

Strategies to Increase the Profitability of Extensive Beef Businesses

Ian McLean
@bushagri



BUSH AGR|BUSINESS
PTY LTD



Background

Long term perspective.

Focus is on factors which determine performance through the full range of seasonal conditions and market cycles.

Background document

Northern Beef Report: 2013 situation analysis



Northern Beef Report



finalreport

Project code: B.COM.0348

Prepared by: Ian McLean
Phil Holmes
David Counsell
Bush AgriBusiness Pty Ltd
Holmes & Co.

Date published: April 2014

ISBN: 9781740361897

PUBLISHED BY
Meat & Livestock Australia Limited
Locked Bag 991
NORTH SYDNEY NSW 2059

The Northern beef report
2013 Northern beef situation analysis



**Improving the performance
of northern beef enterprises**

Key findings for producers from the *Northern Beef Report*

Fundamental unit of measure?

Animal unit appropriate unit of measure for much of Northern Australia.

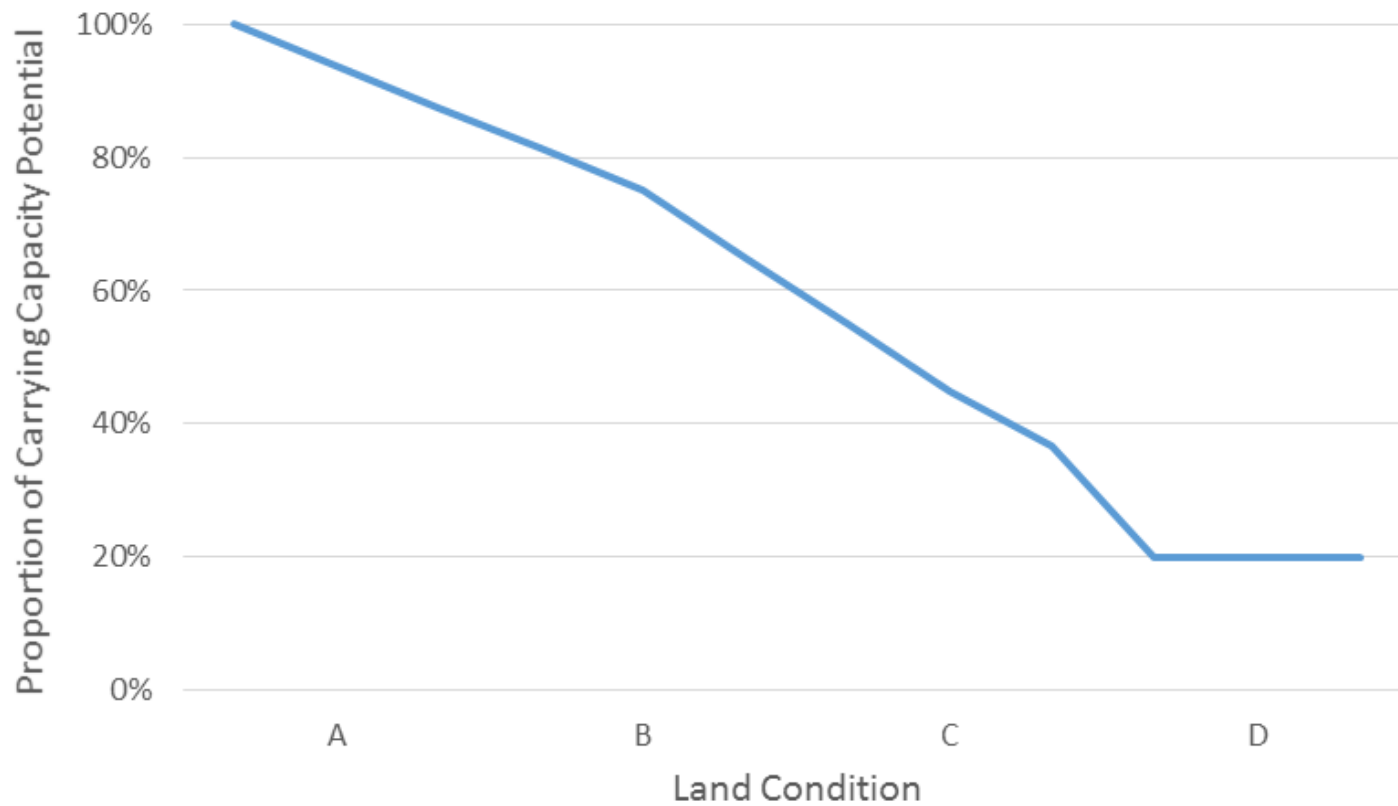
Allows herds of different sizes, structures and locations to be compared on like for like basis.

