

AN INITIATIVE OF  
*Making More From Sheep*



## **Plan For Success**

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EVENT  
PARTNERS:



EVENT  
SUPPORTERS:



STATE  
PRIMARY  
INDUSTRY  
AGENCIES

## Major challenges

- What is the number one profit driver?
- What is your cost of production?
- How much are your lamb and wool enterprises contributing to business profitability?
- Where are your major losses and what is their impact on profitability?
- Where are your next worthwhile gains to be made?
- How will you go about achieving these improvements?

## You must know?

- The number one profit driver in your business IS YOU.
  - A lack of profit is a people problem not a production problem. Get the people right and the production will follow.
  - Attitude and action are just as important as ability
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## What are the main characteristics of being a key profit driver ?

- Understands the key drivers in the business
- Measure, Measure, Measure
- Have great personal discipline
- Allocate resources well
- Have a support team around him/her
- Keep his/her eyes firmly on the ball – main game
- Good planning, monitoring and analysis skills
- Synthesise information well
- Remains abreast of new technology
- Milk every mistake for all it is worth and don't make it again – Not a mistake the first time it's a learning opportunity
- Always conducting their own applied on farm research
- Timing of operations

## Harnessing the current climate

- If you cannot get excited about this industry at present there is a fair chance you will never get excited about it. Wool, lamb and mutton prices are at the high end
- One thing that will reduce high prices is high prices. Supply and demand will always prevail. Low elasticity of supply is in your favour
- Remember it is the decisions that you make in the good times that get you through the bad times – Remember the drought.

## Current Gross Margins

Key Performance Indicator	Mer x Mer	1 <sup>st</sup> X x Term	Mer x Term
Fleece weight	5.5 kg	4 kg	5.5 kg
Wool Price c/kg greasy	\$9	\$4.50	\$9
Lambing %	90%	110%	90%
Lamb Price	\$90	\$130	\$120
Replacement Ewe Cost	\$150	\$200	\$150
Gross Margin per DSE	\$46	\$52	\$58
DSE=Dry sheep Equivalent = 50 kg maintained Condition Score 2			

# Making a Margin

**Income**

\$ per Kg      x      Kg per Ha      x      No Hectares

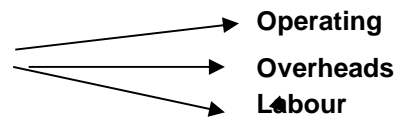
Price      x      Yield      x      Size

$$\text{\$ 4.50} \times 50 \text{ kg DWT} \times 1000 \text{ ha} = \text{\$225,000}$$

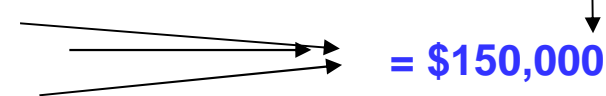
= 50,000 kg DWT



**Deduct Costs**



Operating  
Overheads  
Labour



= \$150,000

**Cost of Production**

\$3.00/kg

**Margin**

=

\$1.50 per kg or \$75,000

To pay Interest, Tax, Capital Expenditure, lifestyle, etc

## Real Gains in being a top 20 percenter

Lamb Indicators/kg cwt	Average	Top 20%
Enterprise Costs	\$2.01	\$1.83
Overhead Costs	\$1.20	\$0.74
Owner Operator	\$0.50	\$0.50
Cost of Production	\$3.71	\$3.07
Less Wool Income	\$1.69	\$2.81
Less Sheep Trading Inc	\$0.62	\$-0.15
Break Even Price	\$1.40	\$0.42
Lamb Price Received	\$4.43	\$4.66
Profit Exclusive Interest/Lease	\$3.03	\$4.24



## Little profit in being average

Wool Indicators/kg clean	Average	Top 20%
Enterprise Costs	\$7.38	\$6.59
Overhead Costs	\$3.40	\$2.55
Owner Operator	\$1.99	\$1.16
Cost of Production	\$12.78	\$10.31
Less Sheep Trading Income	\$5.11	\$5.93
Break Even Price	\$7.67	\$4.38
Wool Price Received	\$10.40	\$11.46
Profit Exclusive Interest/Lease	\$2.73	\$7.08
Source: Livestock Monitor Farm Project Victoria		

## Cost of Replacement Ewes (CORE)

- Buying or Breeding – Are you a breeder or multiplier or a driver or drover
- Multipliers and drivers are usually better off buying
- Replacements can be around 50% of your gross margin cost. Requires absolute attention and understanding.
- Every flock produces three commodities, target sheep, wool and cull/surplus sheep.
- Wool or target sheep usually the purpose for the enterprise (maybe some dual purpose exceptions)
- The other two segments of the enterprise become co products

