

AN INITIATIVE OF

*Making More From Sheep*



# The Business of Sheep

Basil Doonan  
Macquarie Franklin



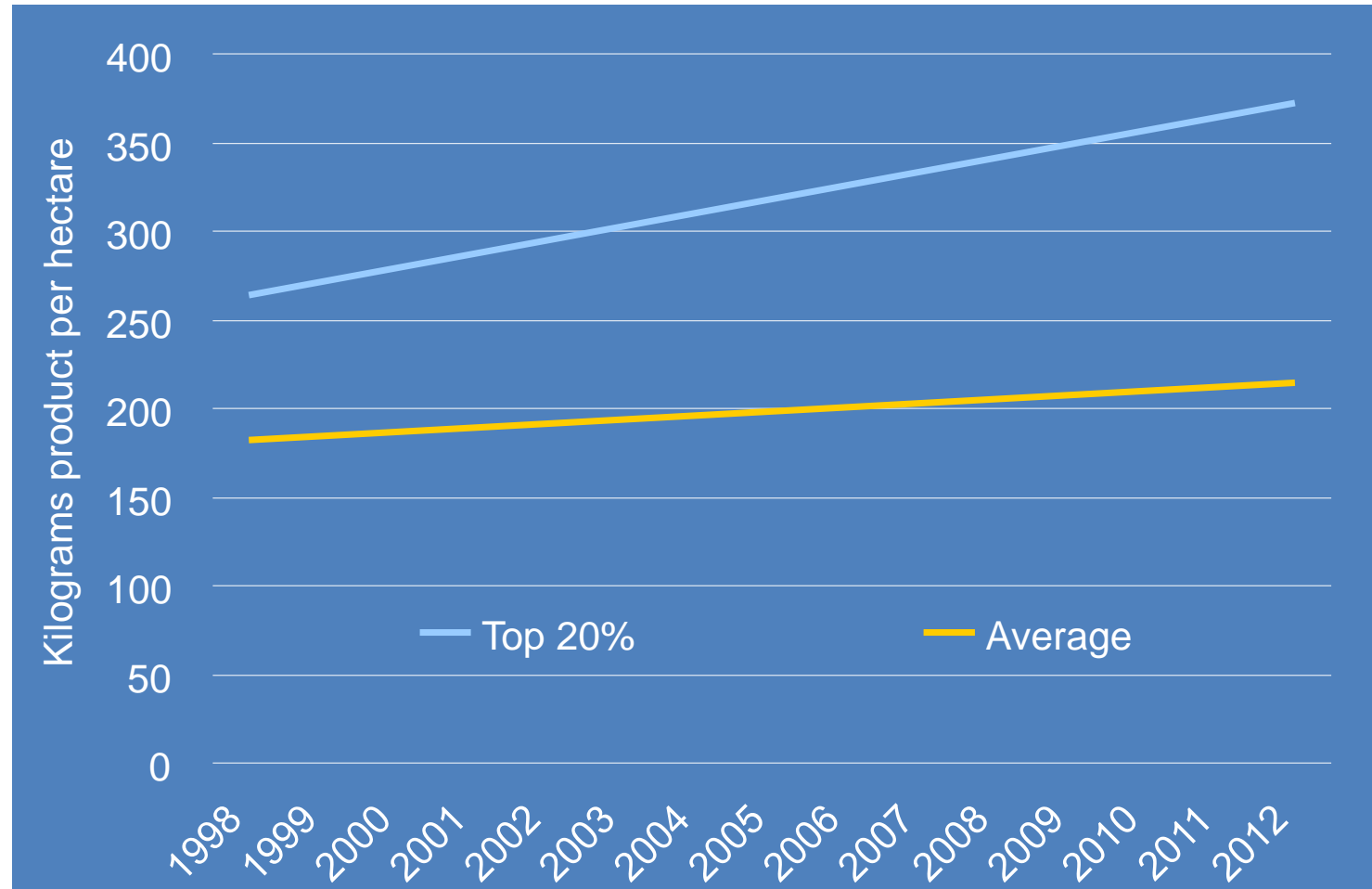
EVENT SUPPORTERS:



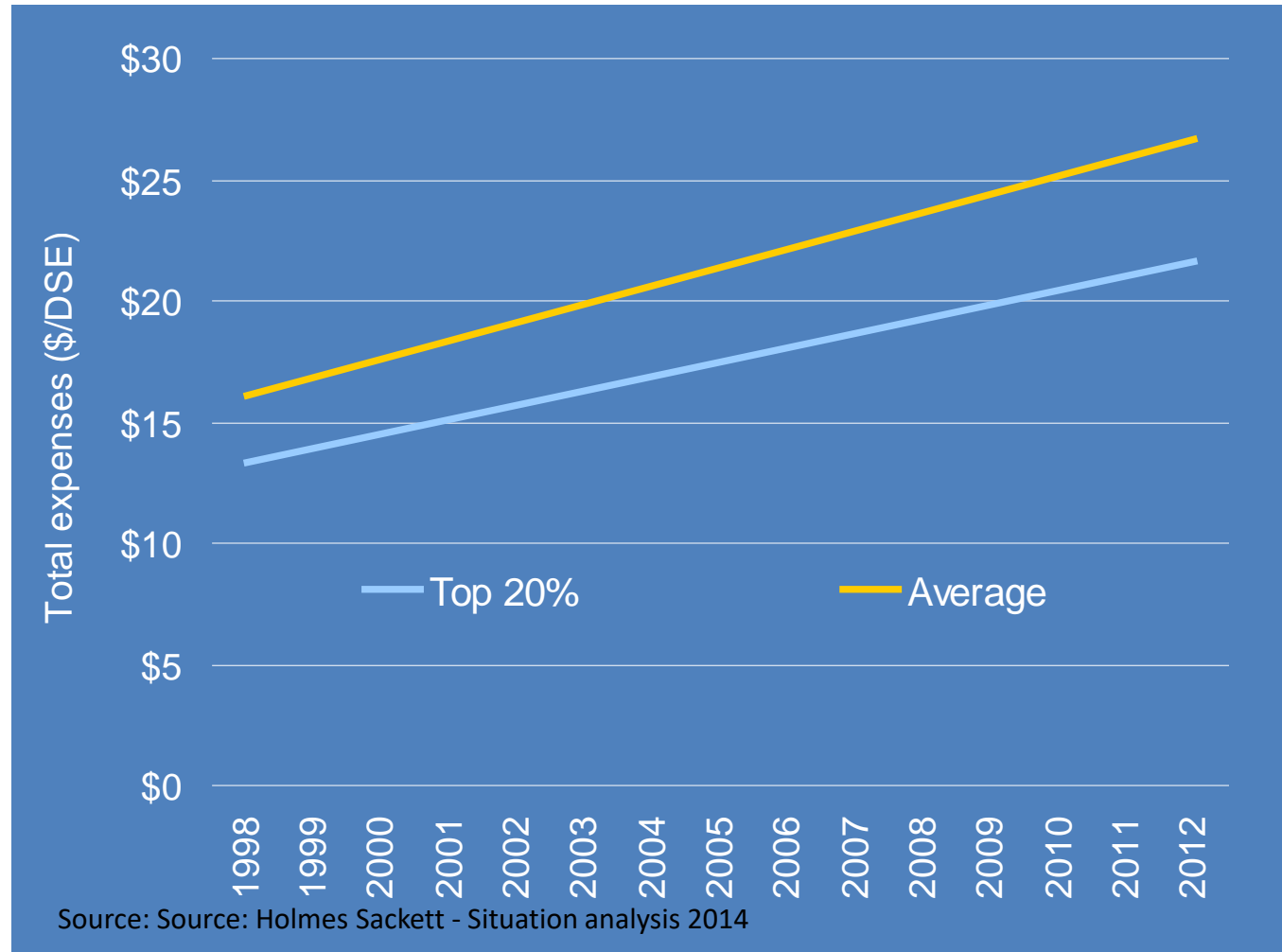
# The reality!