Adult Equivalent: 450kg Bos Taurus steer

- Other classes of animals assigned relative rating
- Refer previous BeefConnect webinar



Carrying Capacity & Land Condition



Source: EDGENetwork Grazing Land Management Package



STRATEGY ONE

Run as many Adult Equivalents as you can, but no more than you should.

Determine your long Term Carrying Capacity (LTCC) and Land Condition. Then;

- base long term planning around LTCC,
- match stocking rate to available feed in the short term,
- maintain land in good condition and improve land not in good condition



More information

- EDGE Grazing Land Management Workshop
- Journals, publications and other literature

CSIRO PUBLISHING

The Rangeland Journal, 2014, 36, 105–119

<http://dx.doi.org/10.1071/RJ13070>

Review

Principles and guidelines for managing cattle grazing in the grazing lands of northern Australia: stocking rates, pasture resting, prescribed fire, paddock size and water points – a review

L. P. Hunt^{A,E}, J. G. Mclvor^B, A. C. Grice^C and S. G. Bray^D



What determines profit?

Number of AE \times Profit per AE

Profit/AE = Income/AE *less* Costs/AE



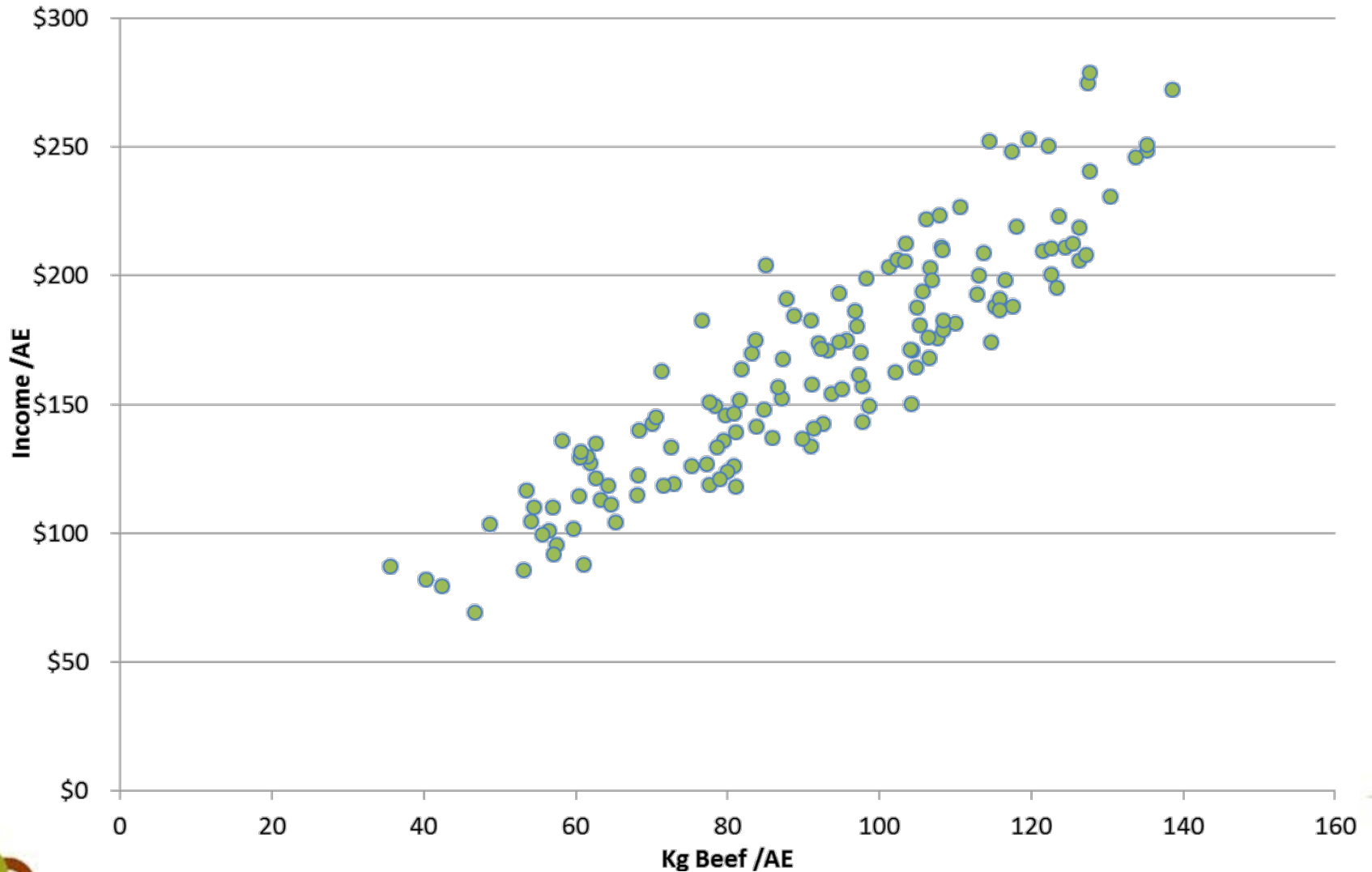
How much income is the herd generating (Income/AE)?

