Fact sheet

WESTERN AUSTRALIA
LOW RAINFALL

Profitable integration of cropping and livestock

What is effective integration?

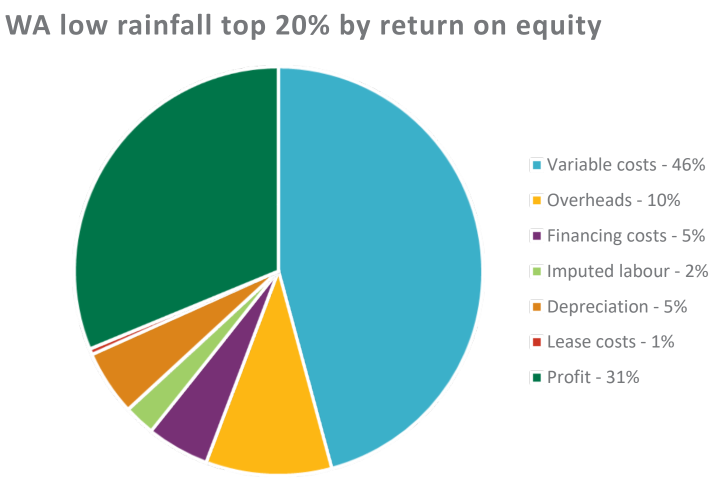
The ability to integrate two or more enterprises in a synergistic manner, which eliminates enterprise conflict, ultimately driving profitability.

What are the indicators of profitable integration?

- >6% return on assets managed
- 30% of turnover returned as net profit
- >$600,000 turnover/FTE
- finance coverage ratio of >4:1
- >80% equity (long term).

How do we achieve these results?

- the integration of the four primary profit drivers is crucial in obtaining strong results
- protect and preserve the profit margin of each enterprise



The ability to integrate multiple enterprises in a synergistic manner ultimately drives profitability. The concept of cropping and livestock enterprises being synergistic sounds straightforward; however, achieving this goal is often difficult. Effective integration involves optimising the win-win outcomes and minimising whole-of-business compromise in the event of a win-lose scenario.

This project found that the top 20% of producers are:

- consistently able to generate operational returns on capital greater than 6%
- retaining 30% of income as net profit before tax

These businesses represent a vibrant and motivating sector of agriculture.

There were a large number of profit drivers in both the cropping and livestock enterprises. The superior profitability achieved by top 20% businesses is a function of the profit driver framework, made up of the following four primary profit drivers.

Gross margin optimisation

Gross margin optimisation is influenced by income generation and disciplined variable cost control. The following principles can assist with this:

- target superior gross margin performance in both cropping and livestock enterprises
- aim to optimise crop yield in a cost effective manner
- aim to optimise livestock income in an effective manner.

The amount of rainfall in the low rainfall zone can vary considerably from one year to the next. As a result of these environmental constraints, the cropping system must be given priority in a year when cropping is likely to produce a profitable result. The stock enterprise needs to maximise the returns per animal and ensure that stocking rates are based at a conservative level.

The following are indicators for optimising your gross margin:

- optimising crop yield in an effective manner
- matching the variable cost structure, for the current season, to the potential income for the current season
- keeping enterprise costs to less than 40% of enterprise income
- targeting 0.5–1.0 breeding ewes/ha/100mm of annual rainfall (dependent on land class).

On farm actions

- keep good records and check trends and averages over at least five years
- benchmark your business annually, to build a long-term dataset, and monitor trends in enterprise performance
- calculate cropping and livestock gross margins/ha on an annual basis
- have a seeding plan which has you ready two weeks early and allows for breakdowns
- review your sheep enterprise performance against the 120:120:60 target
- select rams on objective measurements
- cull ewes that don't produce a saleable lamb.

Low cost business model

The low cost business model profit driver is influenced by a farm's structural efficiency and reflects the overhead cost structure of a business. The successful producers in this zone use scale as a major driver to get costs down to a low level, on a per hectare basis. Many producers in this zone farm more than 3,000ha.

