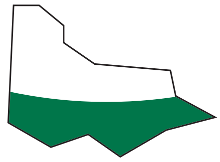
Fact sheet

SOUTHERN VICTORIA

Profitable integration of cropping and livestock



Profitable mixed farming businesses seek synergy, not conflict, between their cropping and livestock enterprises. They do this by:

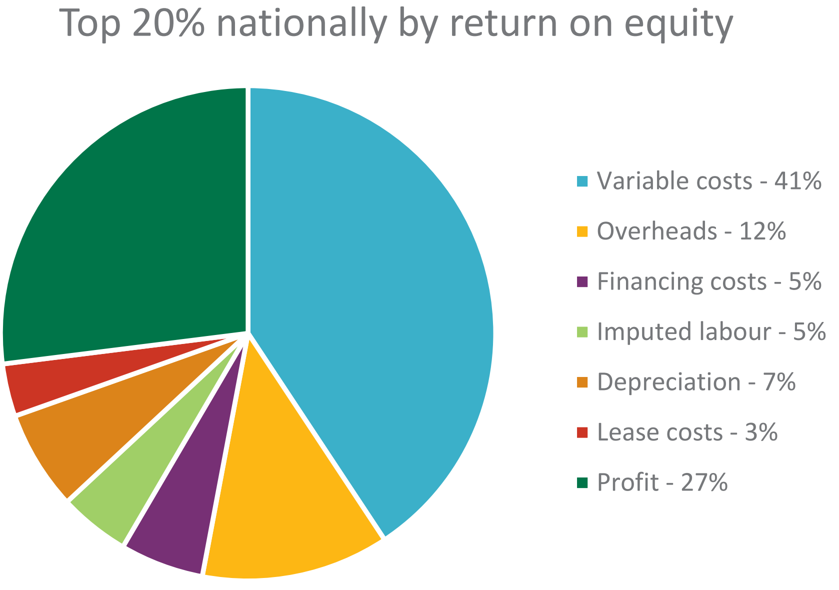
- implementing the key profit drivers for both cropping and livestock enterprises
- eliminating enterprise conflict.

What are these businesses doing differently?

This superior profitability is a function of the following four primary profit drivers:

- gross margin optimisation
- low cost business model
- people and management
- risk management.

We refer to this as the profit driver framework. Whole-of-business performance will be compromised, at some point in time, without appropriate attention and consideration to all four of these primary profit drivers.



Nationally the top 20% of mixed farming businesses retain 30% of their turnover as net profit.

Southern Victoria

This zone is representative of the higher rainfall, cooler climate and heavier soils of the mixed farming regions of southern Victoria.

Whole-of-business performance

Whole-of-business performance is the best indicator of how successfully a mixed farm business is integrating cropping and livestock enterprises.

Table 1: Southern Victoria whole-of-business performance indicators

Benchmark	Range	Top 20%	Other 80%
Return on assets managed (ROAM)	2.4–7.0%	6.0%	3.4%
Return on equity (ROE)	-1.8–4.9%	2.5%	1.6%
Profit as % of turnover	-5–35%	26%	6%

The top 20% of southern Victorian businesses surveyed:

- generate a ROAM 75% greater than the rest
- generate a ROE 55% greater than the rest
- retain 26% of their income as net profit, compared to 6% for the rest.

Gross margin optimisation

The gross margin optimisation profit driver is influenced by income generation and disciplined variable cost control. The three key principles are:

- target superior gross margin performance in both cropping and livestock enterprises
- aim to optimise crop yield and livestock income in a cost-effective way
- ensure disciplined and balanced approach to variable cost inputs.

Cropping

Table 2: Southern Victoria cropping gross margin performance

Benchmark	Max/Min	Top 20%	Other 80%
Income ($/ha)	$1,438	$1,161	$1,139
Variable costs ($/ha)	$378	$453	$578
Gross margin ($/ha)	$844	$707	$561

The top 20% achieve the same income with lower costs. They spend less on each category of cost. They are simply more cost effective, which means it is not what they spend, but how they spend it, for example on timing and agronomy.

Livestock

Table 3: Southern Victoria livestock gross margin performance

Benchmark	Max/Min	Top 20%	Other 80%
Income ($/ha)	$1,023	$707	$558
Variable costs ($/ha)	$114	$277	$290
Gross margin ($/ha)	$621	$430	$268
Stocking rate (DSE/ha/100mm)	3.8	2.9	2.3

Livestock is the other side of the same coin, that is the top 20% of businesses spend the same amount, but earn more income from that expenditure and run more stock per hectare.

Low cost business model

The low cost business model profit driver is related to the overhead cost structure, which is unique to each business. The key principles are:

- strive to develop simple and scalable farming systems
- avoid unnecessary complexity
- utilise machinery and labour efficiently, as these are significant profit drivers.

Table 4: Southern Victoria low cost business model benchmarks

Benchmark	Max/Min	Top 20%	Other 80%
TPML % income	24%	27%	33%
Turnover/FTE	$643,327	$599,574	$439,426
Crop ha/FTE	553	420	283
DSE/FTE	17,150	13,111	9,031

As the top 20% are achieving substantially higher labour and machinery productivity, they have lower cost business models.