The income of a breeding business is primarily a function of two things;

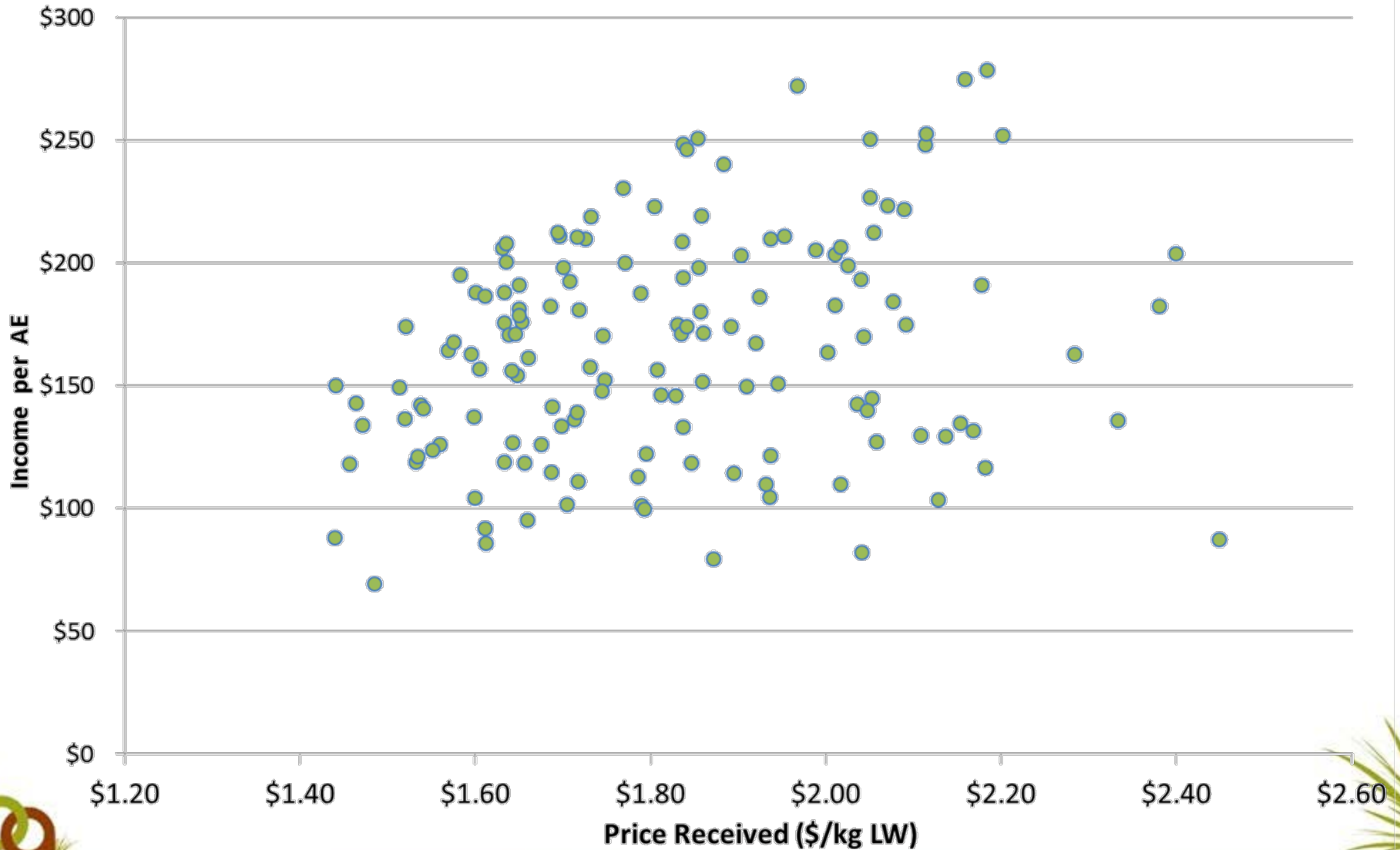
1. Kilograms of beef produced per adult equivalent per year,
2. Average price received per kilogram