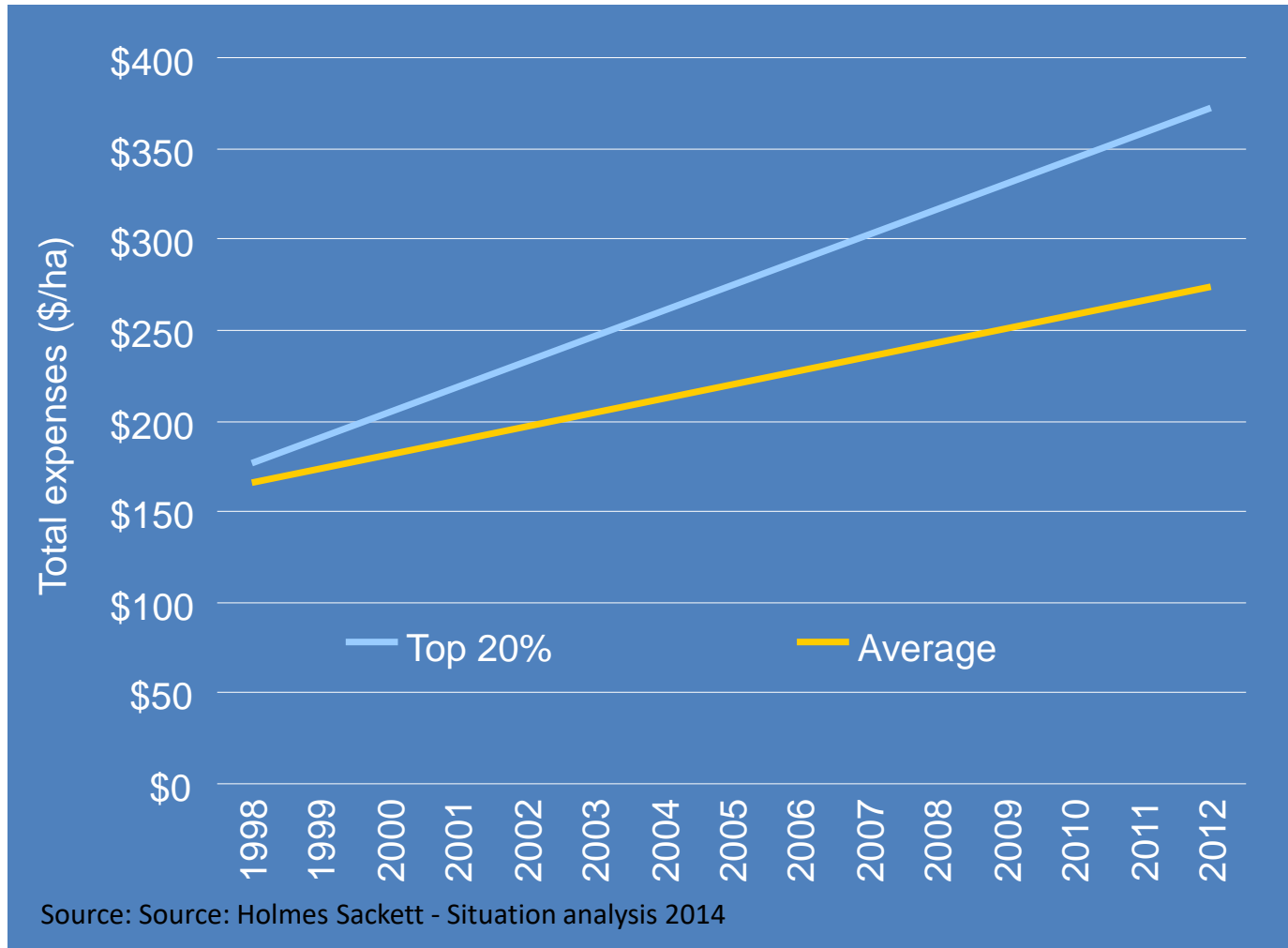
# Best- increasing production faster



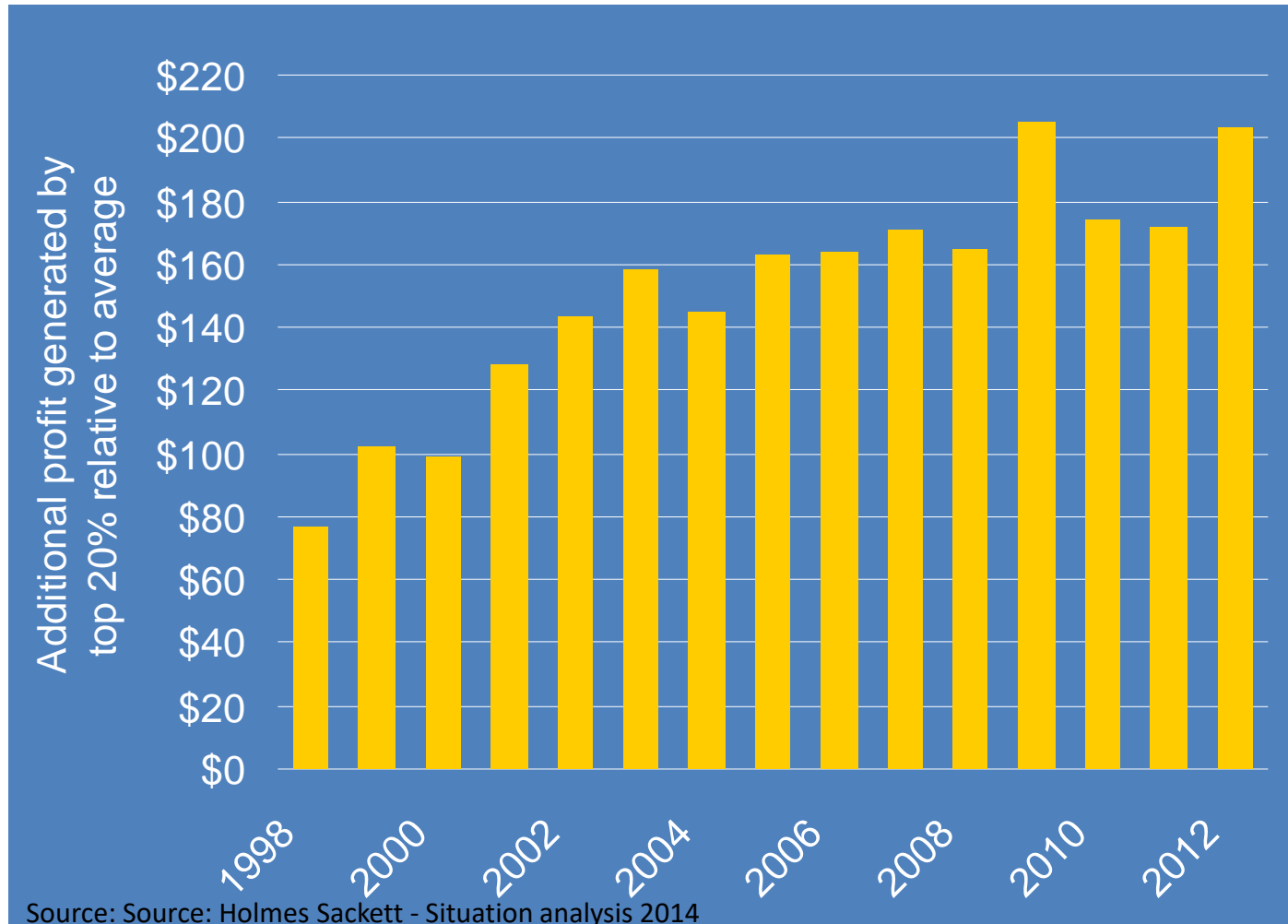
# Best - widening the costs/DSE gap!



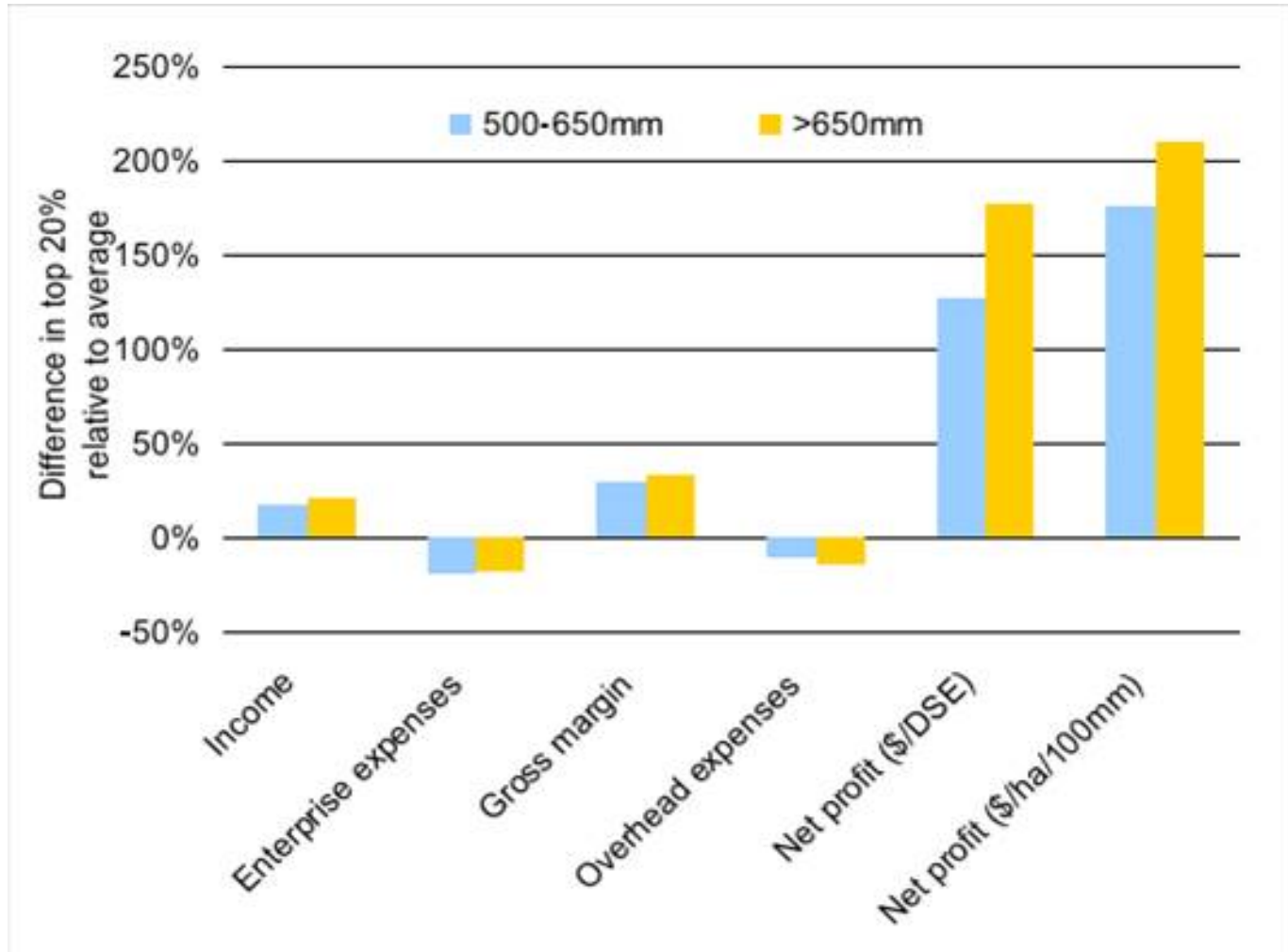
# Best – have higher costs/ha!



