

AN INITIATIVE OF

Making More From Sheep



The Business of Sheep

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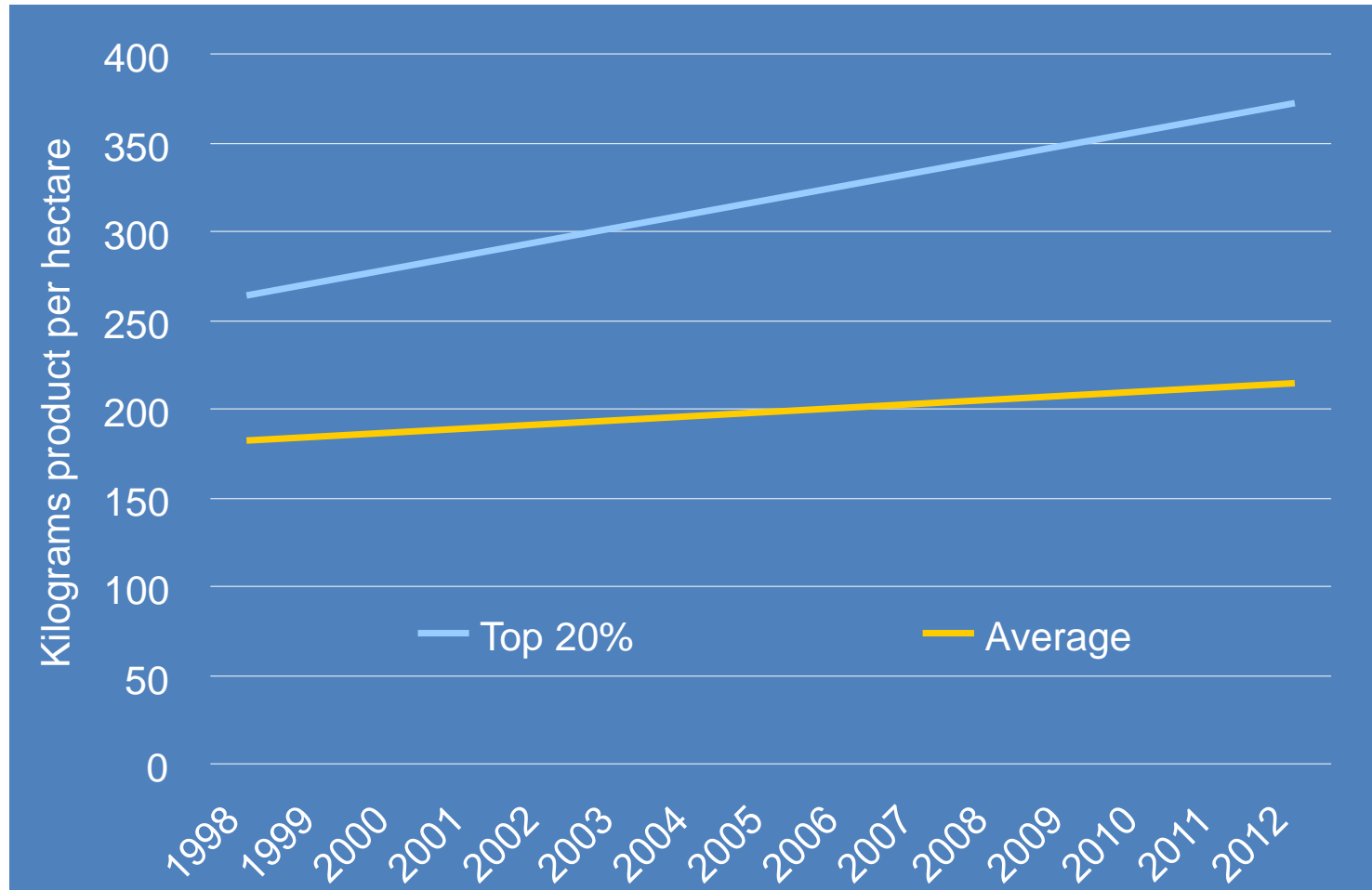
EVENT SUPPORTERS:



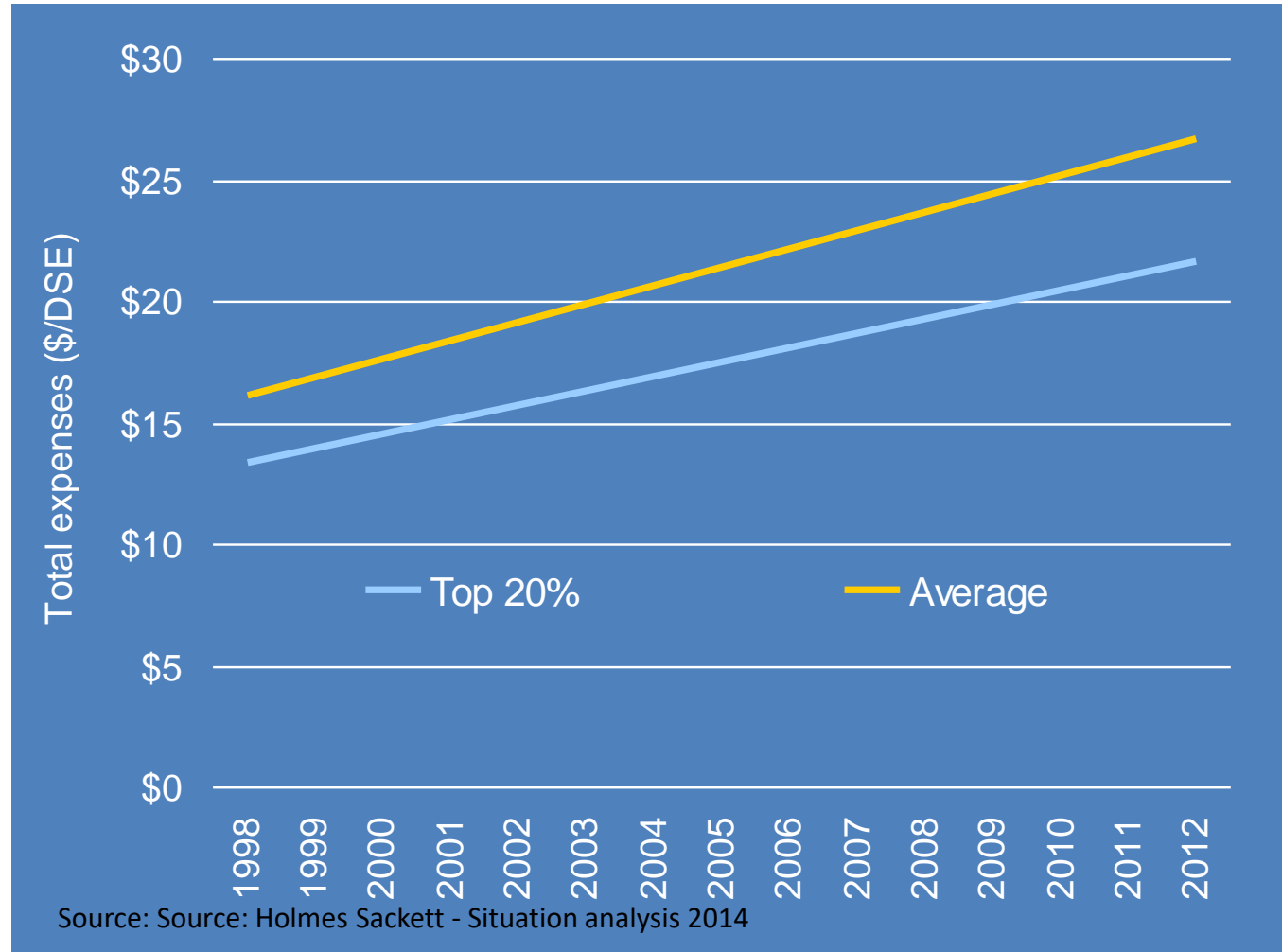
The reality!