Principles for businesses looking to achieve a low cost business model are:

- achieve high machinery utilisation
- avoid unnecessary enterprise complexity
- strive to develop scalable farming systems.

A key factor in the cropping enterprise is achieving a high level of field efficiency, with machinery, through a simple cropping system based on large blocks of the same crop, and good logistic systems for the main operations.

The following are indicators for achieving a low cost business model:

- >$20 EBIT/DSE
- TPML costs less than 25% of income
- 0.8:1 machinery investment to income ratio or better
- 8,000 DSE (sheep) or 16,000 DSE (cattle)/FTE
- overhead expenses per DSE of less than $15.

On farm actions

- calculate your machinery investment income ratio and identify how this can be enhanced over time
- calculate your TPML costs
- review your production systems and work patterns for effectiveness
- assess whether your system is efficient
- calculate your level of income per FTE
- review your labour efficiency and effectiveness
- review and simplify your business model wherever possible.

People and management

Good management regularly comes down to good decision making. Part of this is recognising that the choices we make as a manager will have a significant influence on the profit outcome of our business.

The key principles of successfully managing people are:

- continually improve implementation
- devise well-thought-out operations that are adaptable
- maximise team performance.

This zone doesn't have the luxury of a large permanent workforce. Most of the producers will have one, two or three family members and all other labour is on a casual seasonal basis. Remoteness and lack of facilities in many areas make it difficult to attract and retain permanent employees. With the high turnover of casual staff, cropping and livestock operations need to be kept simple and uncomplicated. Good induction and training are critical when utilising casual workers.

The following are indicators associated with successful people and management:

- profit per FTE of >$150,000
- target seeding completion date achieved in at least 9 out of every 10 years
- minimum of four weeks of annual leave off-farm each year and at least five days training.

On farm actions

- set clear targets for timely operations
- encourage your team to think about both effectiveness and efficiency
- commit 1% of business turnover to training and professional development
- develop and maintain a strong safety culture
- complete an annual review of your business and operational effectiveness with your whole team, and identify areas for improvement in the year ahead
- train your team in crop monitoring and livestock observation skills to allow for early intervention
- invest your energy, and your team's energy, on aspects influencing your business performance that are within your control.

Risk management

Effective risk management is primarily about eliminating internal management risk. This includes simple systems, effective processes and a positive mindset that helps drive consistent implementation under variable conditions.

The key principles of effectively managing risk 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.

The influence of internal management risk can be overlooked. Top 20% businesses tend to have a personal growth mindset; they are keen to know and understand where they can grow and improve business performance over time. The biggest risk to any farm business is that it doesn't have the cashflow available to farm profitably. Risk for farm producers is closely linked to the amount of cash reserves, or the ability to borrow more money.

The following are indicators that you are managing your risk:

- total production costs ≤ Decile 2 prices for all commodities
- business losses in less than one in five years
- low volatility in net profit from year to year.

On farm actions

- invest energy into adding additional profit margin to your business, as this is one of the most effective strategies to reduce the overall risk profile of your business
- identify the biggest risks in your business
- take action to reduce the impact of these risks
- review your business annually:
- is your livestock coverage adequate given the current size of your herd/flock and current market values
- is your fencing coverage adequate and representative of current replacement values
- is your level of insurance for grain stored on-farm adequate?

The business case for mixed enterprise

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

- livestock helps to optimise gross margins on farms with high frost risk
- livestock may be used to break up a hay dominant rotation on such landscapes
- livestock assists with rye-grass management
- livestock assists with stubble management and mice control
- a pasture phase is the most profitable legume available to the crop rotation.

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

- a cropping phase helps manage weeds and improves soil fertility in longer-term pastures
- aeration from tillage helps overcome compaction and water infiltration issues
- crop grazing provides feed when there is a deficit (early winter)
- crop stubbles provide a good maintenance diet for breeding stock.

Glossary

DSE – dry sheep equivalent

EBIT – earnings before interest and tax

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

TPML – total plant, machinery and labour, including all associated 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 Farmanco 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

More information

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Disclaimer

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