# 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!

---

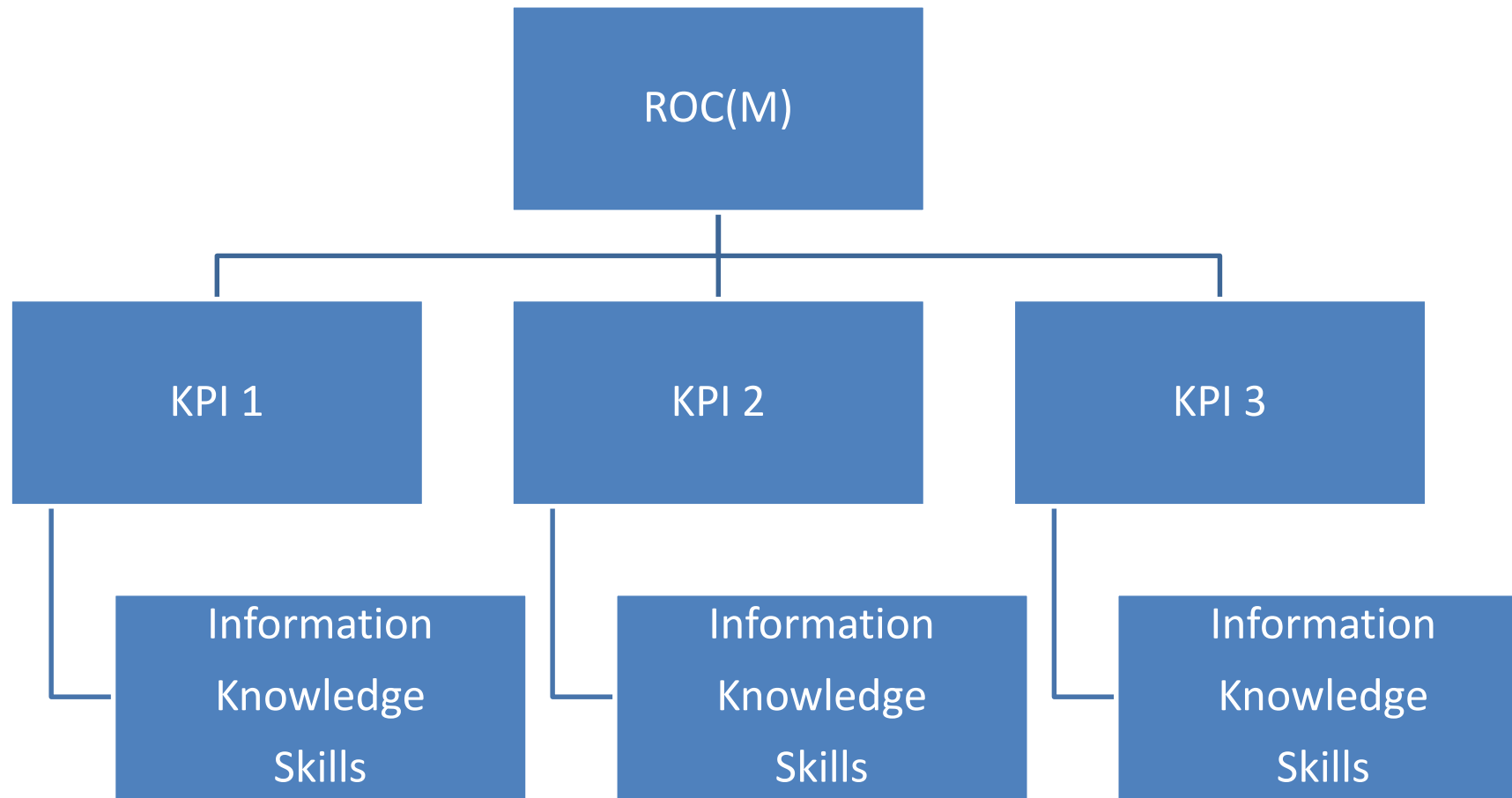
- As a function of logical business decision making
  - Business benchmarking (learning process)
    1. Identify areas to improve (KPIs)
      - Good
    2. Find top 5-10% (the benchmarks)
      - Good
    3. Document (understand) best practice
      - Poor
    4. Adapt the practice
      - Hopeless
    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

---

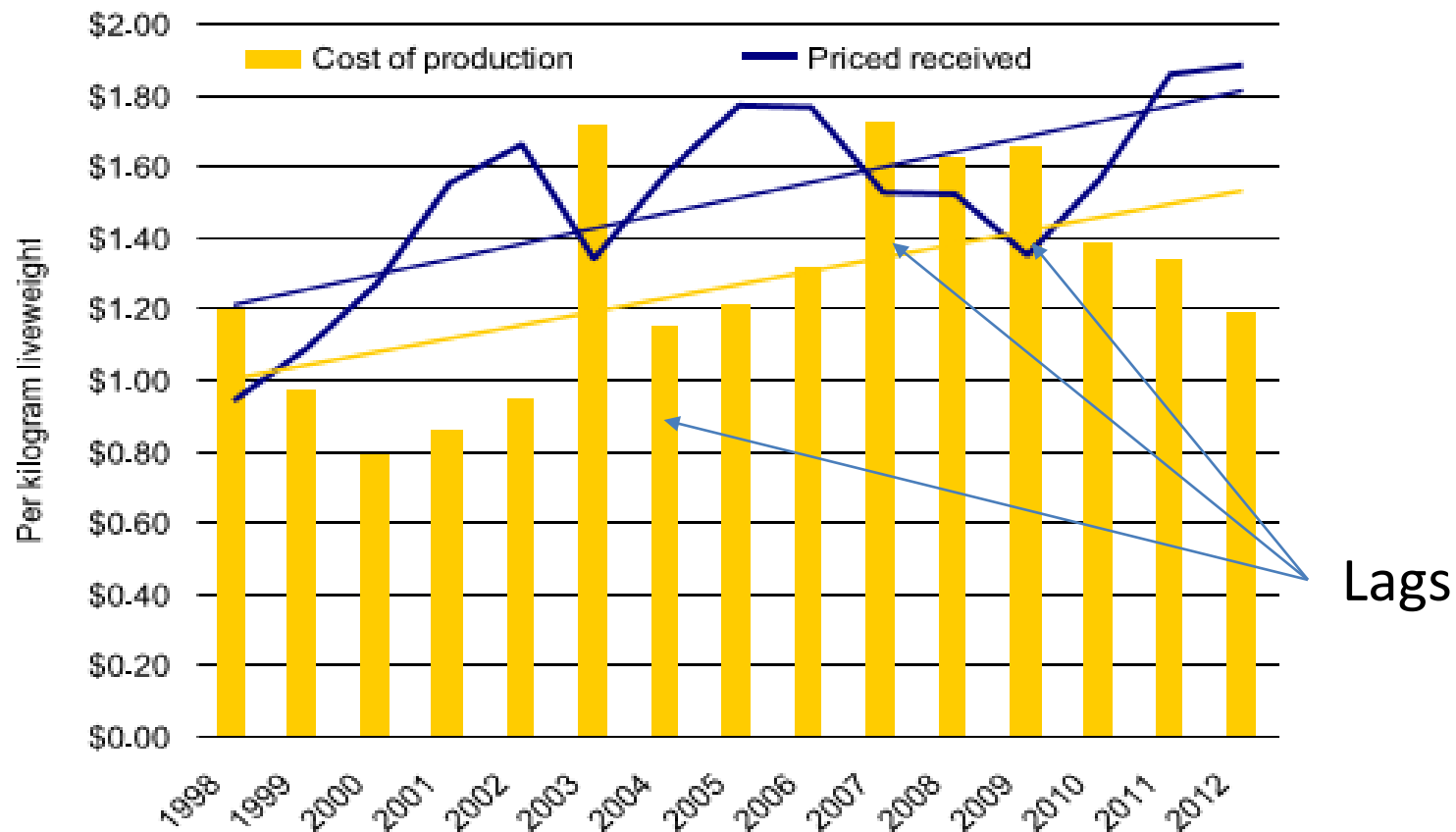
Awareness Test

# 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
	<b>Average*</b>	<b>Average*</b>
Wool price	840	1,080
ROC	1.0%	6.3%