Herd Productivity drives Income

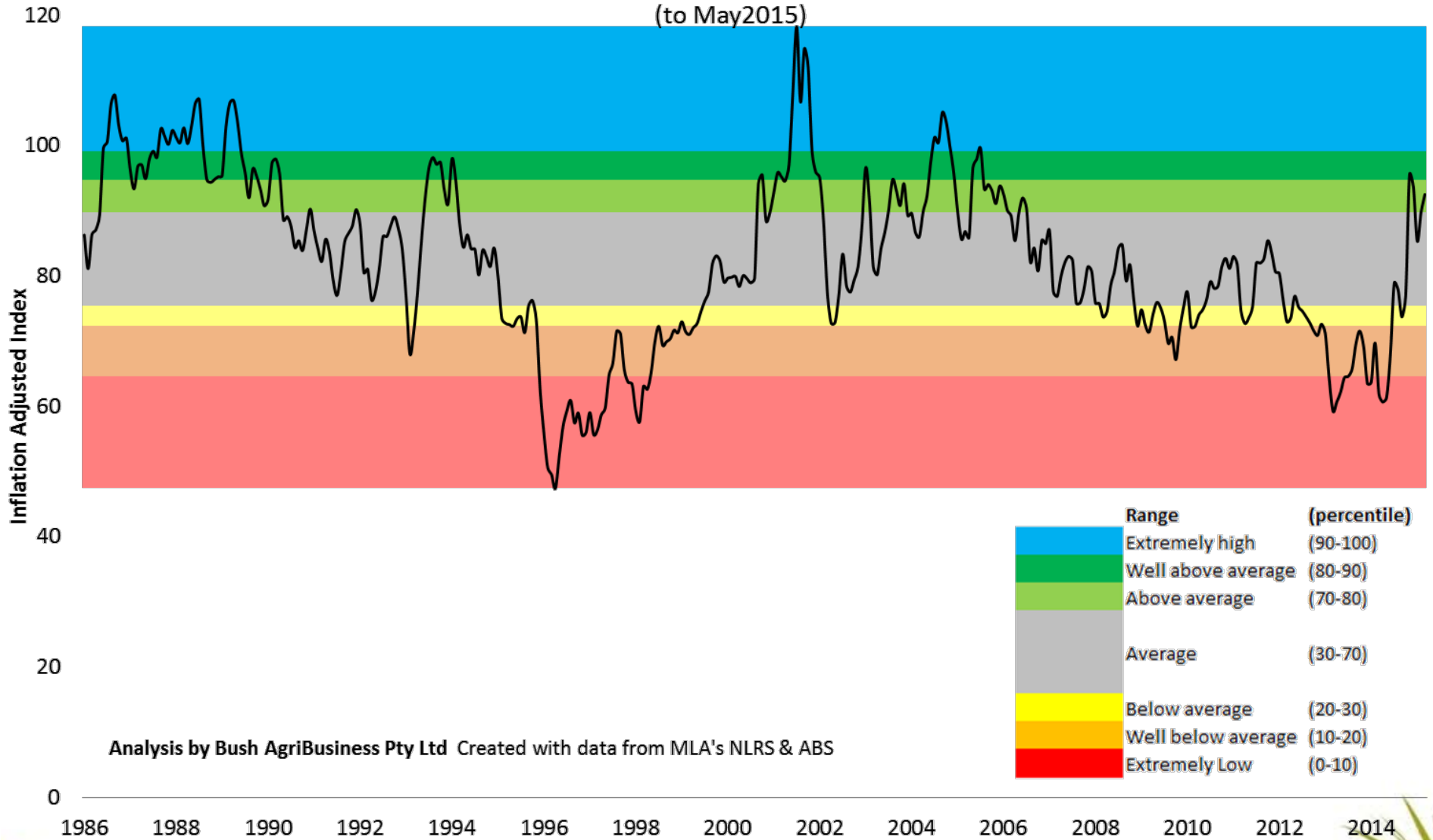


Price received does not



Queensland Cattle Market

(to May 2015)



Analysis by Bush AgriBusiness Pty Ltd Created with data from MLA's NLRs & ABS



Profit & Price Received

The profit of a beef business (on a per kilogram basis).

Profit = Kg prod. x profit/kg (operating margin)

Profit = Kg prod. x (price rec'd – cost of prod.)

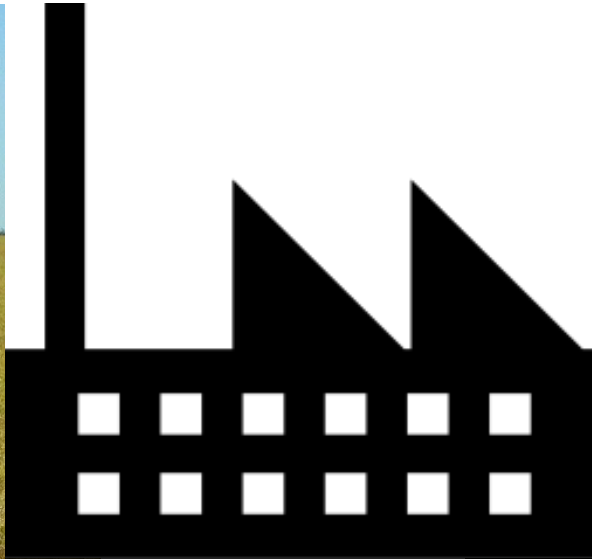


Operating Costs

Kg beef produced



Herd Productivity (Kg Beef/ AE)



- Measure of how efficient the beef factory is at turning grass into beef.
- What are the critical variables?
(Reproductive rate, mortality, sale weight, genetics, management)



Herd Productivity

Productivity drivers (breeding herd)

Reproductive rate +1%	+1.5 kg beef/AE
Mortality rate -1%	+2.3 kg beef/AE
Sale weight +1kg	+0.2 kg beef/AE

Every kg added increases income



STRATEGY TWO

Focus on maximising the kilograms of beef you produce in the long term (Kg Beef/AE).

This is the most effective way to increase the income of a beef business



Strategies to Increase Profitability

QUESTIONS?

1. Run as many Adult Equivalents as you can, but no more than you should.
2. Focus on maximising the kilograms of beef you produce in the long term.



What is the herd costing?

