Strategies to Increase the Profitability of Extensive Beef Businesses

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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

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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

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

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. McIvor\(^B\), A. C. Grice\(^C\) and S. G. Bray\(^D\)
What determines profit?

Number of AE × 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
Profit & Price Received

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

Profit = Kg prod. \times \text{profit/kg (operating margin)}
Profit = Kg prod. \times \text{(price rec’d – cost of prod.)}

\text{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

Overheads per Animal Equivalent vs. Scale (Number of AE)

- Overhead Expenses per AE are plotted on the y-axis, ranging from $0 to $400.
- The x-axis represents the scale (number of AE), ranging from 0 to 14,000.
- The graph shows a downward trend, indicating that overhead expenses per AE decrease as the scale increases.
STRATEGY FOUR
Achieve Labour Efficiency of 1,500 or more Adult Equivalents for every Full Time Equivalent of labour.
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?

<table>
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<th>Total Asset Value/AE (Land + Cattle + Plant etc.)</th>
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<th>$2,000</th>
<th>$3,000</th>
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<td>3.3%</td>
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</tr>
</tbody>
</table>
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 you business performance.

The BUSINESS ANALYSER®
Serious business analysis
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?

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If you’d like a hard copy of the key findings for producers from the Northern Beef Report. admin@babusiness.com.au