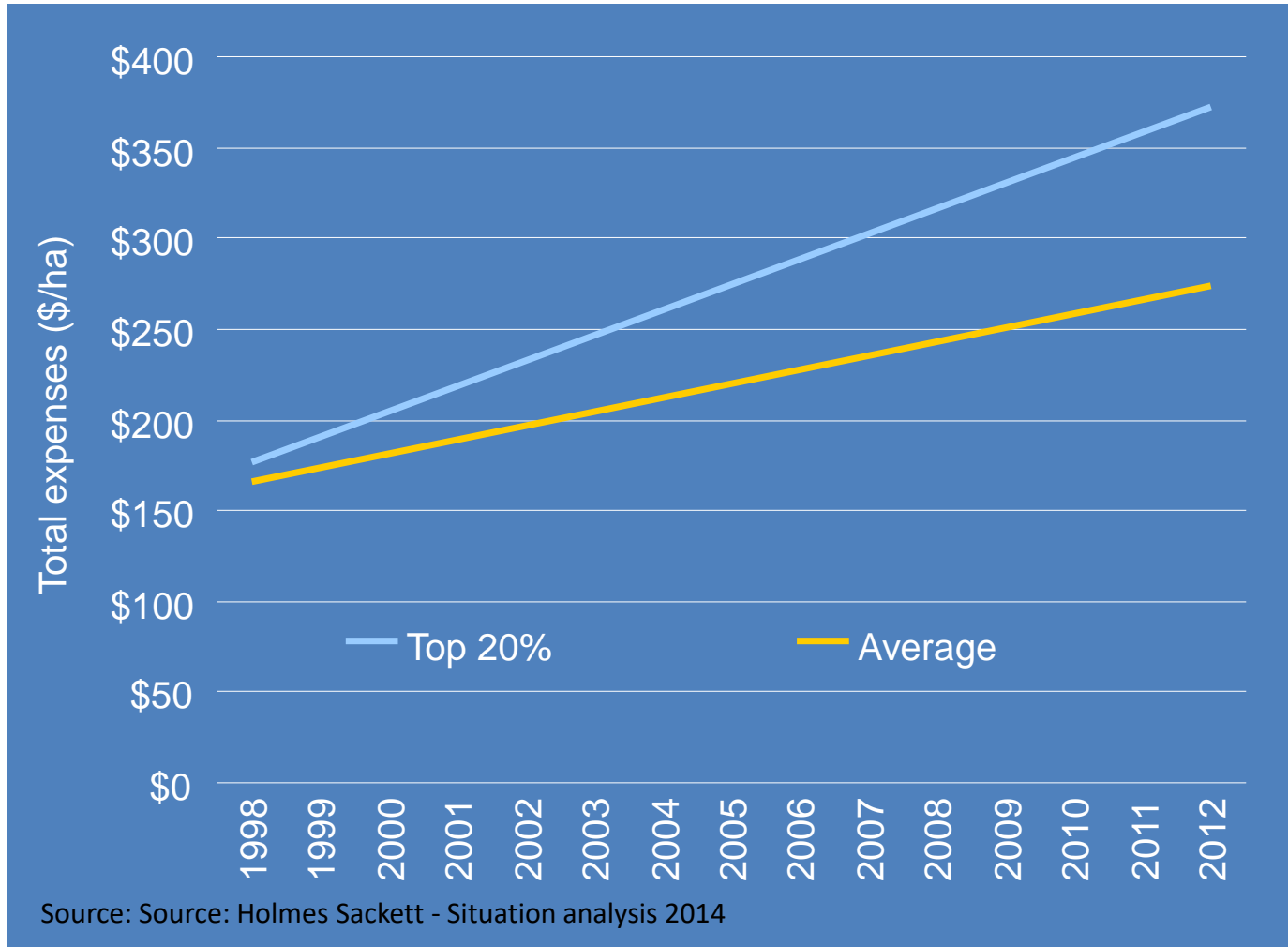
Best- increasing production faster



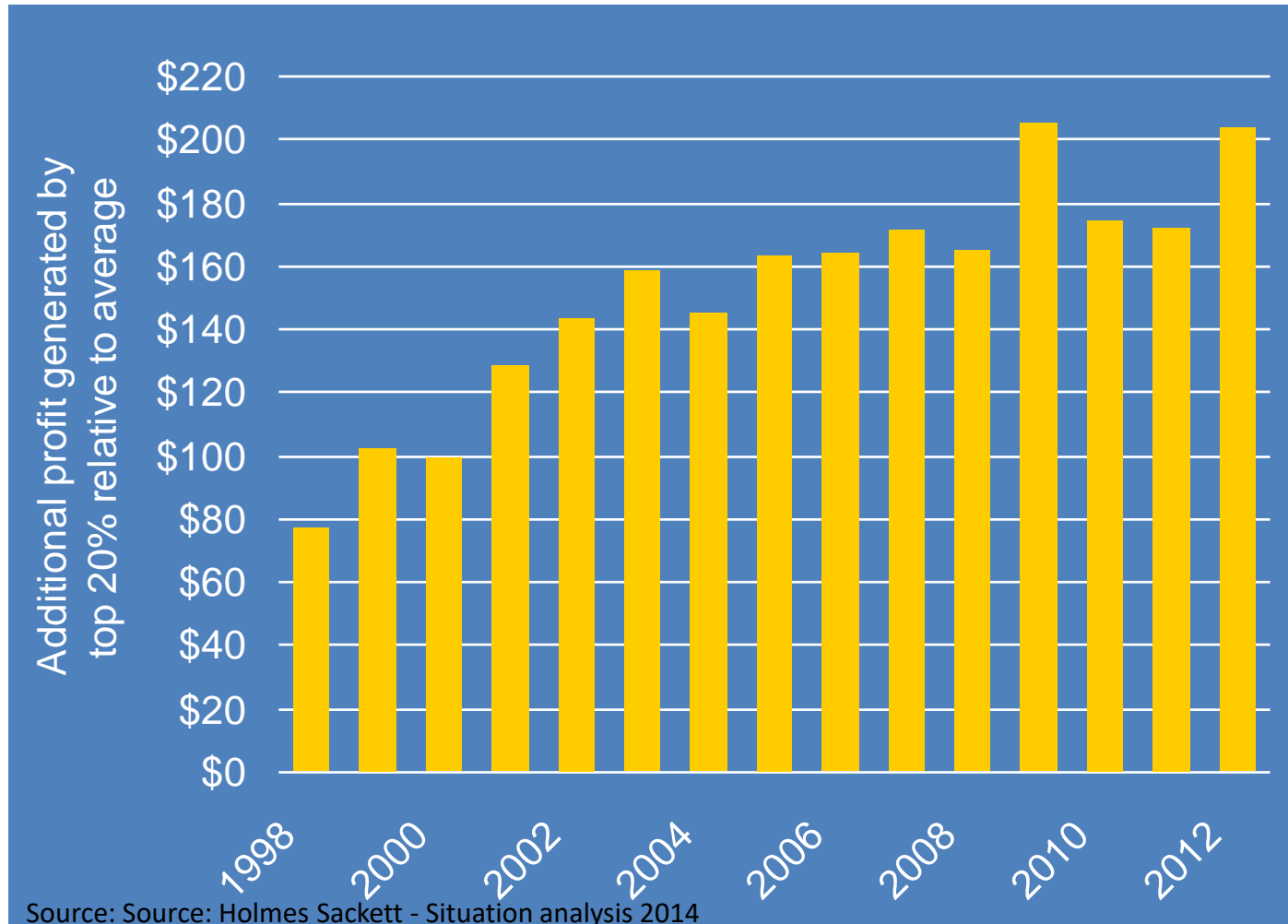
Best - widening the costs/DSE gap!



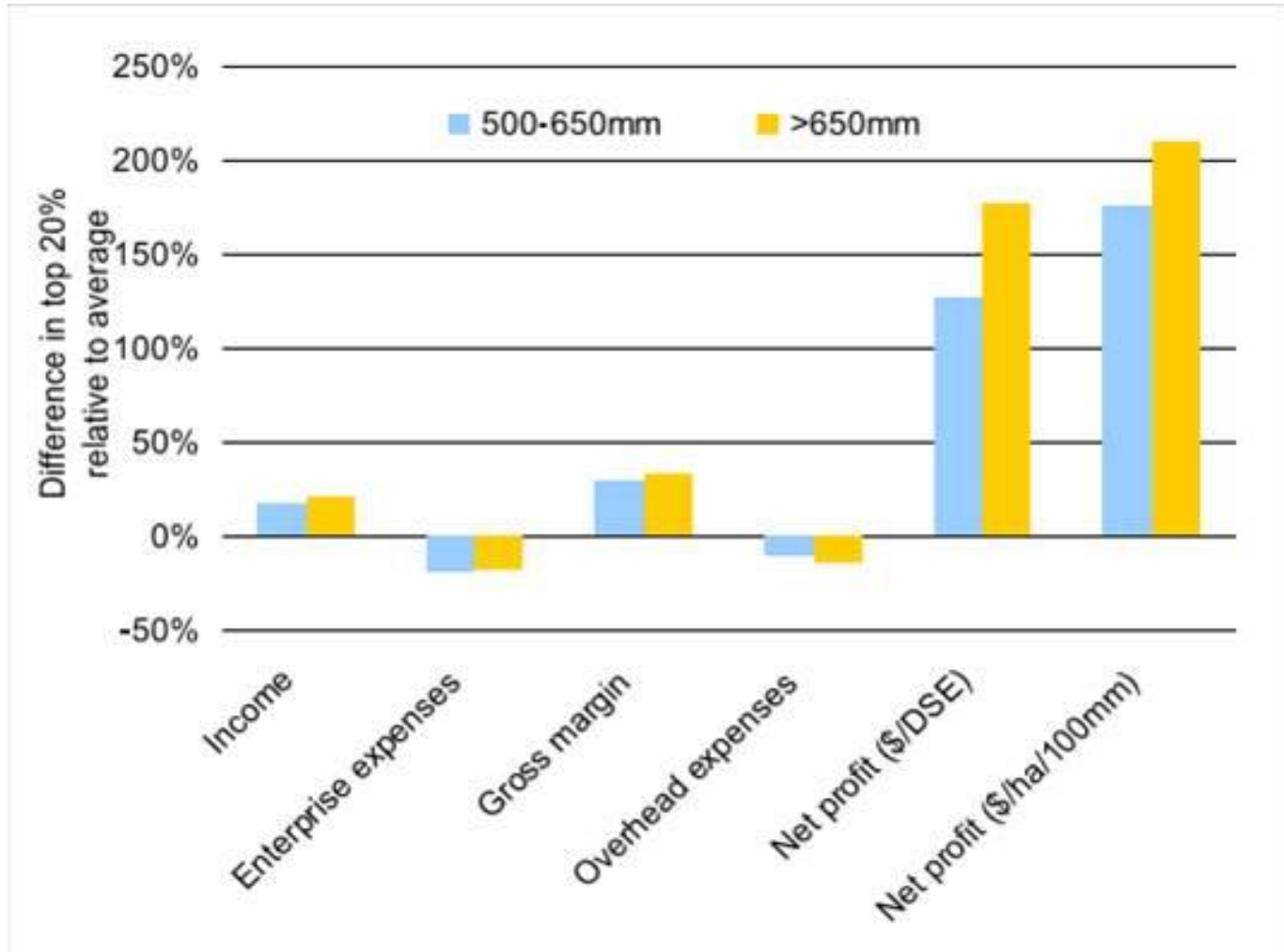
Best – have higher costs/ha!