## Calculating the cost of breeding replacement ewes

Allocate all costs to the lamb (progeny) side of enterprise

Total enterprise (gross margin) cost (Includes cost of maintaining flock)

Add some working interest

**= Total Enterprise Costs**

Less wool income

Less cull and surplus sheep sales

**= Net Enterprise Costs**

Add Overhead Costs (General O'hds, Fert, Wages, Core Interest)

**= Total Cost of replacements for year**

Divide by Number of replacements

**= Cash cost per head**

Add profit target per head

**= Cost of replacement ewe (CORE) for that year**

## Breeding your own - Doing your own sums

Source: Solly Business Services	\$/head
<b>Lamb Cost</b> Enterprise, Overhead, Wages, Fertiliser and core interest costs less wool and surplus sheep income	69.52
<b>Lamb profit (Target \$100/ha)</b>	35.71
<b>Total Lamb Cost/head</b>	105.23
Sell the ewe lamb to the weaner enterprise	
<b>1.5 yo Cost</b> Lamb Purchase, Enterprise, Overhead, Wages, Fertiliser and core interest costs less wool and surplus sheep income	150.30
<b>1.5 yo Profit (Target \$100/ha)</b>	21.74
<b>Total 1.5 yo Cost/head</b>	172.04

## Investment in the human capital - You

- Outcomes are a reflection of your management ability
- Investing in yourself is just as important as investing in cropping fertilizer and fertilizer is extremely important.
- Invest 1 % of Gross Income on your professional development each year eg \$500k gross \$5k professional development
- 3 weeks holiday is equal to a standard header service
- Ensure your team is the best possible
- Celebrate your successes

## Enterprise Scale & Labour Efficiency

- Target 8,000 to 9,000 plus dry sheep equivalents per labour unit
- Approx 4000 ewes per labour unit
- Aim for \$500,000 to \$600,000 gross income per family unit
- Enterprise Costs = \$ 220,000
- Overhead Costs = \$ 90,000
- Wages = \$ 60,000
- Interest = \$ 80,000
- Total Cost = \$ 450,000
- Margin = \$50k to \$150k - pay tax, debt red'n & capital exp & kids educ'n
- 4000 lambs x 22 kg dwt = 88,000 kg dwt
- \$60,000 wages / 88,000 kg dwt = 69 cents per kg for labour – No higher
- 800 ewes equals one day a week at current profitability.

## Managing Losses

- Understand what the combined impact of all your losses is having on your profits not just on your gross income
- Poor lambing percentages
- Poor pasture utilisation – Low stocking rates
- Missing genetic opportunities
- Poor timing
- Not matching feed demand and supply
- Traditional thinking
- Slow uptake of technology
- Same ingredients wrong proportions
- If you don't measure it, how do you really know?

## Costing Losses: A dead ewe= \$600

Scenario: A full wool ewe dies from twin lamb disease

Value of ewe upon death	= \$180
Value of lost wool	= \$ 40
Value of lost twin No 1	= \$100
Value of lost twin No 2	= \$100
Cost of replacing ewe	= \$180
<b>Total cost of lost ewe</b>	<b>= \$600 (Gross)</b>



## Improving Efficiency

- Managing small flocks – synd port yards, press, e-gear.
- Different lambings – share higher ASBV rams (watch health)
- Mating ewe lambs
- Labour sharing – barter system
- Running larger flocks at certain times
- Tighter management
- Avoid clashes of key activities eg seeding and lambing
- Combining treatments and activities when in yards.
- Sharing your ideas
- Ensure the head is ruling the heart

## The 3 major imperatives each year

- Do something new that will have impact
  - Improve something that will give you a lift
  - Stop doing something that is dragging you down
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## Key messages

- Ensure the sheep enterprises compliment the system
- Understand true profitability and cost of production
- Invest in yourself and your staff
- Maintain and monitor your business benchmarks
- Sheep may be a smaller enterprise but still very important.
- Commodities - produce more of it more efficiently
- Your future is so dependant on how you invest your profits
- Just do it and enjoy the ride

## Further Assistance

- AWI Sheep Producer networks – Best Prac Pastoral & Sheep Connect
- AWI & MLA Making More from Sheep – Plan for Success, Capable and Confident Producers, Cost of Production calculators
- AWI Lifetime Ewe Management
- SA Livestock Consultants Group