People and management

The choices we make, as managers, will significantly influence the profit outcome of our business. The three key principles are:

- strive for continual improvement in implementation
- develop adaptable, well-thought-out operational plans
- seek to maximise team performance.

Risk management

Effective risk management primarily involves eliminating internal management risk. The three key principles are:

- recognise and believe that low risk, high margin agriculture is possible
- develop a resilient business model
- identify and mitigate key production and business risks.

What does successful integration look like?

Eliminate enterprise conflict

Successful businesses eliminate enterprise conflict as a first step to creating synergies from integrating cropping and livestock enterprises.

The primary reason often given for integrating cropping and livestock enterprises is to help manage commodity price risk (that is when grain prices are low, livestock prices are high and vice versa) and/or seasonal risk. Thus, many businesses use enterprise diversification as a risk management tool. However, overcomplicating the enterprise structure can create new risks which negate the benefit from managing commodity price risk or seasonal risk.

The principle is to avoid any internal management risk that can be created through the process of diversification. The critical success factor, in a mixed enterprise context, is balancing the tensions that exist between cropping and livestock enterprises.

There are three potential outcomes that can arise from managing these tensions. They are:

- a win-win outcome from integration that results in a benefit or uplift to both enterprises
- a win-lose outcome where one enterprise gains, but at the expense of the other
- a lose-lose outcome where both enterprises are detrimentally affected.

Table 5: Potential integration scenarios in mixed enterprise

Crop	Livestock	
	Win	Lose
Win	• Finishing spring lambs on legume stubbles • Using a pasture phase to build organic carbon	• Large paddock sizes are great for cropping, but not for grazing • Reduced winter feed supply because of locked up crops
Lose	• Shearing in April • Cereal or grassy based pastures in the crop rotation	• Sowing fodder crops in May • Operational timeliness in both enterprises being compromised

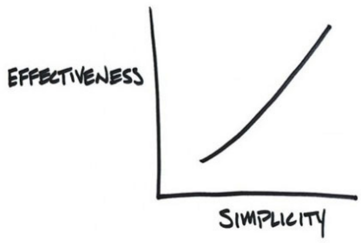
Effective integration is about optimising the win-win scenarios and minimising the impact of unavoidable win-lose scenarios on the performance of the whole business. Minimising the impact of win-lose scenarios requires prioritising or protecting the choice that will preserve the most profit margin for the business as a whole.

On farm actions

- do an audit of your own win-lose framework
- develop an annual operations plan that focuses on achieving timeliness for all critical events
- review how often you handle your livestock and look for opportunities to avoid duplication
- match the scale of each of your enterprises to your investment in labour and machinery
- develop job descriptions and implement annual reviews with all team members
- manage risk by investing time and energy into the things that are within your control.

Simplicity pays

Strive to develop scalable farming systems and avoid unnecessary complexity.



Simplicity facilitates:

- greater focus
- less enterprise conflict
- better labour productivity
- better utilisation of equipment and infrastructure
- enhanced mindset and wellbeing.

Business case for mixed farming

The business case for adding livestock to a cropping business generally comes down to one or more of the following:

- livestock helps to optimise gross margins on high frost risk or waterlogged areas
- livestock assists with rye-grass management and control
- lamb finishing on legume stubble makes profitable use of a by-product
- a pasture phase is the most profitable legume available to the crop rotation
- grazing crops in high rainfall areas increases income.

The business case for adding cropping to a livestock business generally comes down to the following:

- cropping gross margins will be higher (but beware of extra overhead costs)
- a cropping phase assists with weed management and soil fertility in longer-term pastures
- aeration from tillage helps overcome compaction and water infiltration issues
- grazing crops fill a winter feed gap
- crop stubbles provide a good maintenance diet for breeding stock.

Glossary

FTE – full-time equivalent labour unit based on hours worked by family members and paid employees

Max/Min – the maximum result achieved for an income benchmark, or the minimum achieved for a cost benchmark

Range – lowest to highest result achieved

Return on assets managed (ROAM) – operating profit (or EBIT – earnings before interest and tax) divided by total assets managed

Return on equity (ROE) – profit divided by net worth or equity

Top 20% – the average of the top 20% of businesses within the sample, measured by ROAM

TPML – total plant, machinery and labour including all costs associated with these items

TPML % income – total plant, machinery and labour as a percentage of total income

Turnover/FTE – total income or turnover per full-time equivalent labour unit

Variable costs – those costs that vary with production, also known as direct or input costs

Useful resources

For those looking to implement these profit drivers, there are some MLA programs available:

- Making More from Sheep www.makingmorefromsheep.com.au
- MLA's Southern Business EDGE (available in Victoria through RMCG or visit www.mla.com.au/events to find a workshop near you)
- More Beef from Pastures mbfp.mla.com.au
- Pasture Principles (Macquarie Franklin Pty Ltd or Rural Directions Pty Ltd)
- Profitable Grazing Systems www.mla.com.au/pgs

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More information

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Disclaimer

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