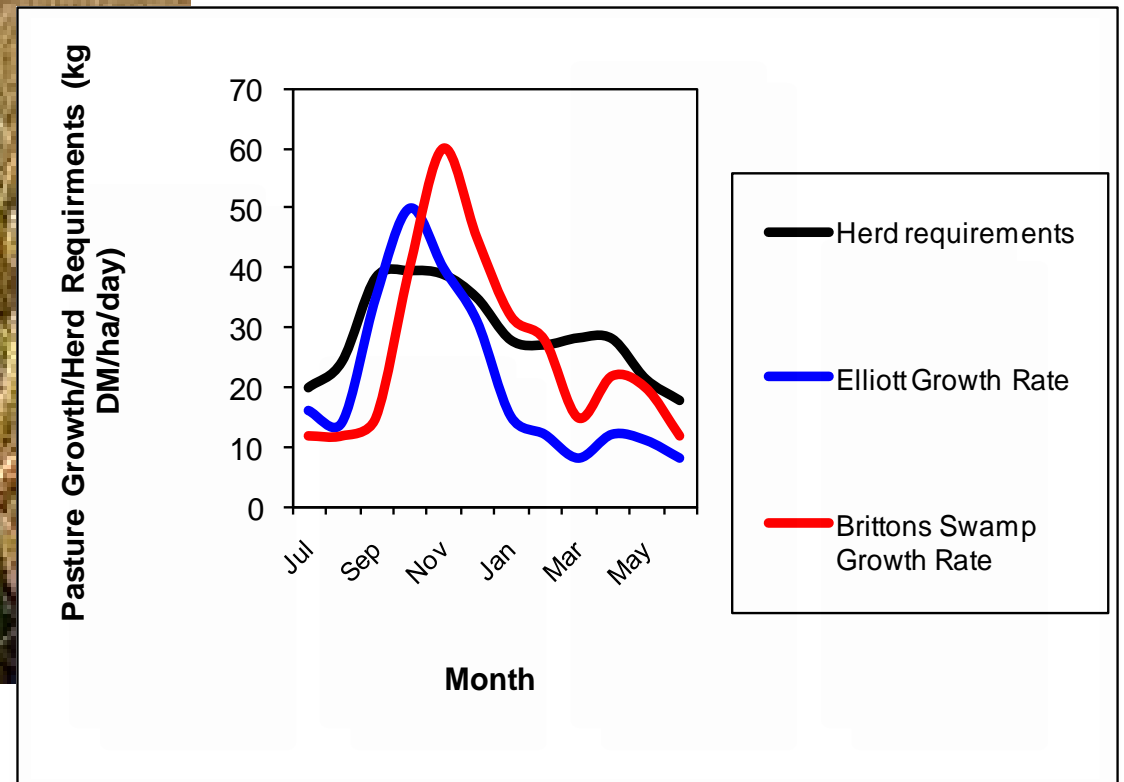
That's about \$74,500/business!!

## Driver 2

---

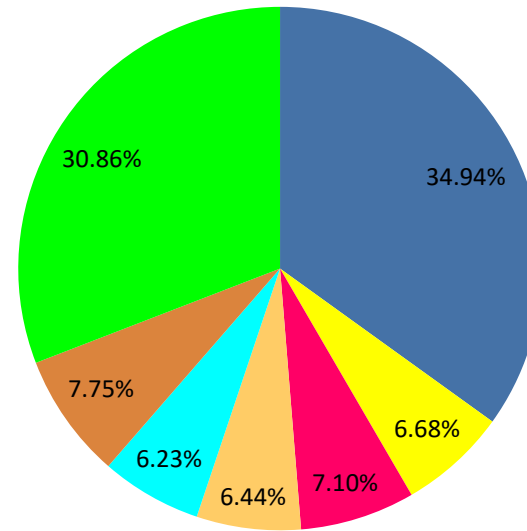
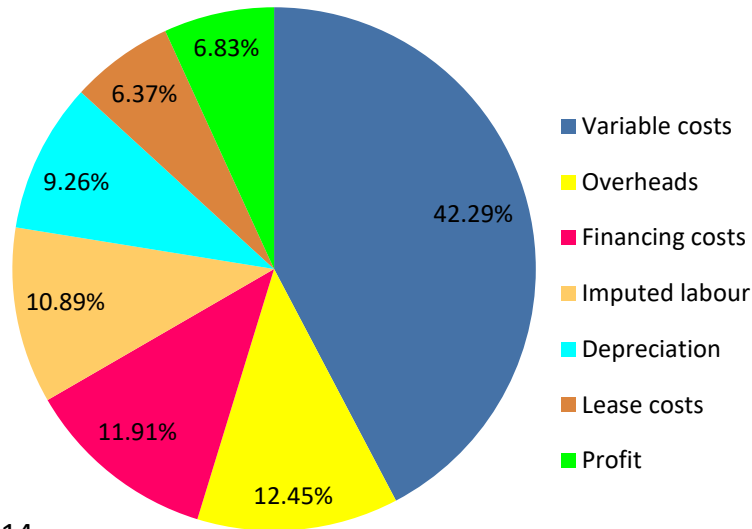
***“Run a business not a hobby and look for profit!”***

## 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



# 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

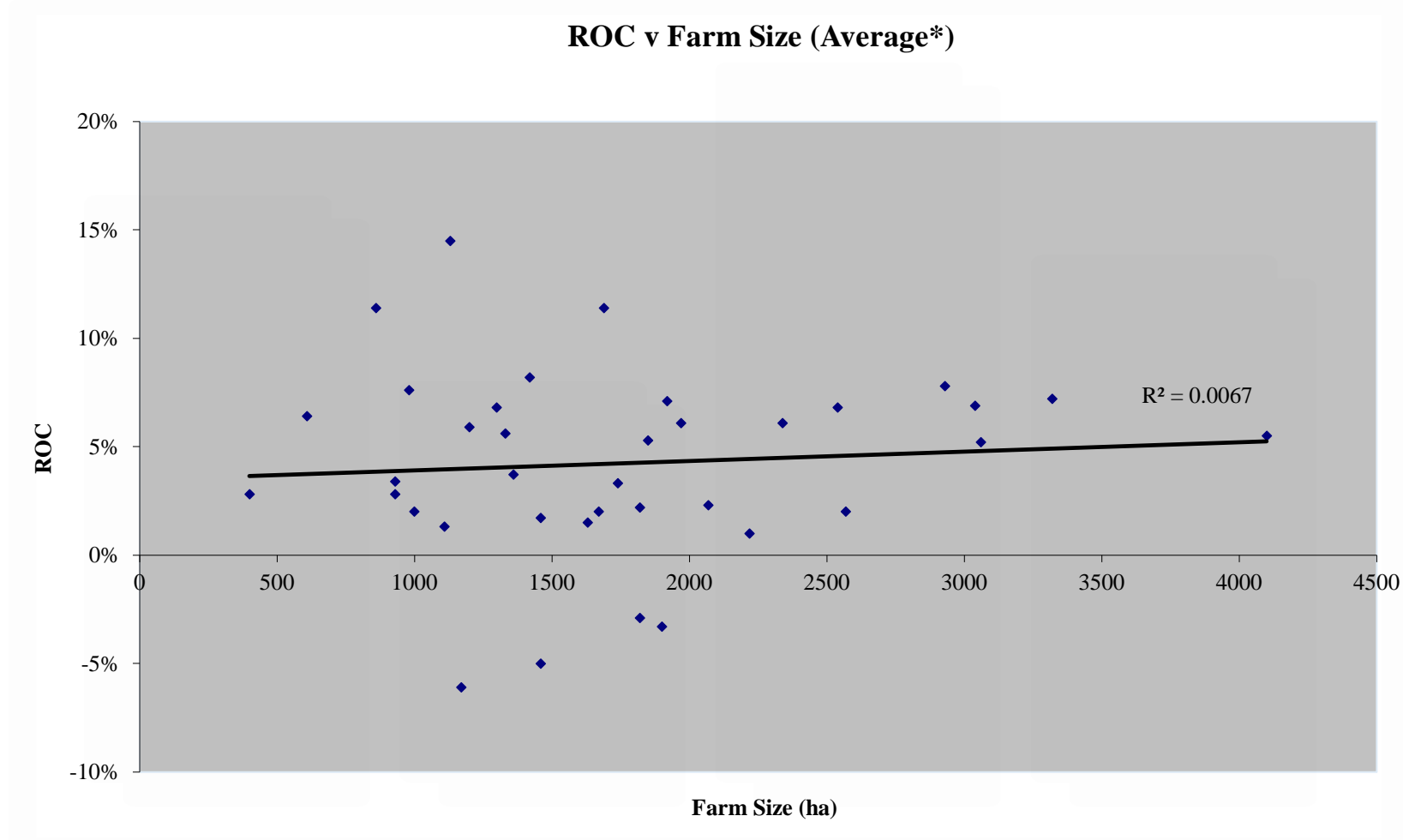
# Done a good job in this area

	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!”