The profit gap is increasing (\$/ha)!



Best - Profit is more than 100% higher



Driver 1

“Learn from the best!”

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

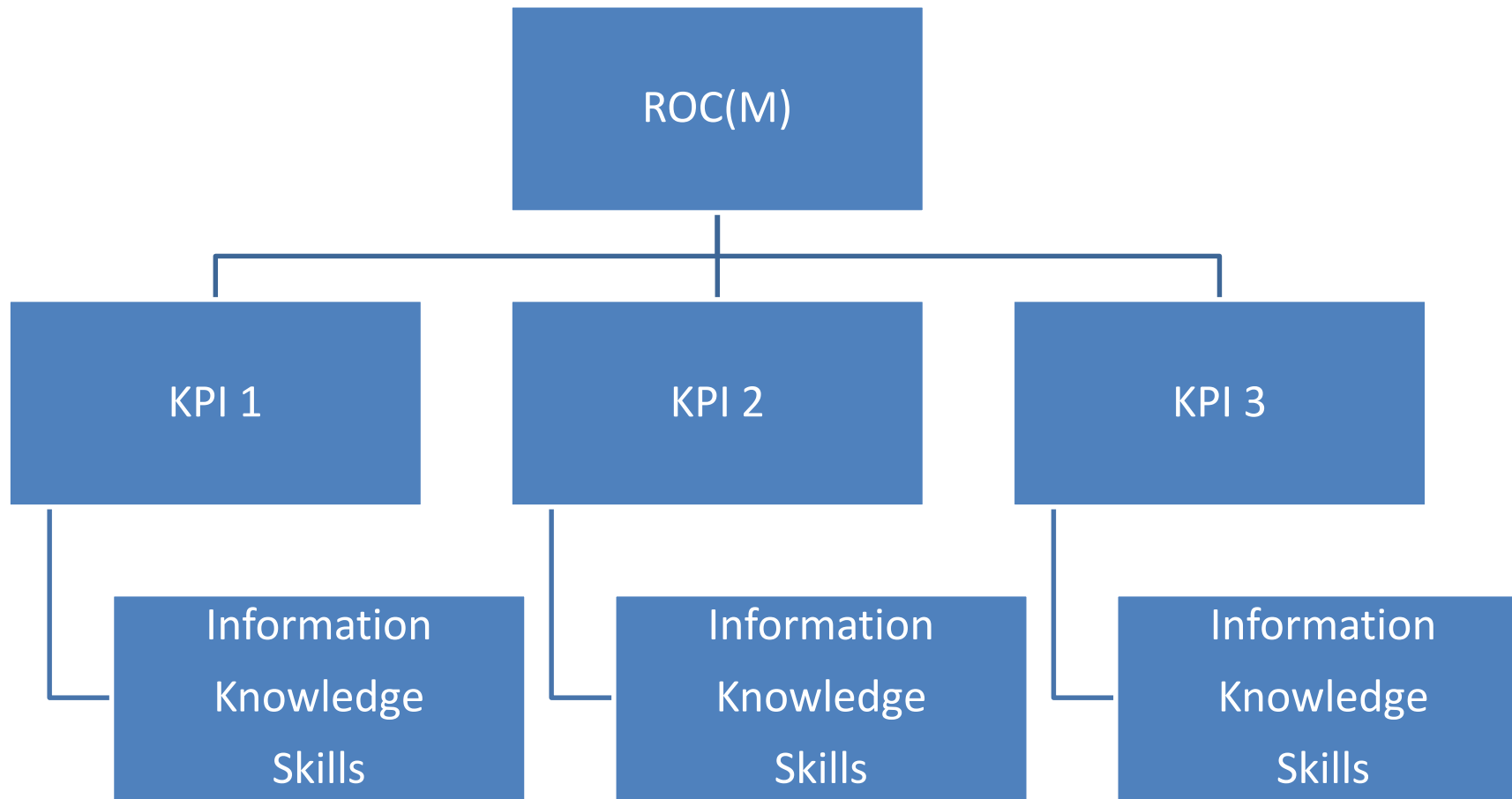
How profitable sheep businesses should evolve!

- As a function of logical business decision making
 - Business benchmarking (learning process)
 1. Identify areas to improve (KPIs)
 - Good
 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

Profitable sheep 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.....



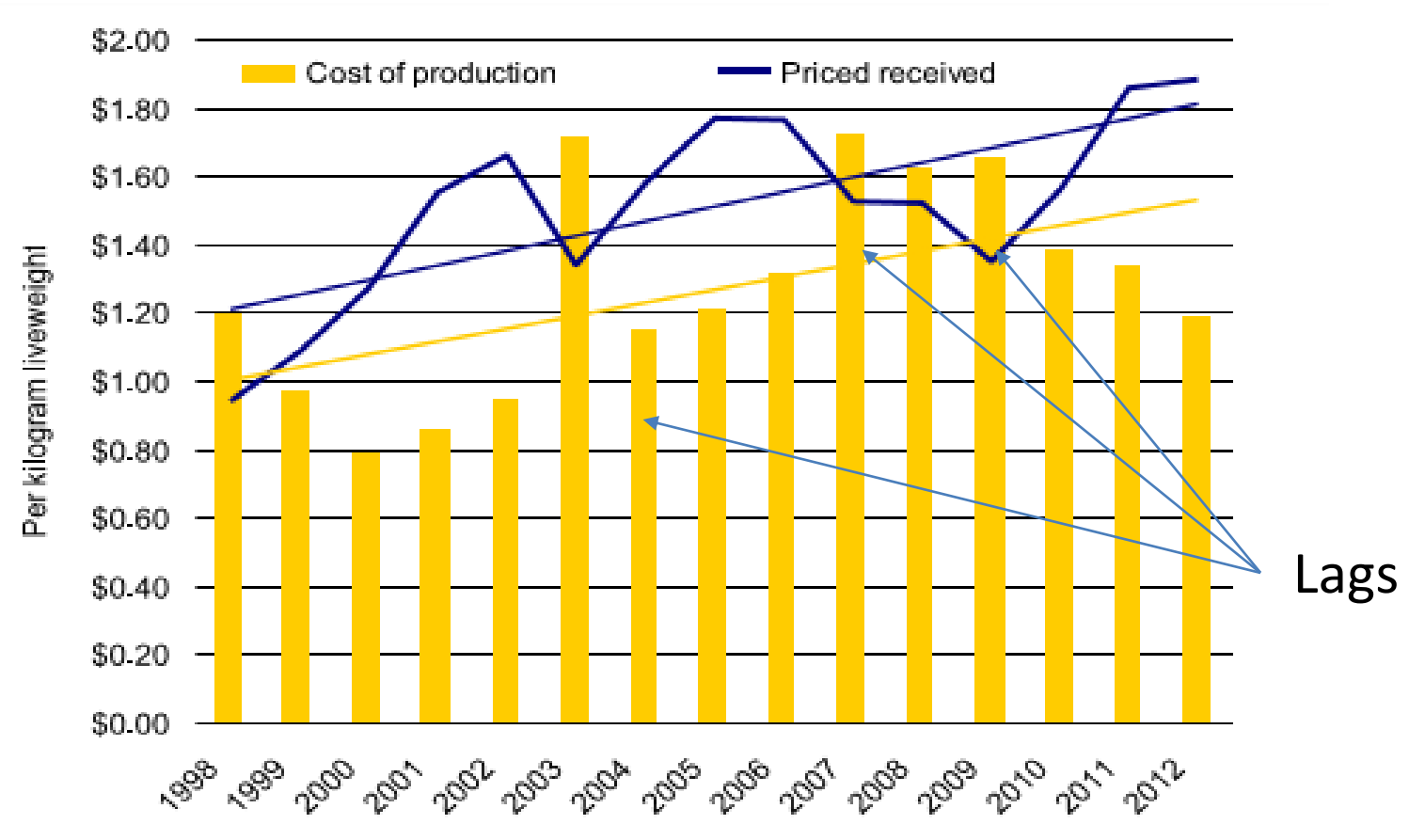
Awareness

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: Holmes Sackett - Situation analysis 2014

Reaction to price

	2010-11		2011-12	
	Average*	Top 10%	Average*	Top 10%
Wool price (c/kg)	840	845	1,080	1,100
ROC*	1%	4%	3.5%	9%
Wool production (kg)	33,550	45,000	35,230 (5%)	51,300 (14%)
Fertiliser (\$/DSE)	4.10	1.75	5.55 (35%)	1.95 (11%)
Supplements (\$/DSE)	3.75	1.40	5.30 (41%)	1.50 (8%)
Pasture harvested/ha	1,200	2,700	1,210 (1%)	2,970 (10%)

