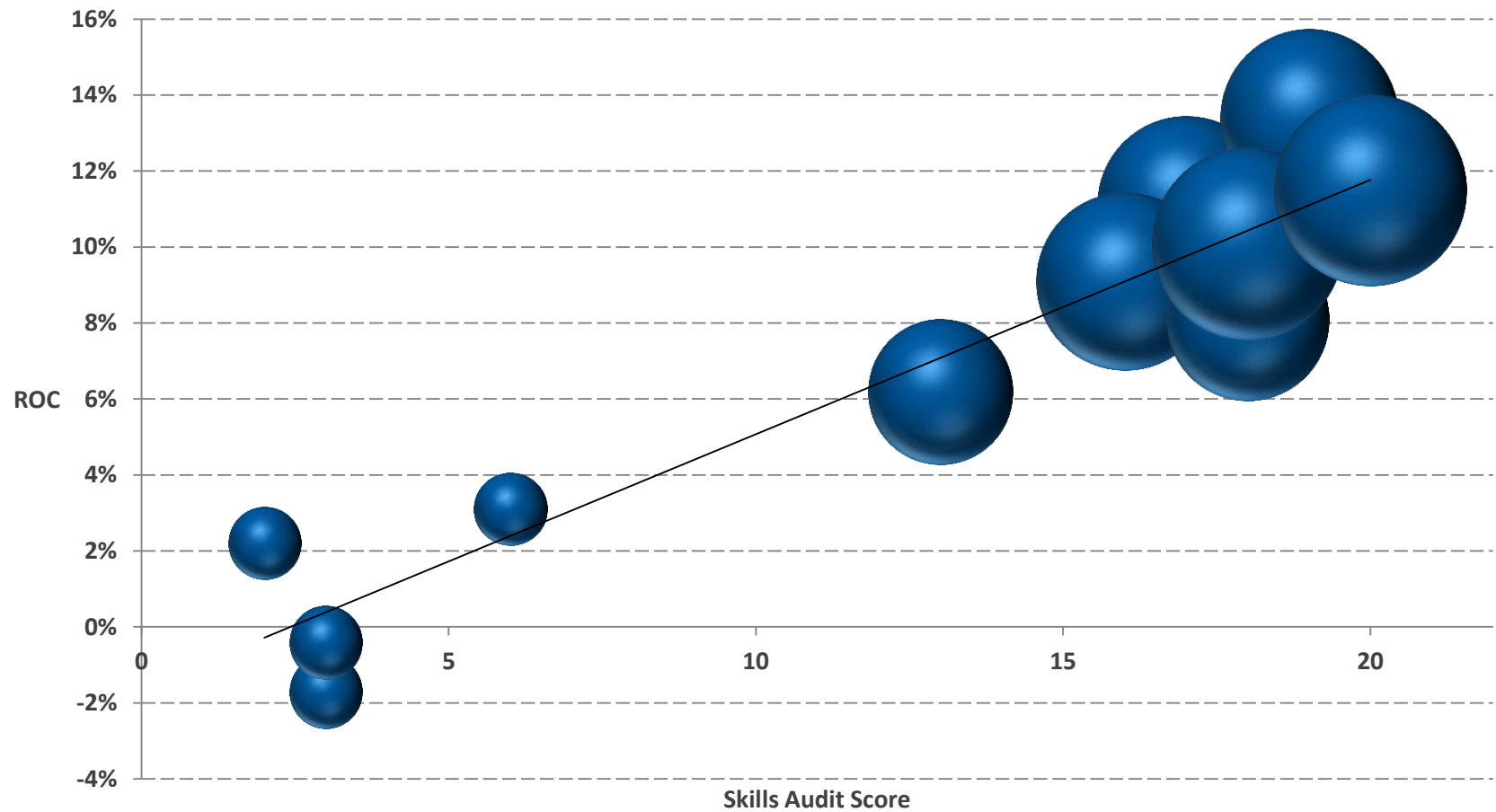
Most [male] golfers think they're much better than they really are, which means they use drivers with

defence industries turned their attention to golf equipment design.

added more flex to shafts over the years, so that what once might have

It is also important to hit the ball that best suits your game.

Profit and Skill



Profit Driver 6

“Skill is the most important and overlooked aspect of a successful business”

Summary

1. Farming businesses are complex and conducted in a leaky and dynamic environment
2. Historically farming systems have evolved from comparative analysis
 - i. The rest copying the best
 - ii. Right things the wrong way
3. Successful farming systems should evolve by logical business decision making
 - i. Marginal analysis (whole or partial basis)
 - ii. Risk must be incorporated (price)
 - iii. The farms' resource base plays a key role
4. Skill is the most important and overlooked aspect of successful farming
 - i. Advisors should look to increase client skills
 - ii. Better do the wrong thing well than the right thing poorly in farming
 - i. Or at least the basics well



Thank you

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