# Having Said That....

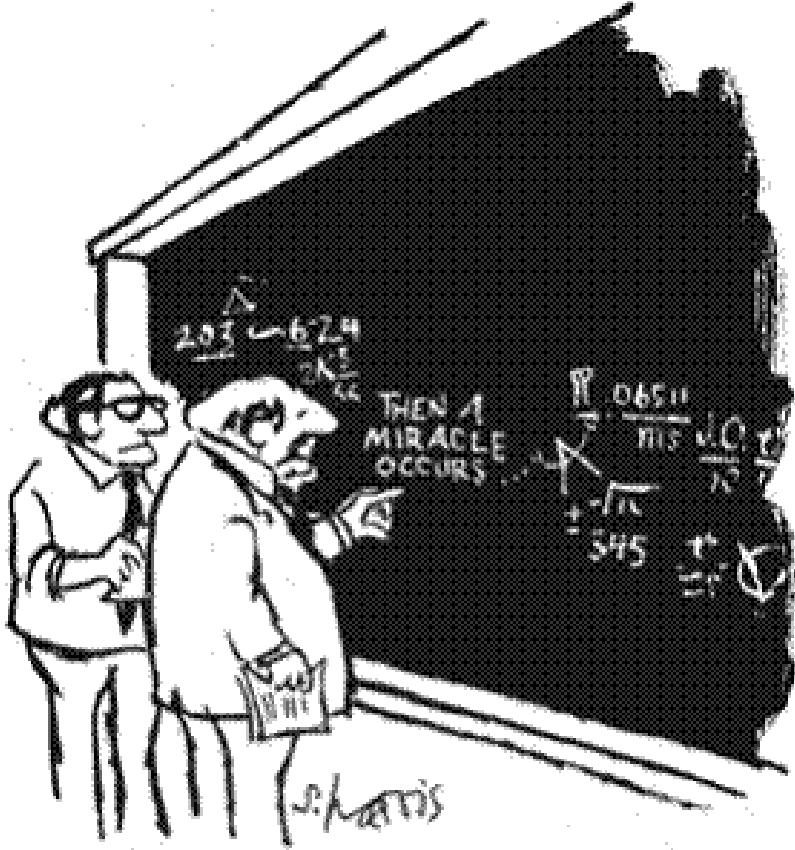
---

- 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%

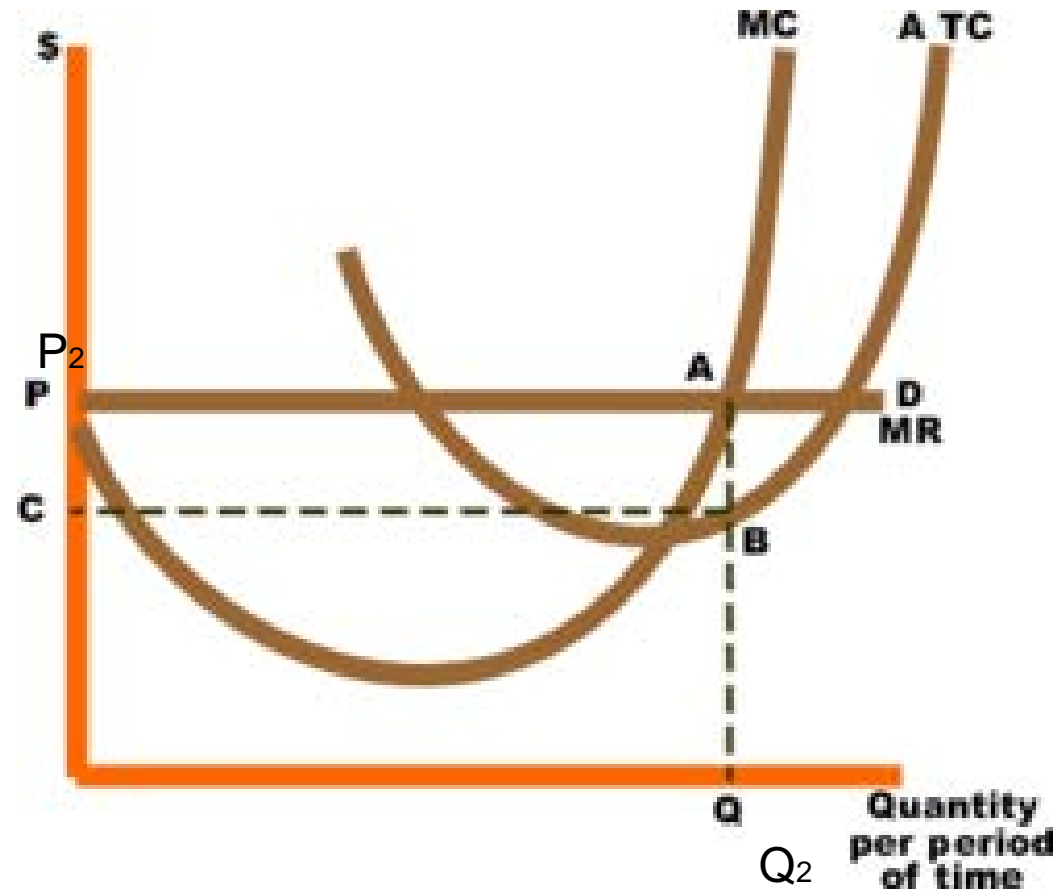
# Driver 3



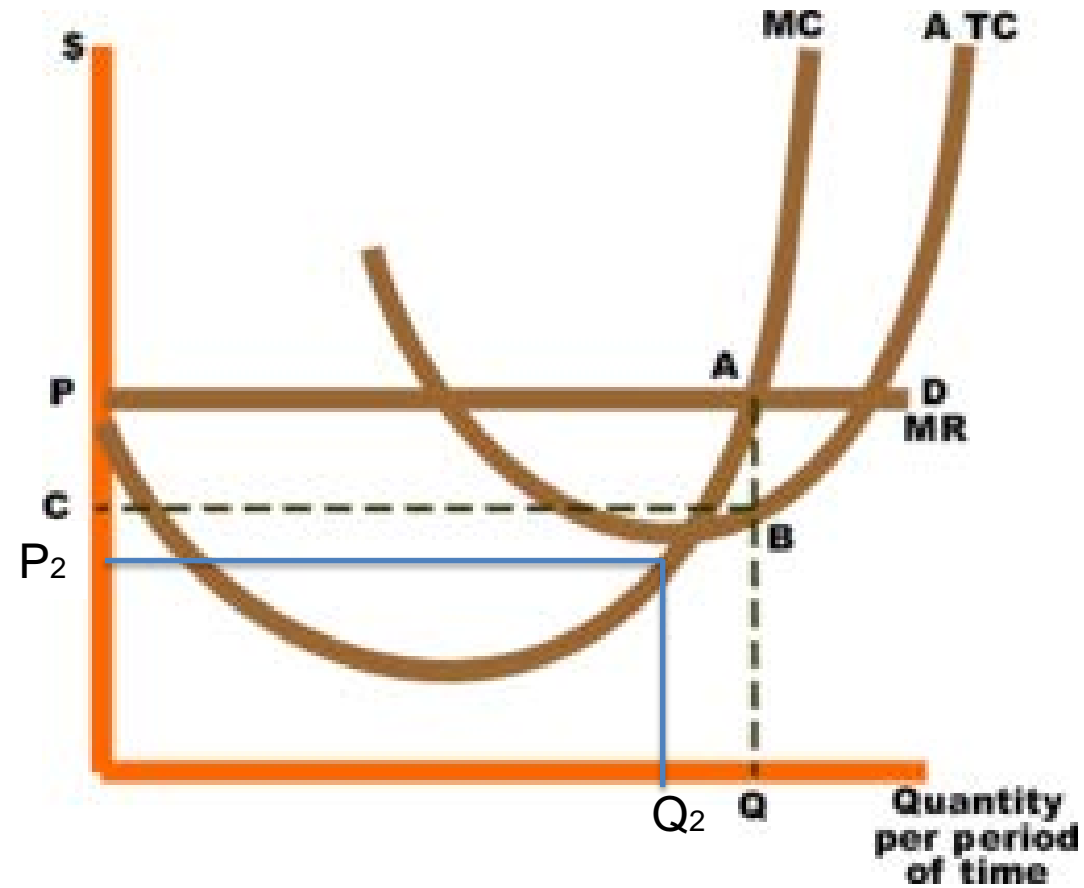
"I THINK YOU SHOULD BE MORE EXPLICIT HERE IN STEP TWO."