* Based on land value of \$415/DSE

No reaction to price/season

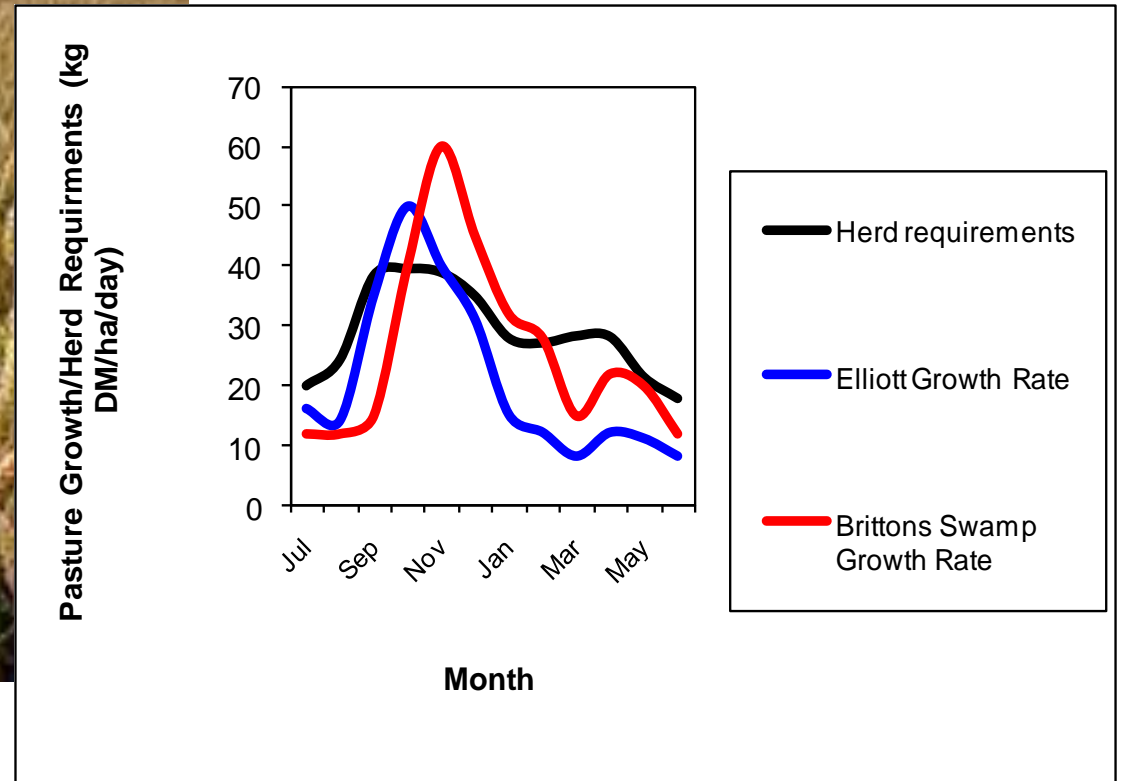
	2010-11	2011-12
	Average*	Average*
Wool price	840	1,080
ROC	1.0%	6.3%

That's about \$74,500/business!!

Driver 2

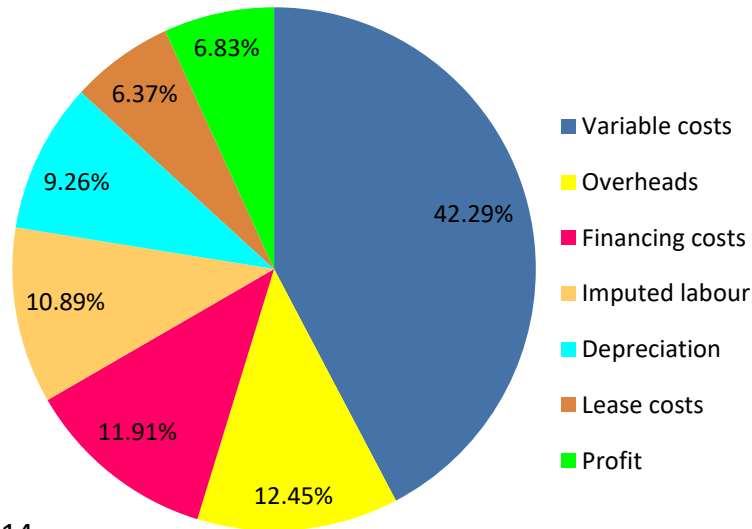
“Run a business not a hobby and look for profit!”

2. An understanding of the resource base

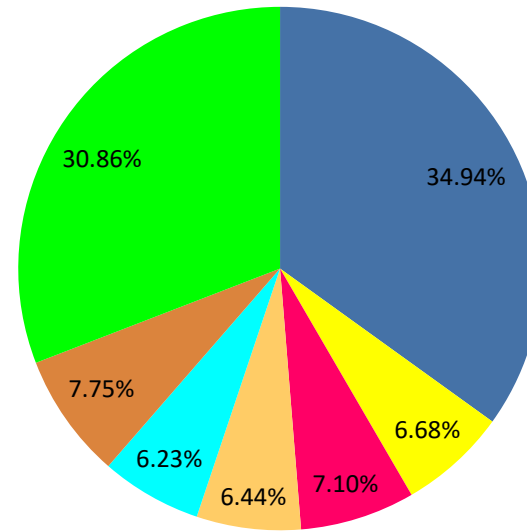


Resilient Farm Business Models

- Identical climate
- Identical season
- Identical resources
 - Retaining 7% vs 30% of turnover as net profit



Rural Directions 2014



Trends of the best (CA)

	Average	Top 10%
Area (ha)	1047	1116
Rainfall (mm)	522	558
Area to crops (%)	25	38
Grain yield (t/ha)	2.0	3.4
Wool Yield (kg/100mm rain)	3.7	4.4
Weaning rate	79%	90%
Fertiliser (\$/ha)	36	72
Interest (\$/ha)	26	42
Contractors (\$/ha)	15	27
Labour use (DSE/FTE)	3,271	6,045
Stocking rate (sheep/ha)	6.5	10.6
ROC	1.2	4.2

ABARES 2014

To try to be the best.....

- We've done what the best do
 - bigger farms
 - more fertiliser
 - more chemicals
 - more supplements
 - 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

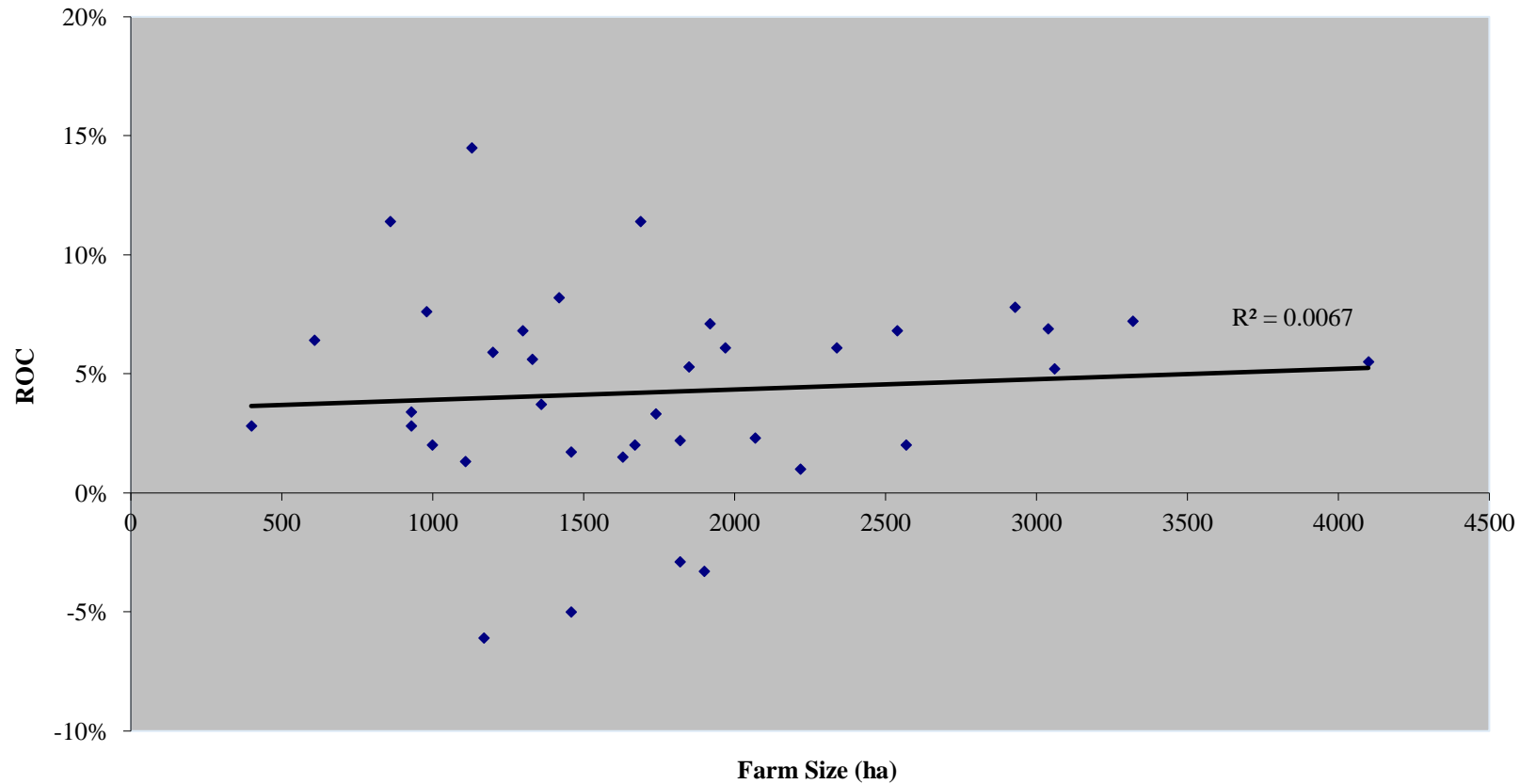
Done a good job in this area

	Average (2004)*	Average (2014)
Area (ha)	680	1047
Rainfall (mm)	550	522
Area to crops (%)	15	25
Grain yield (t/ha)	1.75	2.0
Wool Yield (kg/100mm rain)	3.1	3.7
Weaning rate (%)	73	79
Fertiliser (\$/ha)	15	36
Interest (\$/ha)	6	26
Contractors (\$/ha)	8	15
Labour use (DSE/FTE)	1,230	3,271
Stocking rate (DSE/ha)	3 (3.1)	6.5 (3.3)
ROC	0.9	1.2

* 2014 dollars
ABARES 2004 and 2014

The Myth: “get big or get out!”