Operating Expenses

- Enterprise Expenses (aka direct or variable)
- Overhead Expenses (not fixed)

Finance, taxation, dividends etc are not operating expenses and must be funded from operating profits.



Enterprise Expenses per AE

Better performing producers have lower enterprise expenses and higher productivity (kg beef/AE).

- Where will every \$1 spent on the herd generate more than \$1 in return? (& where won't it)?
- Business/region/ production system specific
- Animal health, supplementation & genetics



STRATEGY THREE

Ruthlessly scrutinise, and optimise, herd expenditure.

Every dollar spent must return much more than one dollar.

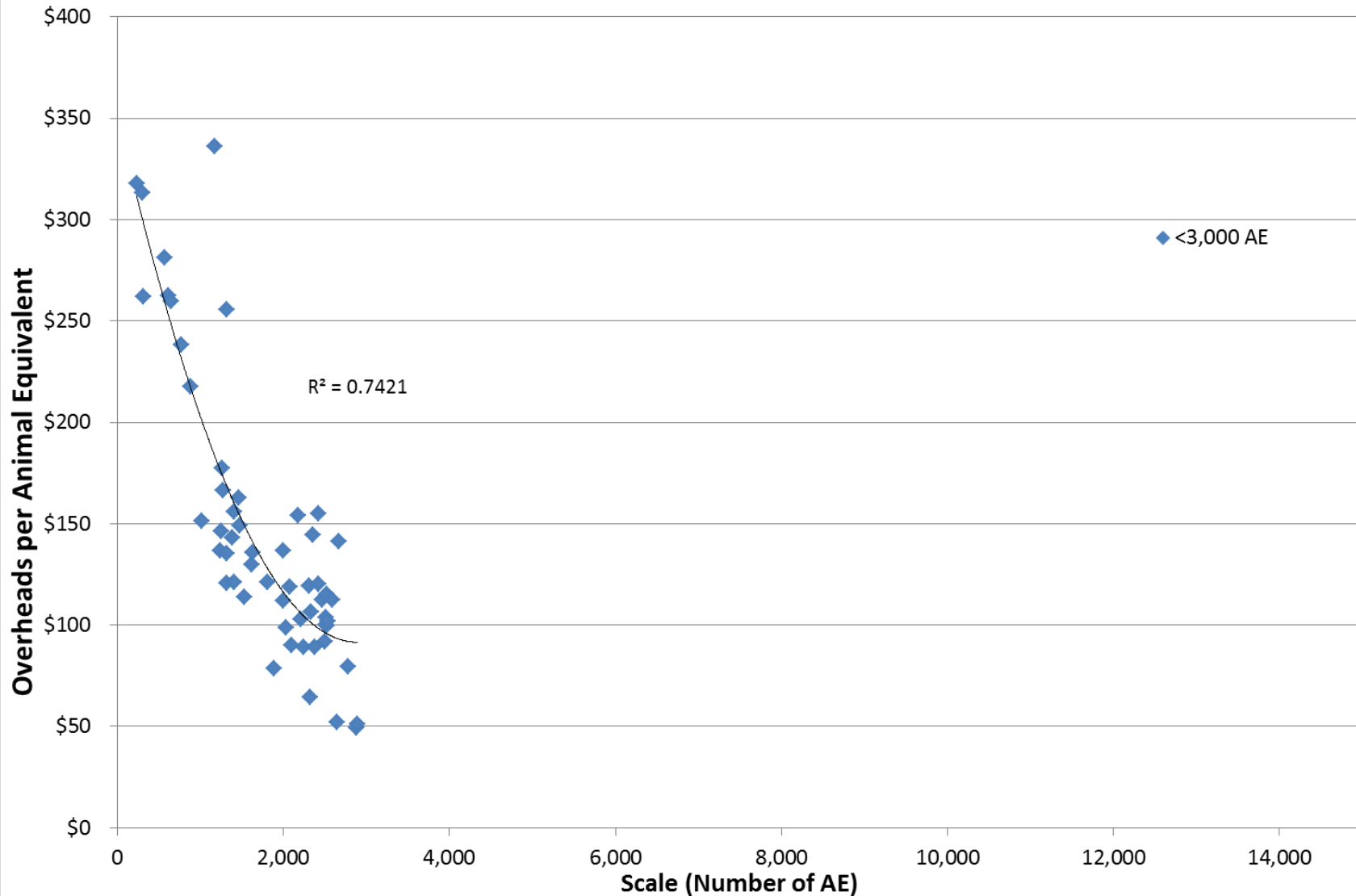


Overhead Expenses per AE

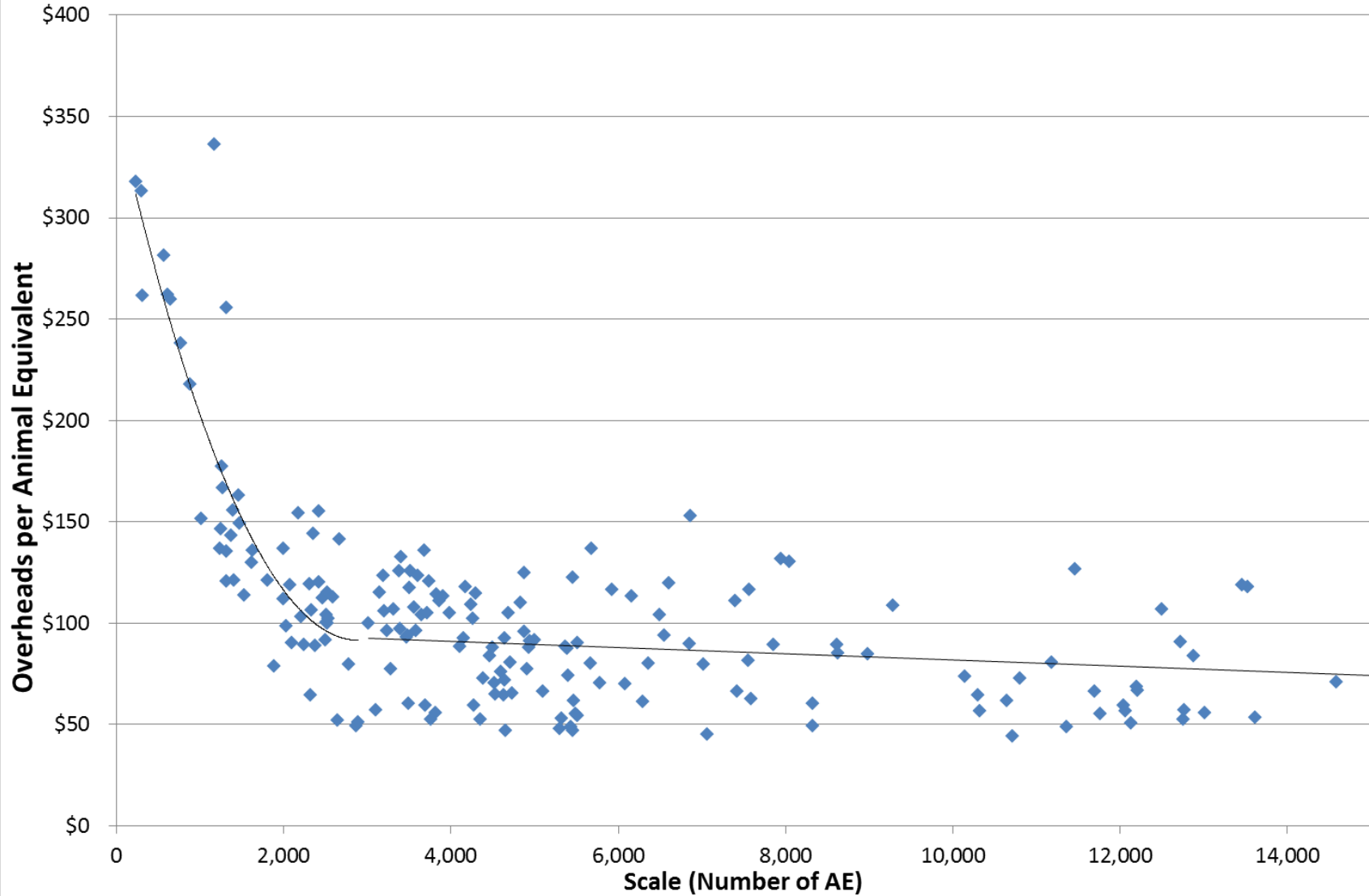
- Business averages range from \$50/AE to \$350/AE
- Ideally should be less than \$100
- What determines range and what can you do to reduce it?