***"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

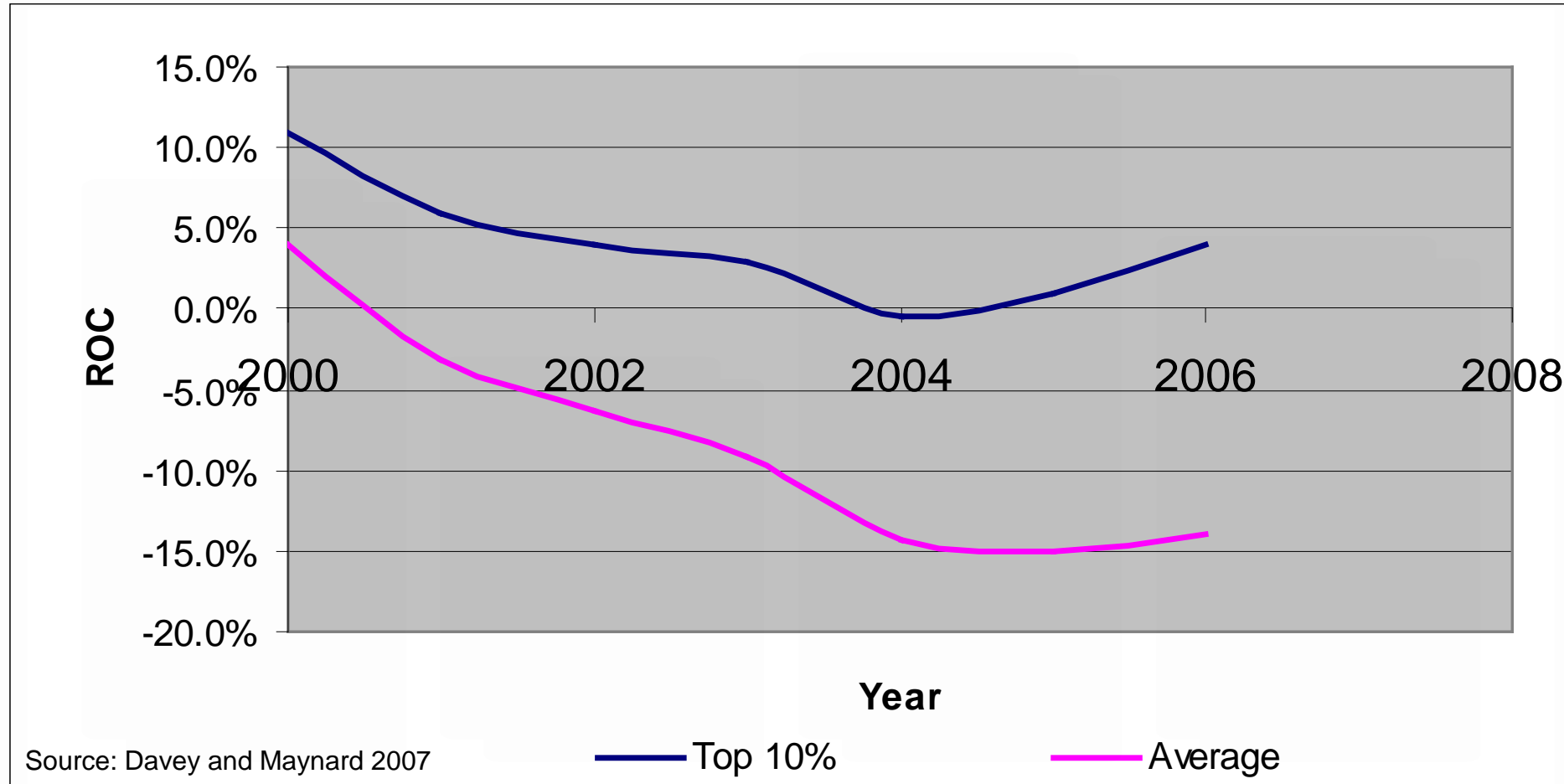


# Impact of Season/Price on ROC

	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”***

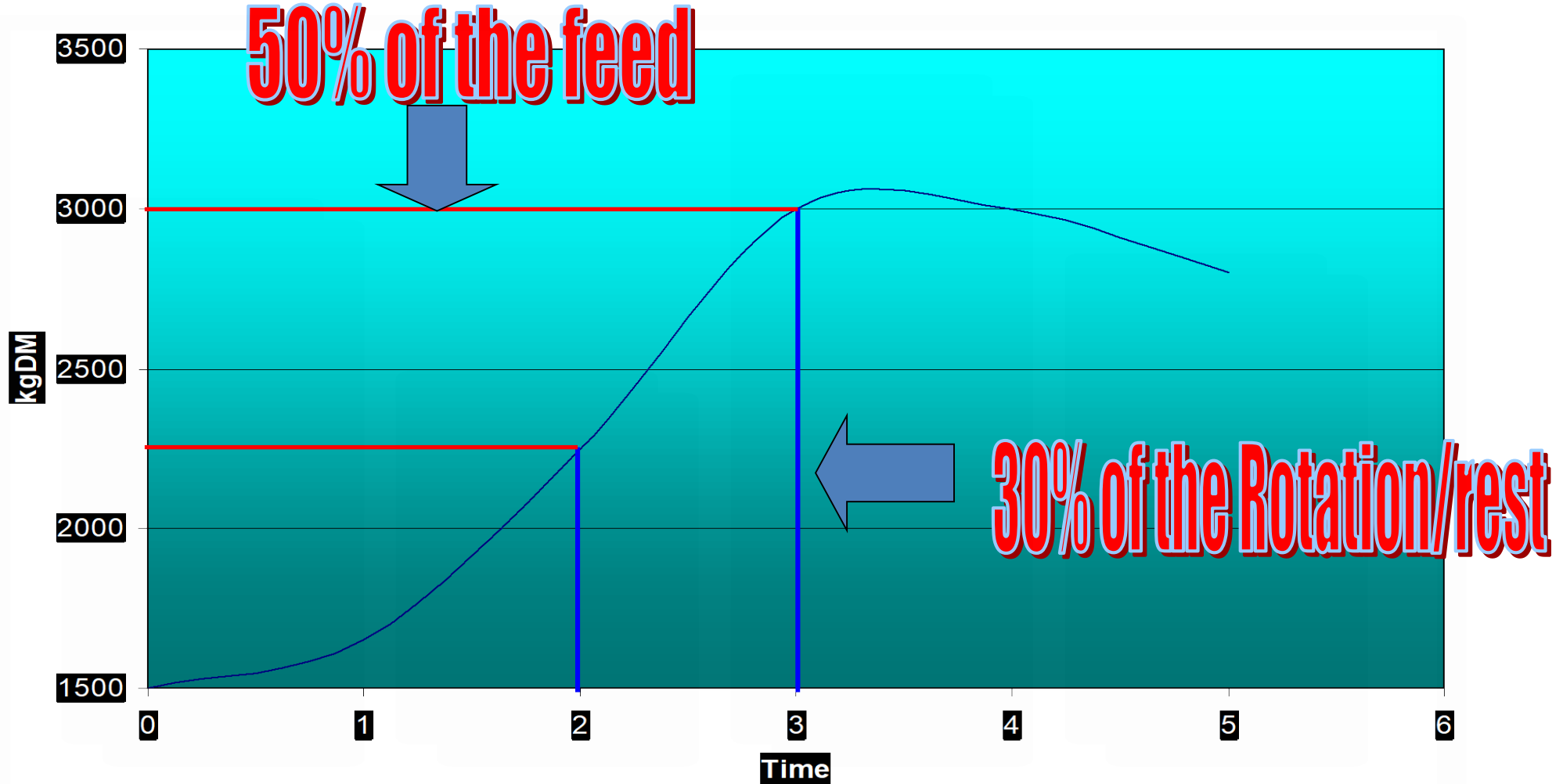
# 4. An Understanding of the Production System