ROC v Farm Size (Average*)



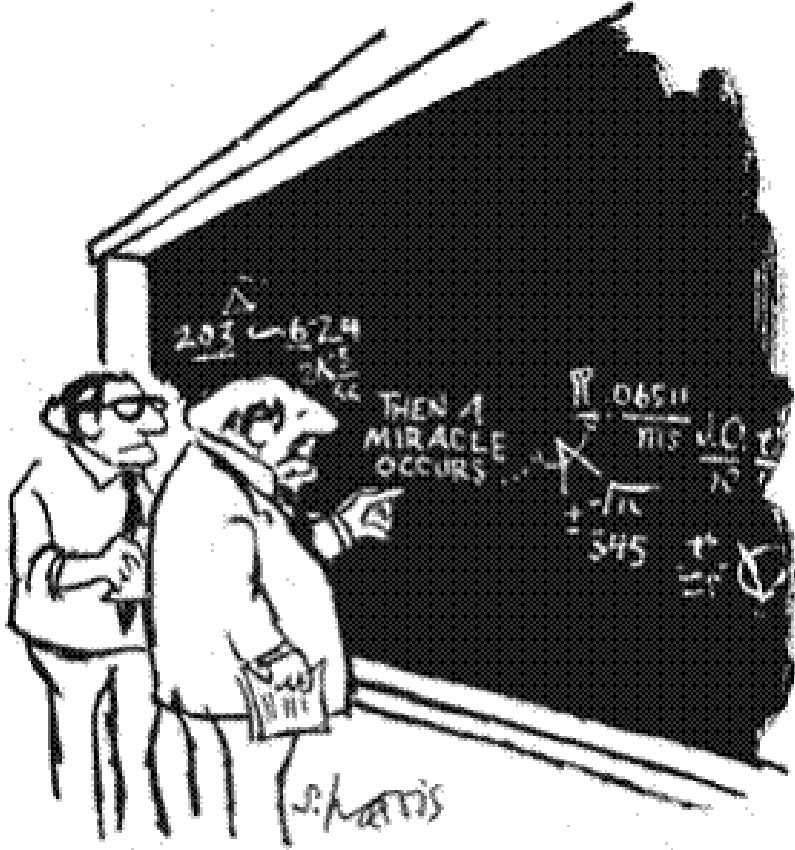
Having Said That....

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

Another Myth!

	Wool	Beef	Prime Lamb	Dual Purpose	Crop
Rainfall	600	600	600	600	600
Mid-Winter DSE/HA	9.8	9.8	9.8	9.8	
Average Annual DSE/HA	11.76	11.76	10.78	10.78	
Land value (\$/Ha)	\$3,800	\$3,800	\$3,800	\$3,800	\$3,800
Livestock (\$/Ha)	\$588	\$823	\$755	\$647	\$0
Working Capital	\$412	\$259	\$345	\$377	\$556
Plant and Equip	\$100	\$100	\$100	\$100	\$235
Assets under management	\$4,900	\$4,982	\$5,000	\$4,924	\$4,591
15yr Average Net profit (\$/Ha/100mm)	\$18.78	\$10.01	\$13.20	\$29.83	\$11.54
Average Profit (\$/Ha)	\$113	\$60	\$79	\$179	\$69
Return on Assets Under Management	2.3%	1.2%	1.6%	3.7%	1.4%

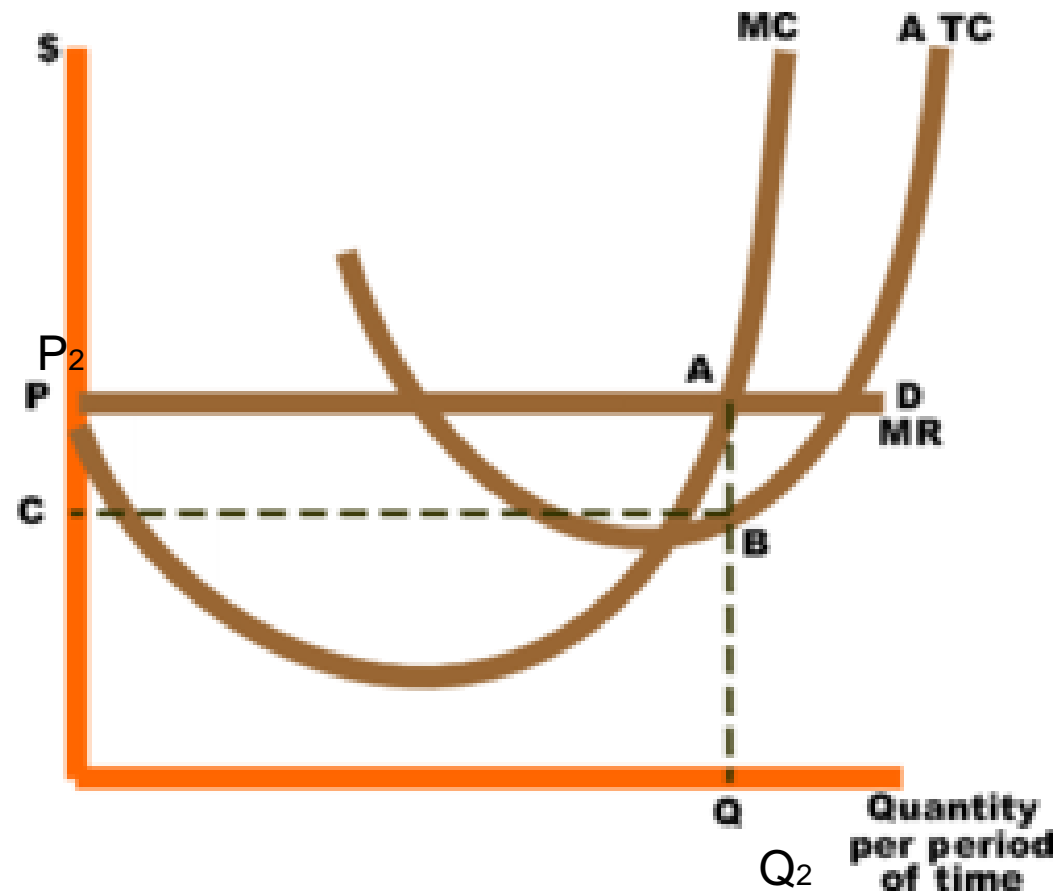
Driver 3



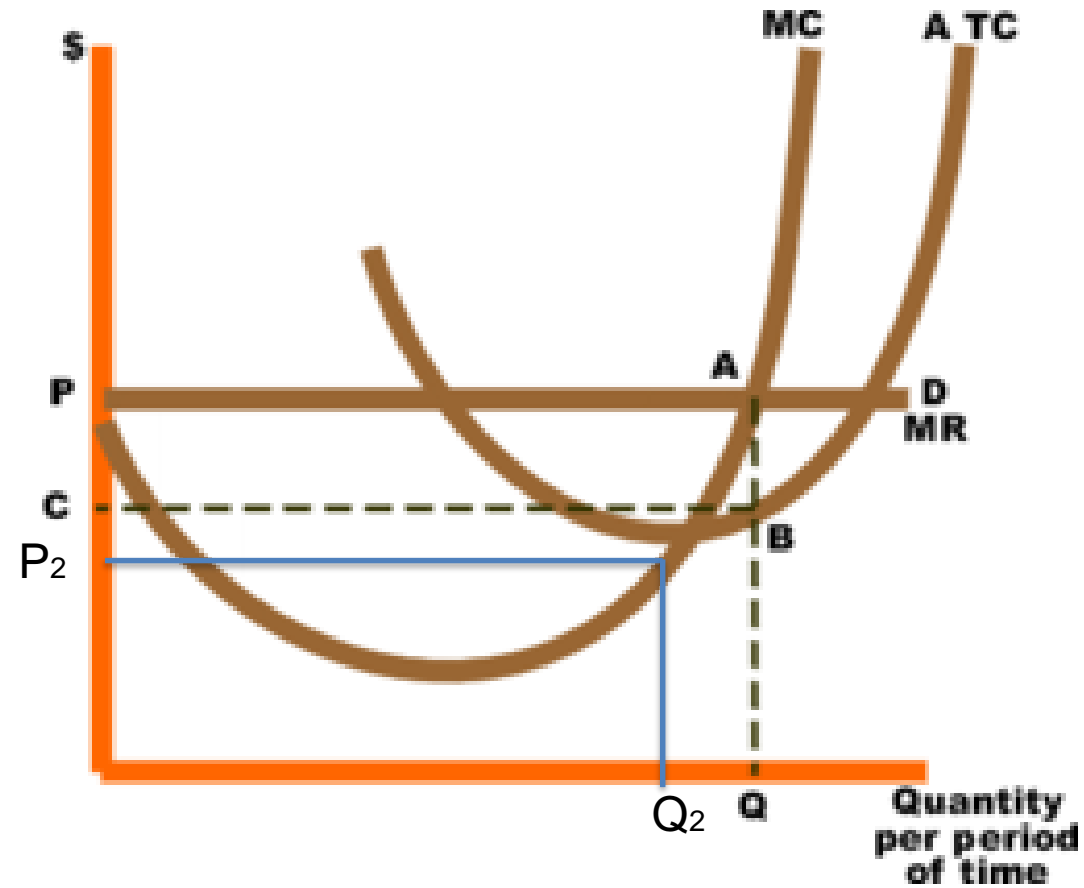
"I THINK YOU SHOULD BE MORE EXPLICIT HERE IN STEP TWO."