Overhead Expenses per AE



Overhead Expenses per AE



STRATEGY FOUR

Achieve Labour Efficiency of 1,500 or more Adult Equivalents for every Full Time Equivalent of labour.



Strategies to Increase Profitability

QUESTIONS?

3. Ruthlessly scrutinise, and optimise, herd expenditure.
4. Achieve Labour Efficiency of 1,500+ ae/fte



Operating Scale

- Lack of scale is a major issue for many producers
- Improving performance at current scale will benefit most businesses more than increasing scale without improving performance.
- Lack of scale will remain a major issue for many producers



Addressing lack of scale

- What is your Long Term Carrying Capacity?
- What is your Land Condition?
- What scope to increase carrying capacity through improving land condition, development etc.?
- What capacity do you have to increase scale (purchase, lease, long term agistment)?



STRATEGY FIVE

Honestly assess your situation with regard to scale.

Determine if you have a part time job or a standalone business that either has sufficient scale, or has the capacity to profitably grow.



Profitability = Profit / Assets

- Profitability (ratio) is determined by profit (dollar figure) & value of assets used to generate that profit.
- Land is around 75% of total assets
- If you pay too much for land, reasonable profitability is unattainable regardless of improvement in herd profits.



How much can you afford to pay for land?

- What profits will it make you?
- What return do you want from investment?

		Total Asset Value/AE (Land + Cattle + Plant etc.)			
		\$1,000	\$2,000	\$3,000	\$4,000
EBIT/AE	\$20	2.0%	1.0%	0.7%	0.5%
	\$40	4.0%	2.0%	1.3%	1.0%
	\$60	6.0%	3.0%	2.0%	1.5%
	\$80	8.0%	4.0%	2.7%	2.0%
	\$100	10.0%	5.0%	3.3%	2.5%



STRATEGY SIX

Don't pay too much for land.

Do sums very carefully when buying land, or considering any major capital investment.

What you can afford to pay for it will be a function of what it will make you and what return you require on your investment.



Improve business skills & knowledge

- Northern Beef Report- Comprehensive Report
- Improving the performance of Northern Beef Enterprises (e-mail admin@babusiness.com.au for hard copy)
- Business EDGE Workshops:
 - Key business skills and concepts applied to pastoral businesses.
 - Developed by MLA to build business skills and financial literacy.
 - Held across regional Australia. Alice Springs July 23-24, Katherine July 28-29
 - Register interest



Improve business knowledge

- Understand exactly how your business is performing
- Which strategies are the most important for you to focus on to become a good business?
(i.e. one that can provide for the needs and aspirations of its owners into the future.)
- A professional, objective and comprehensive analysis of your business performance.



STRATEGY SEVEN

Become a professional business manager.

Acquire the knowledge and skills required to successfully run a multi-million dollar business in the 21st century.

These are not the same as the knowledge and skills required to successfully run a cattle business in the 20th century.



STRATEGIES TO INCREASE PROFITABILITY

1. Run as many Adult Equivalents as you can, but no more than you should.
2. Focus on maximising the kilograms of beef you produce in the long term.
3. Ruthlessly scrutinise, and optimise, herd expenditure.
4. Achieve Labour Efficiency of 1,500+ AE/FTE
5. Honestly assess your situation with regard to scale.
6. Don't pay too much for land.
7. Become a professional business manager.

QUESTIONS?

Ian McLean

ian@babusiness.com.au

0401 118 191

If you'd like a hard copy of the key findings for producers from the Northern Beef Report.

admin@babusiness.com.au