---

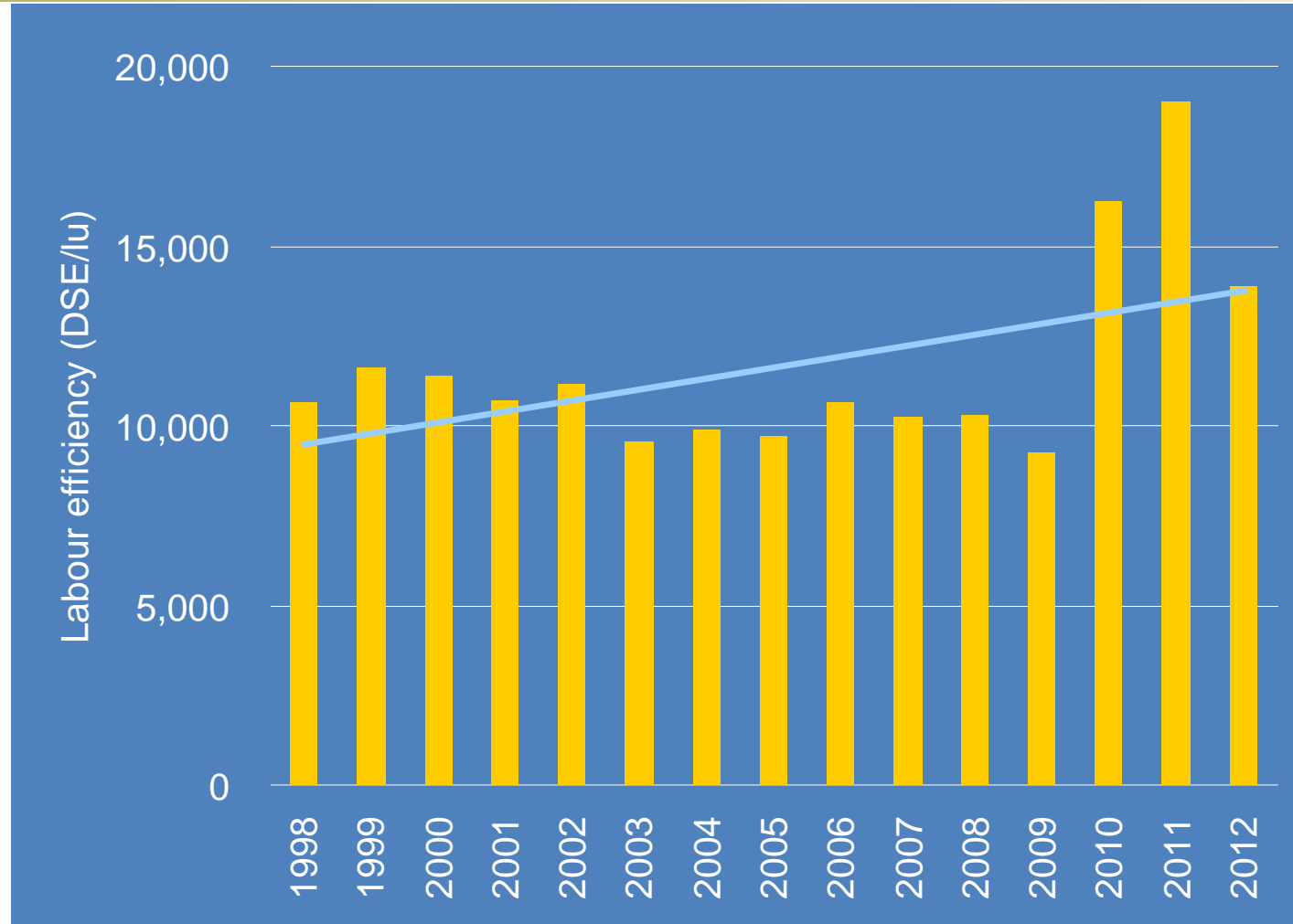
	Profit
Feedbase/Agronomy	70%
Business	40%
People	30%
Operational	15%

Hoekema 2002

# Sheep Business Foundation!



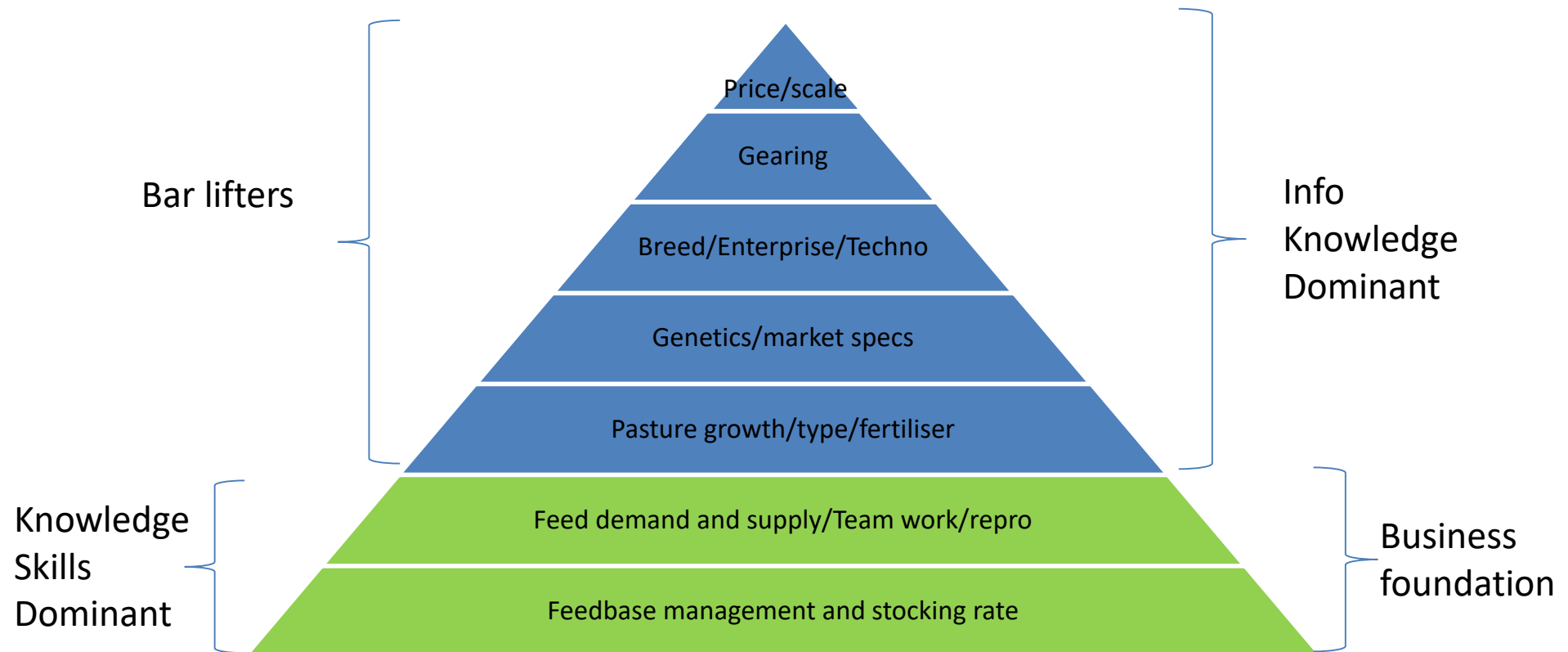
# Labour Efficiency is a Good News Story