"How you do something is more important as what you do"

3. An Understanding of the Business



Concept of Marginal Cost and Marginal Revenue



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

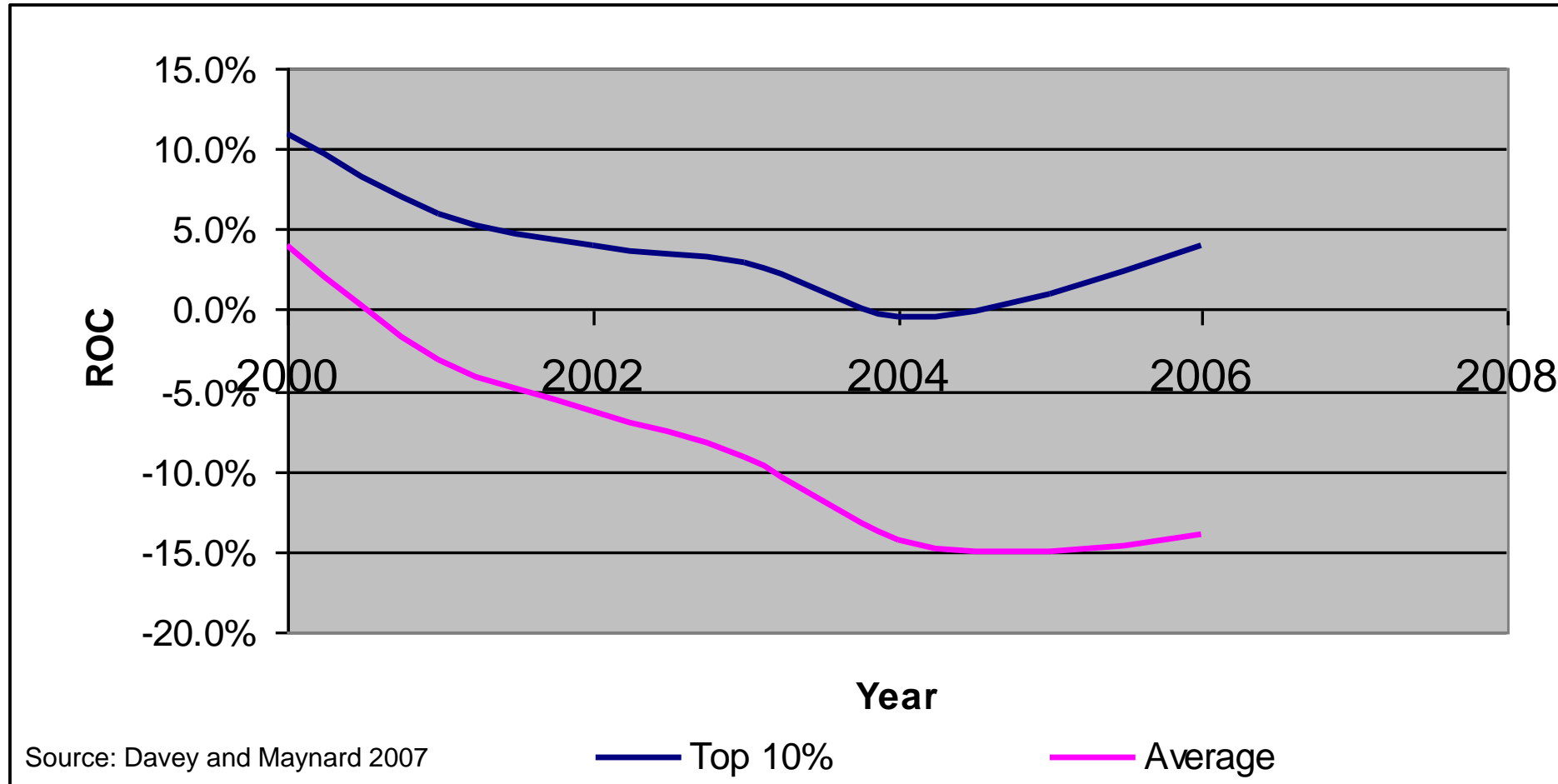
- Its all about price!
- 20-30% decrease from average will test system robustness

Impact of Season/Price on ROC

	Top 10%	Average
Good season/price	13%	2.1%
Average season/price	8.6%	1.4%
Poor season/price	6%	-9.9%

Source: Redsky (Wool/Meat/crop) 2004 - 2006

Tracking into and Out of Drought - Recovery



Driver 4

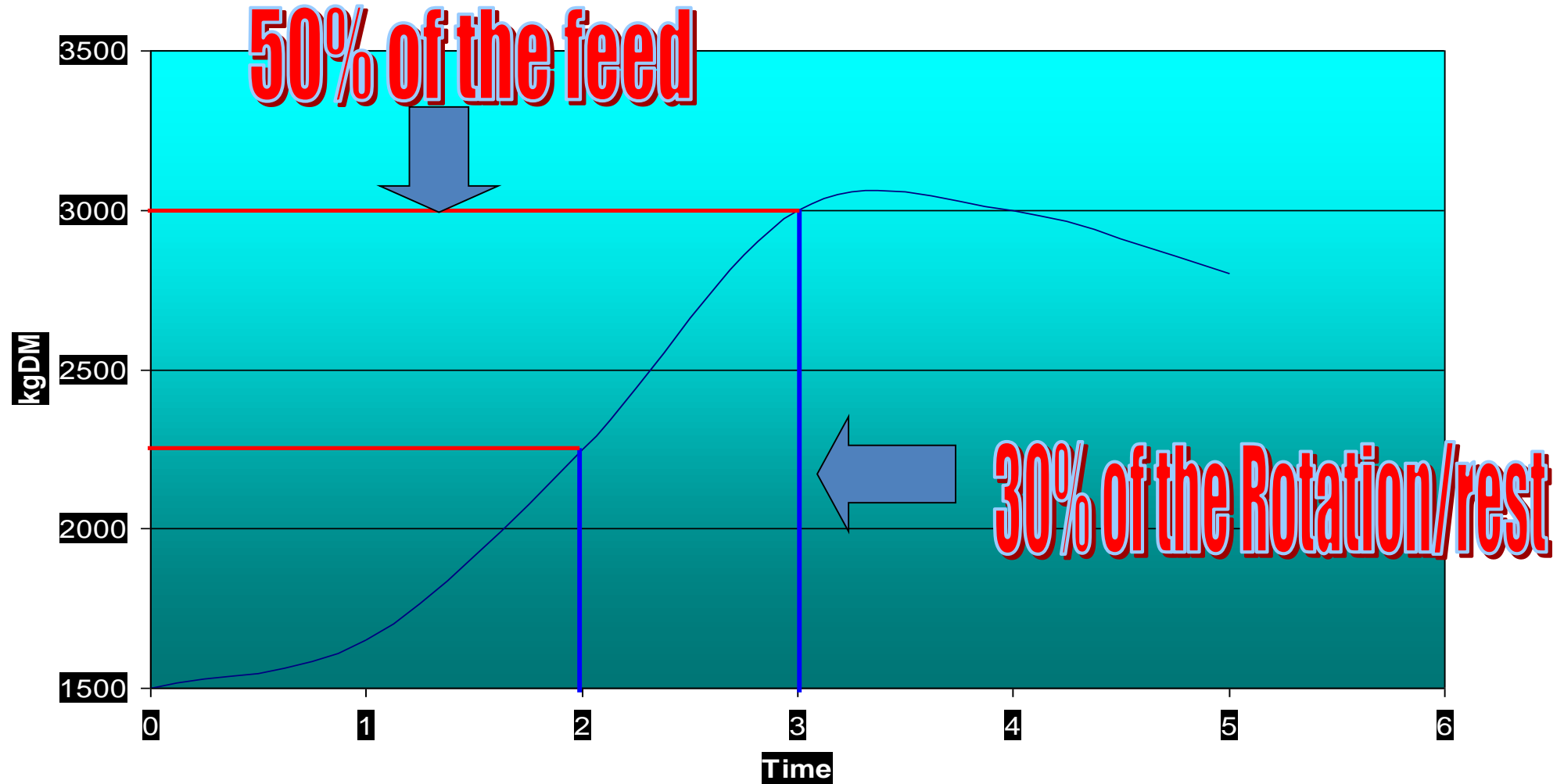
“Commodity prices will always be volatile – develop a robust system”

4. An Understanding of the Production System

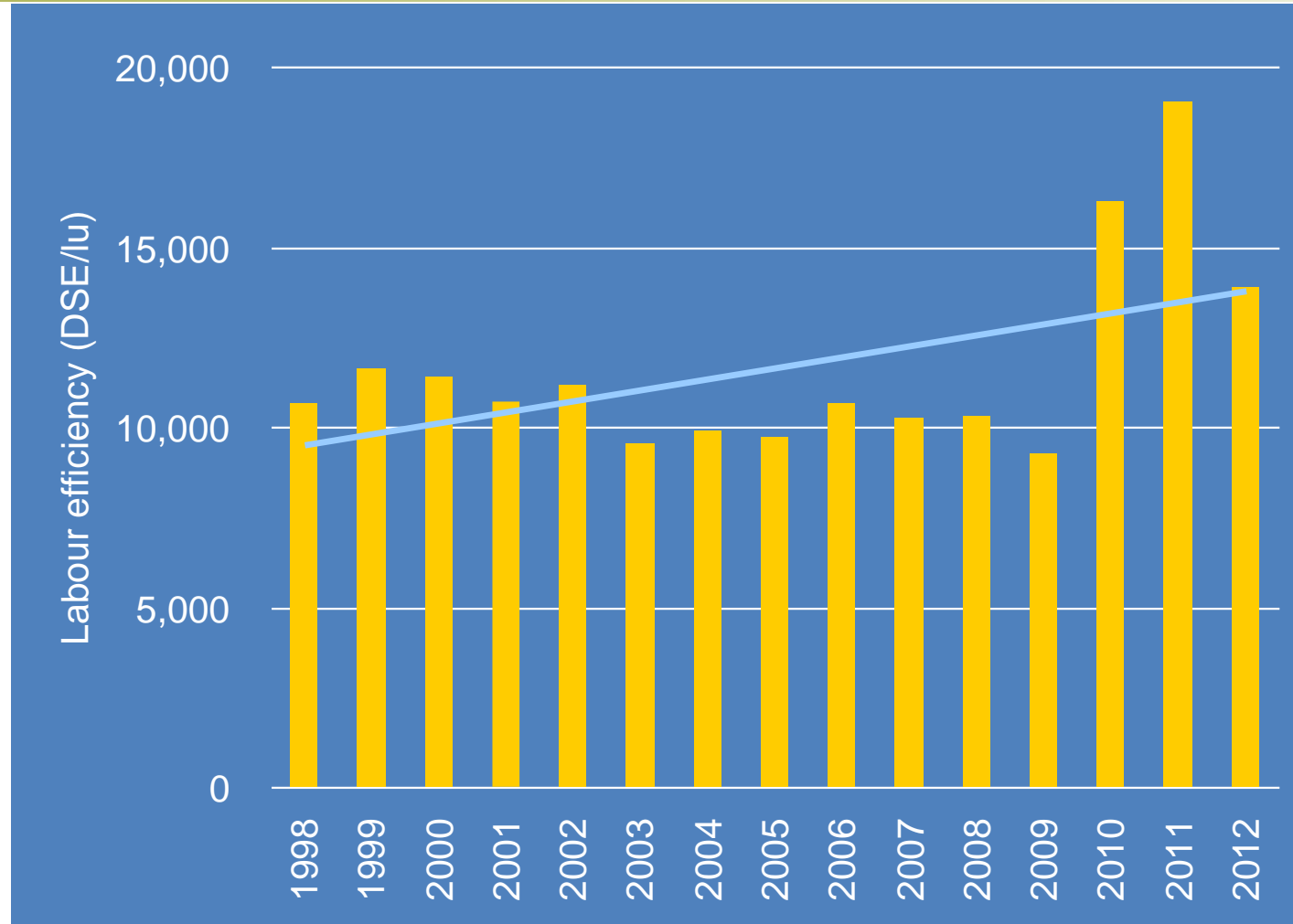
	Profit
Feedbase/Agronomy	70%
Business	40%
People	30%
Operational	15%

Hoekema 2002

Sheep Business Foundation!



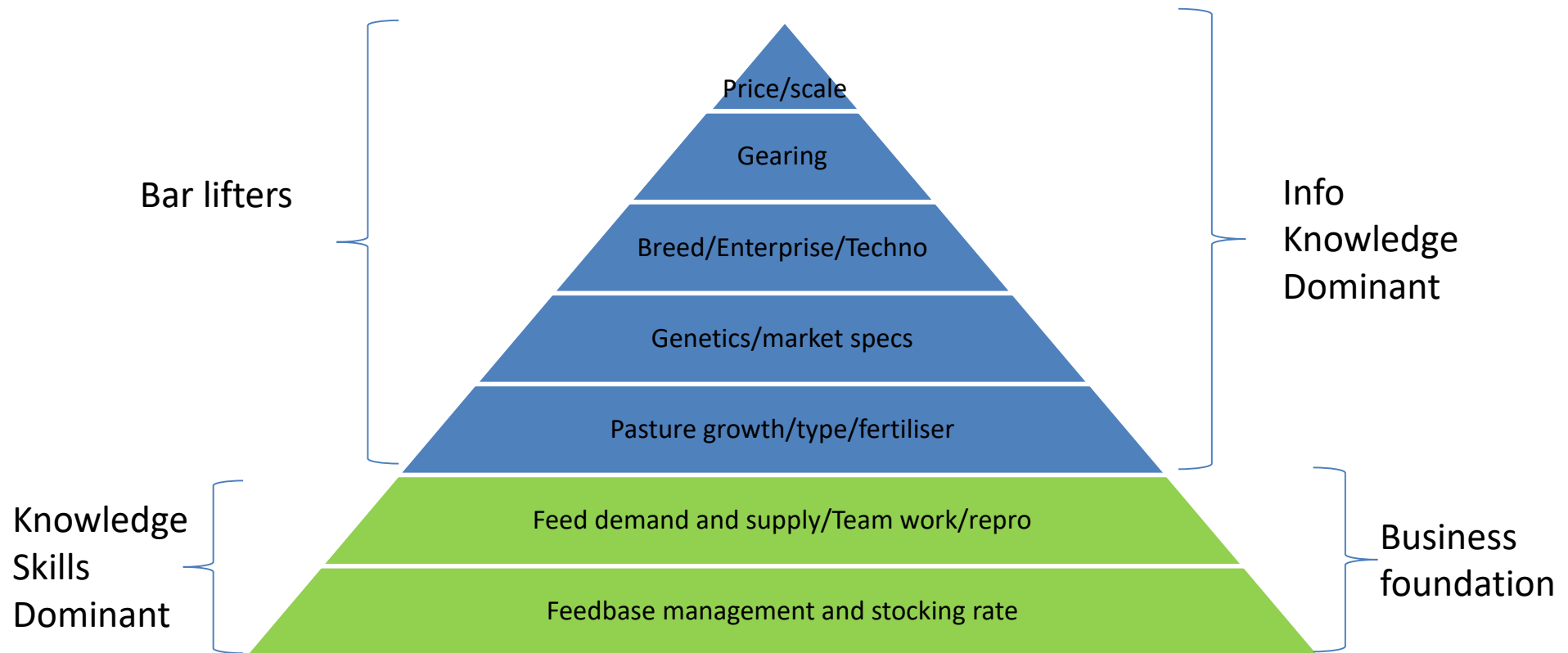
Labour Efficiency is a Good News Story



LUE - Team Work



The Important Things?



Driver 5

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

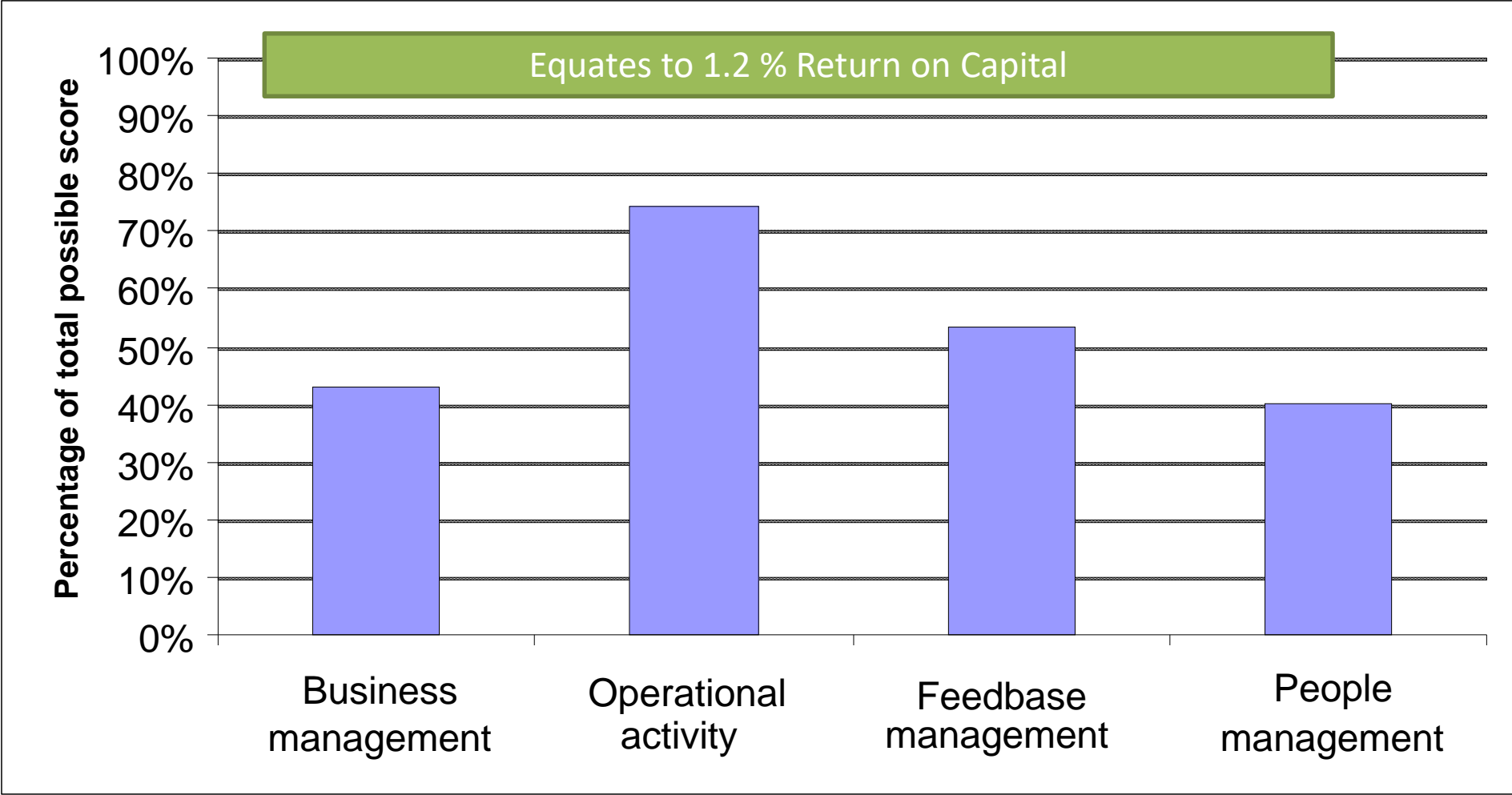
5. A high level of skill associated with the key profit drivers