# 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

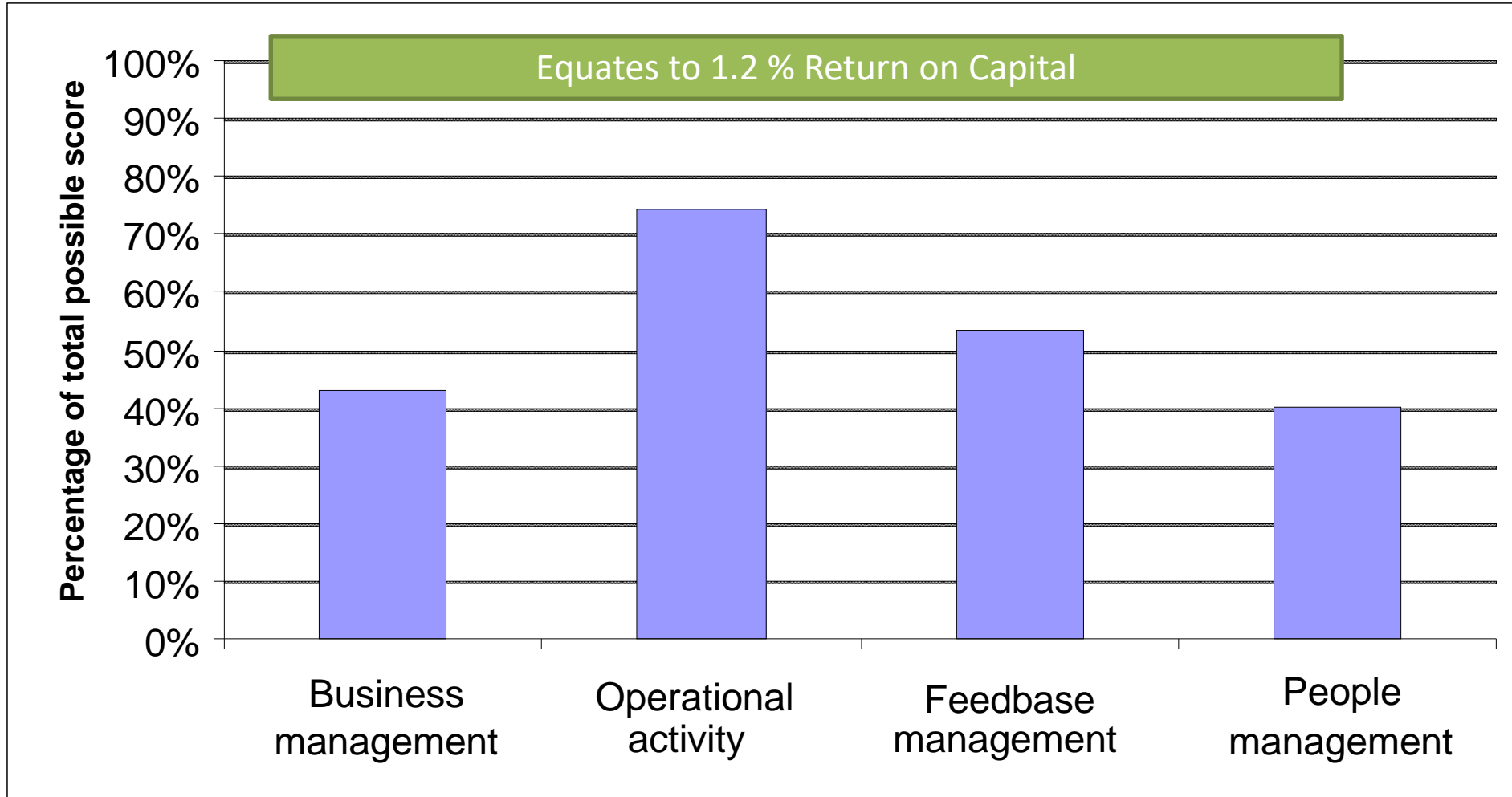
---

- 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

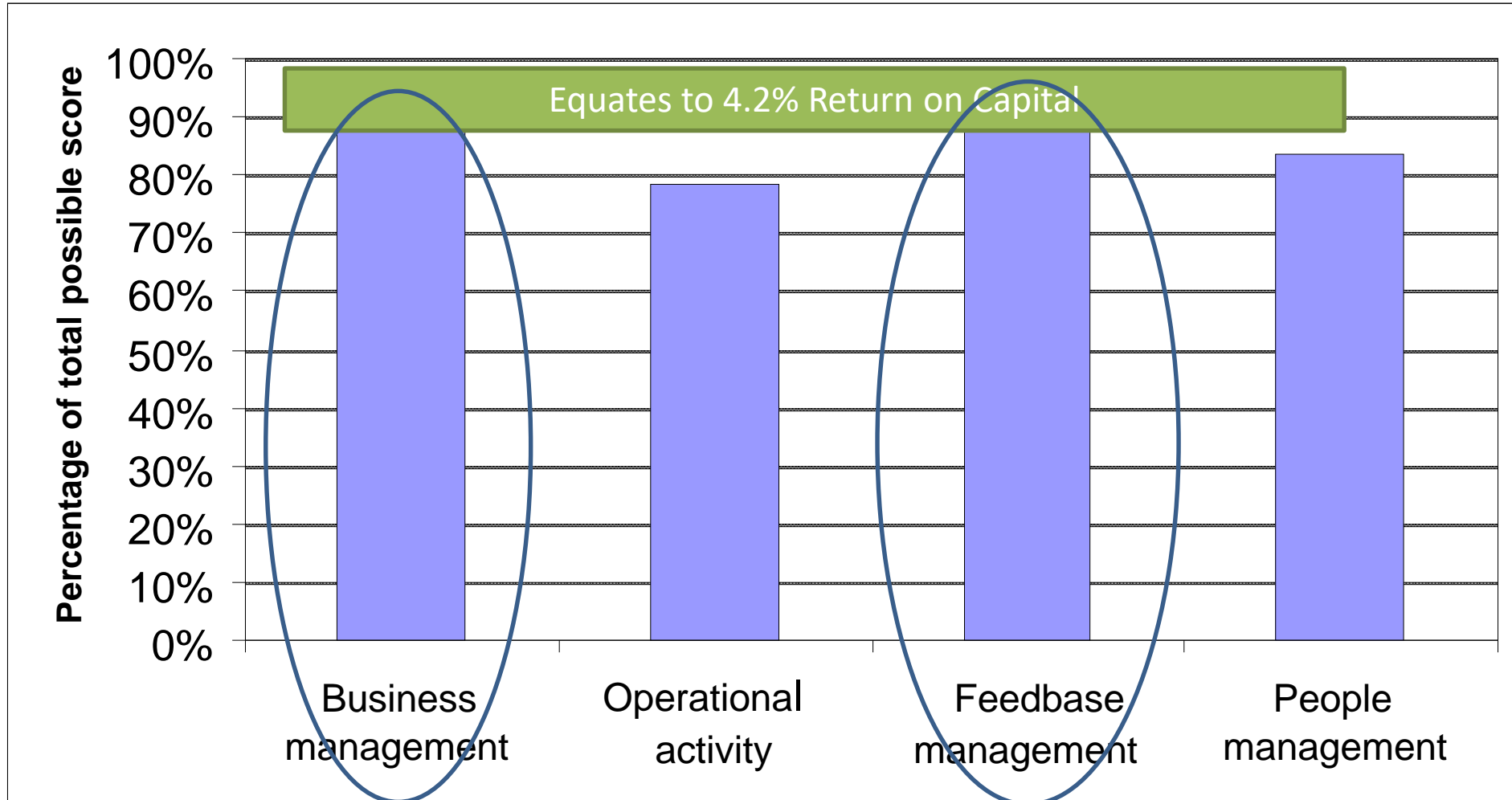
# Skill the Missing Variable



# 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
<b>Australia</b>	<b>8</b>	<b>20</b>	<b>0.4</b>
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?

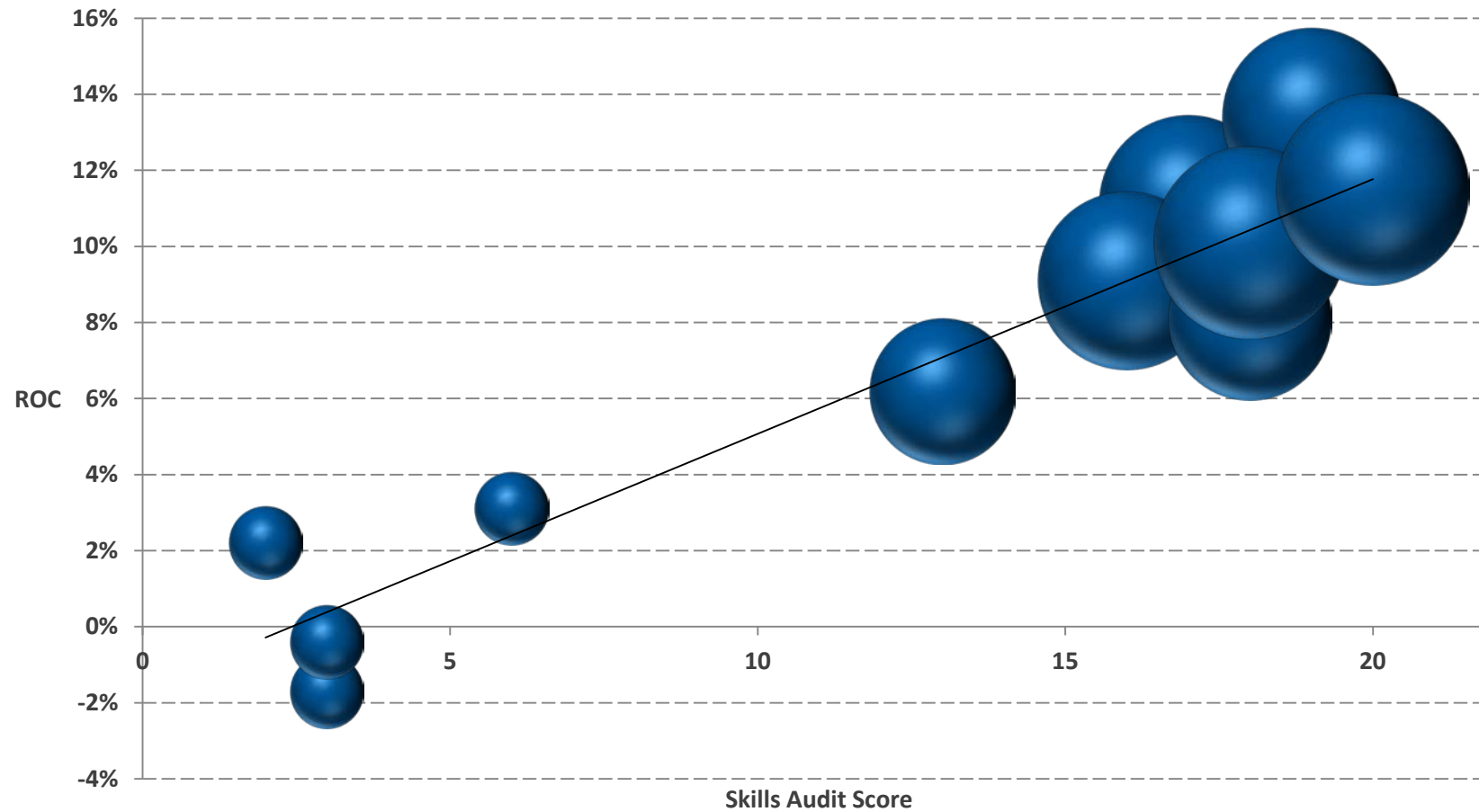
## Wasted millions

- 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 much better than they really are. 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](http://www.mla.com.au/profitablegrazingsystems)
- ii. Southern Business Edge
- iii. [www.makingmorefromsheep.com.au](http://www.makingmorefromsheep.com.au)

# Thank you

## Basil Doonan

[bdoonan@macfrank.com.au](mailto:bdoonan@macfrank.com.au)



***NB: No cats were harmed in making this presentation***

Contact Macquarie Franklin: P 03 6427 5300 | F 03 6427 0876 | E [info@macfrank.com.au](mailto:info@macfrank.com.au) | W [www.macquariefranklin.com.au](http://www.macquariefranklin.com.au)