- 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

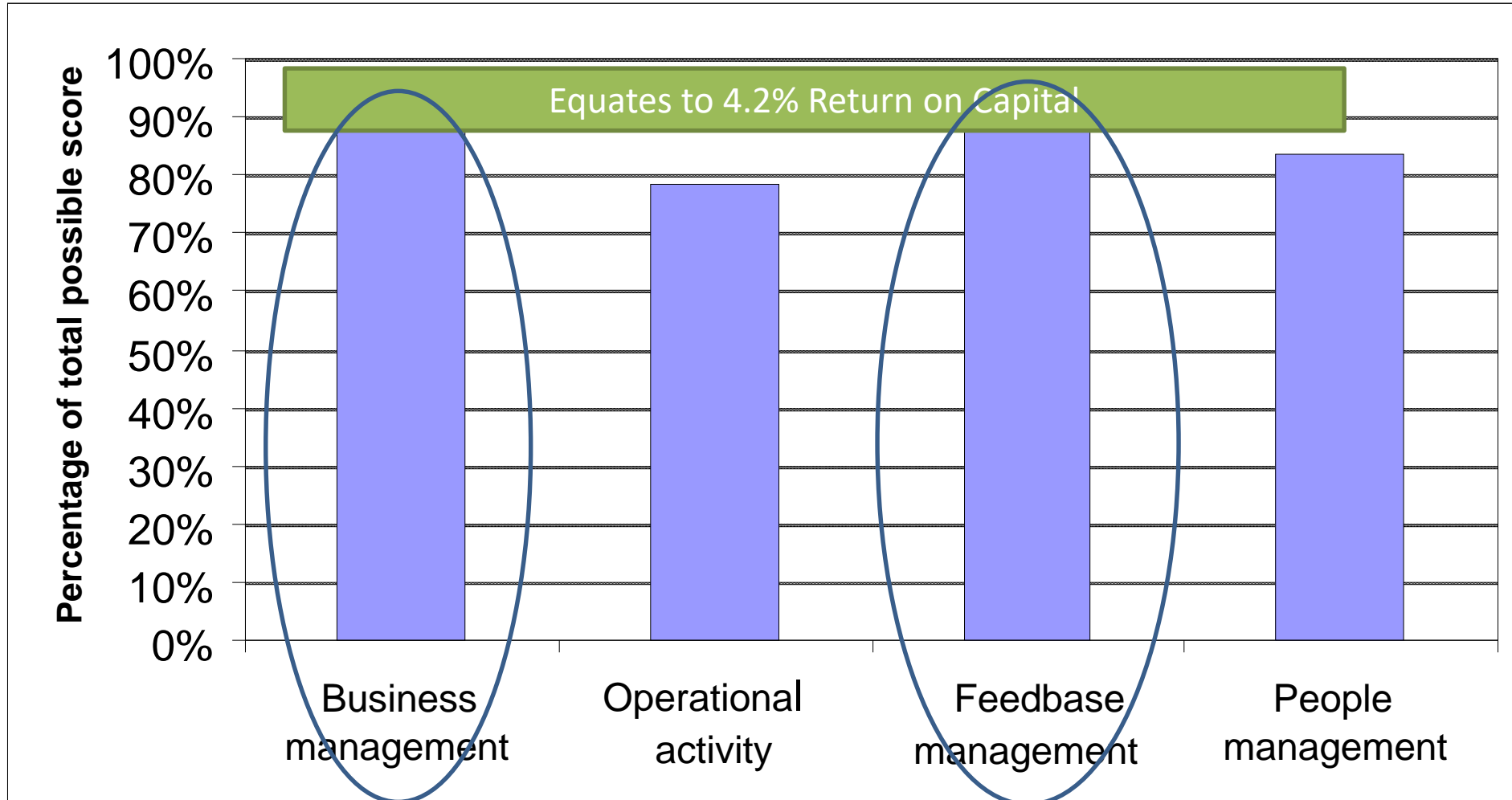
Skill the Missing Variable



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 2016 Olympics

Country	Gold medals	Population (million)	Medals/million people
USA	46	275	0.16
China	26	1261	0.02
Russia	19	146	0.11
Australia	8	20	0.4
Japan	12	126	0.1
New Zealand	4	4	1.0
South Africa	2	45	0.04

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 expectations fail to deliver

We're not alone?

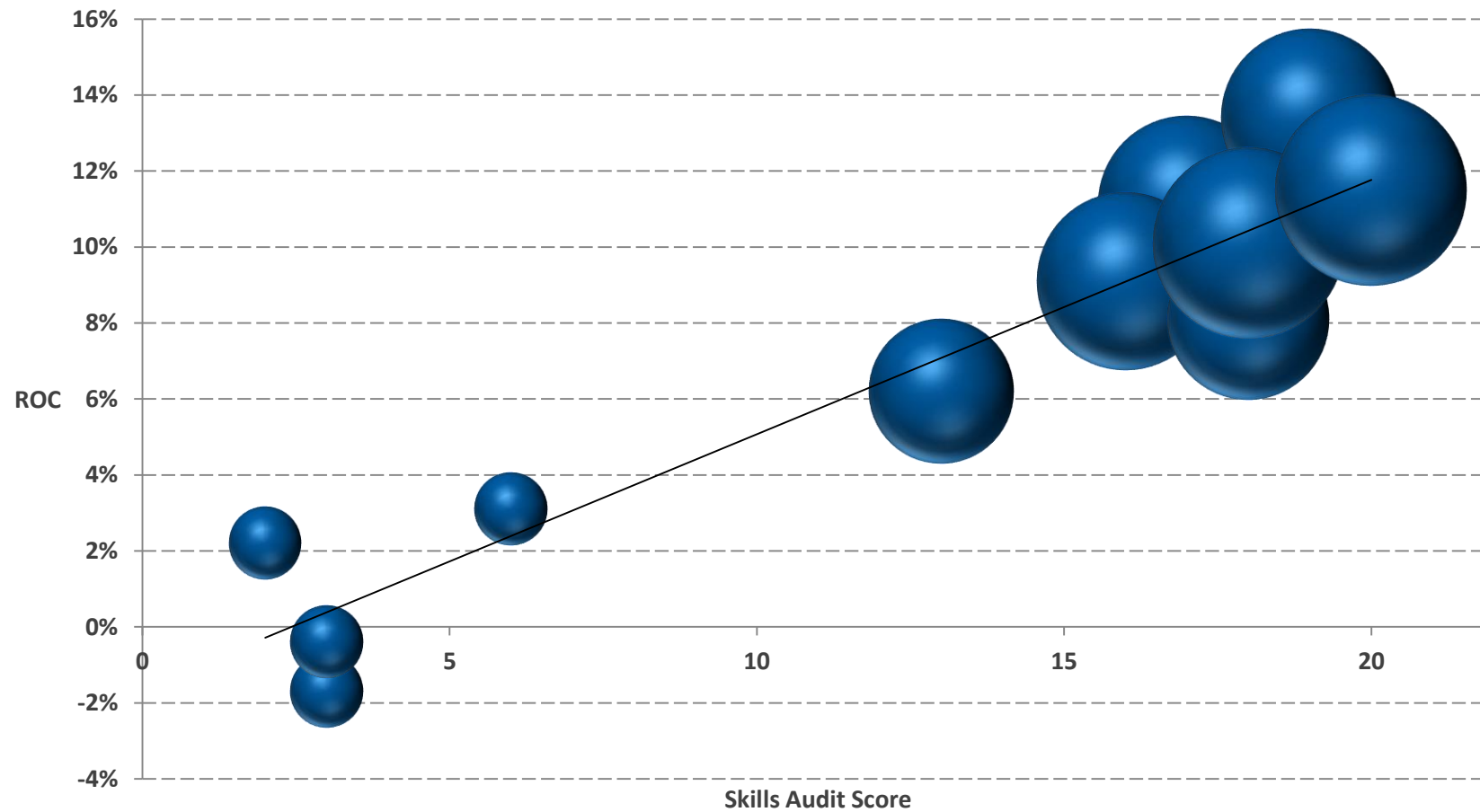
Wasted millions

- 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 skills are higher than they actually are!

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 defence industries turned their at- added more flex to shafts over the It is also important to hit the ball

Profit and Skill



Driver 6

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

Summary

1. Key messages

- i. Learn from the best
- ii. Run a business, not a hobby, look for profit
- iii. *How* is more important than what you do
- iv. Develop a robust system
- v. Be very good at the things that count
- vi. Skill is the most important and overlooked aspect of a successful business

2. Where to

- i. Profitable Grazing Systems:
www.mla.com.au/profitablegrazingsystems
- ii. Southern Business Edge
- iii. www.makingmorefromsheep.com.au

Thank you

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NB: No cats were harmed in making this presentation

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