

# meatup FORUM

For the latest in red meat R&D

# Profitable integration of cropping and livestock

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# Disclaimer and seasonal influence

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## **Seasonal influence**

The data collected and analysed in these slides was collected for the three year period between 2014 and 2016. The seasonal conditions experienced over these years will have an influence over the results achieved in each agro-ecological zone. If seasonal conditions differ from those experienced during this time period, some of the comparisons within and between the zones and regions may change.

Has there ever been a more exciting time in Ag?



# Key messages

1. Mixed enterprise has **excellent profit potential** (when enterprises are well integrated)
2. Know and understand the **key profit drivers** in both your cropping and livestock enterprises
3. Identify and pursue **high return investment** projects

# Strengths of mixed enterprise

- Creates **diversity** (rotational mix, ryegrass management, income streams)
- On some land classes a livestock enterprise offers **stronger gross margin returns** than alternative break crop choices
- Livestock are part of the **farming systems solution to high frost risk** landscapes
- Livestock provide an opportunity to make **beneficial use of by products**

# Break crop comparisons

Long term crop yield	0.5t/ha	1.0t/ha	1.5t/ha	2.0t/ha
Break crop type	Gross Margin \$/Ha			
Canola @ \$530/t	-\$56	\$171	\$346	\$572
Beans @ \$355/t +N +G	-\$5	\$159	\$242	\$391
Lentils @ \$720/t + N	\$139	\$482	\$788	\$1,138
Sheep \$40/DSE + N	\$150	\$250	\$350	\$450
Sheep \$50/DSE + N	\$175	\$300	\$425	\$550
Sheep \$60/DSE + N	\$200	\$350	\$500	\$650
Stocking rate/Ha	2.5 DSE	5.0 DSE	7.5 DSE	10.0 DSE

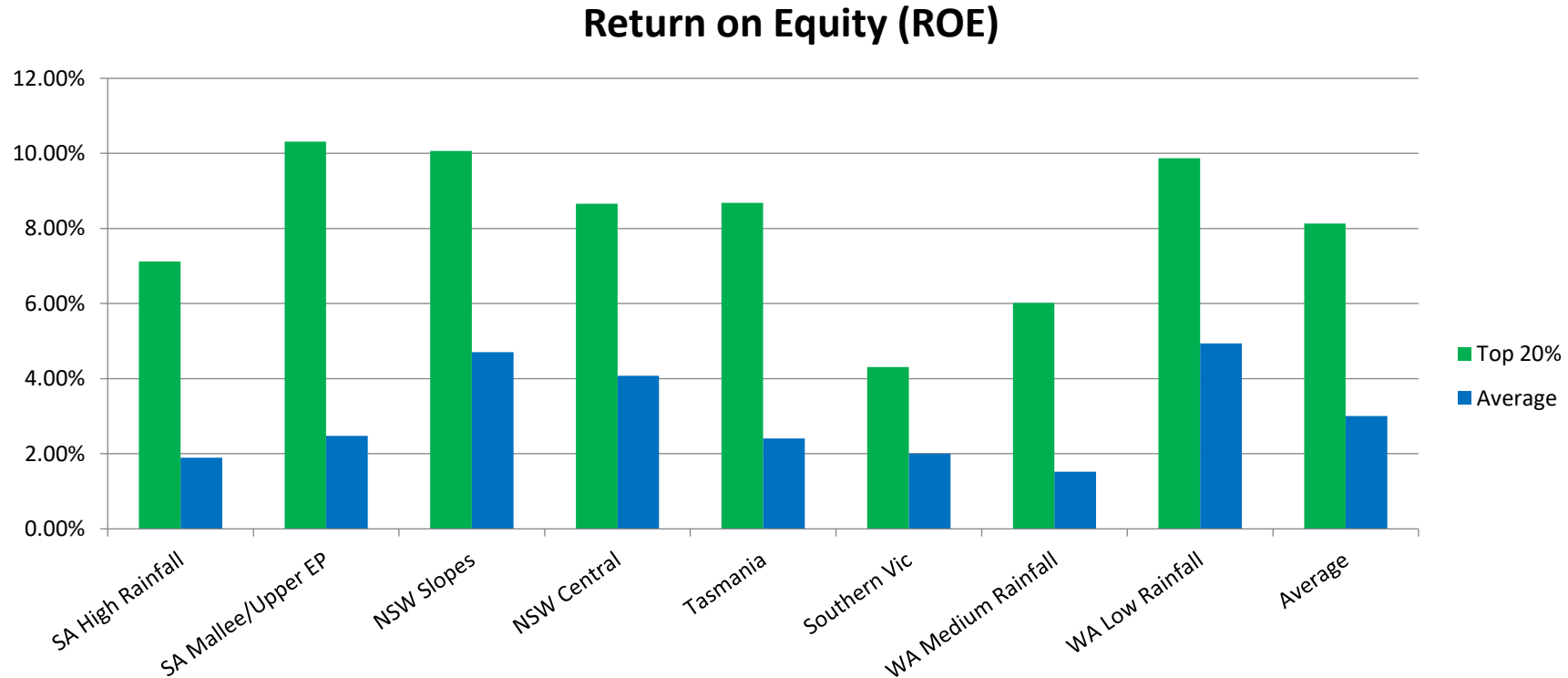
# Challenges to manage with mixed enterprise

- Can create internal **dilution of scale**
- Requires **duplication of capital**
- Potentially creates **enterprise conflict** that can quietly erode margins in one or more enterprises (internal management risk)
- **Diversion of focus** and management attention
- Compromises simplicity



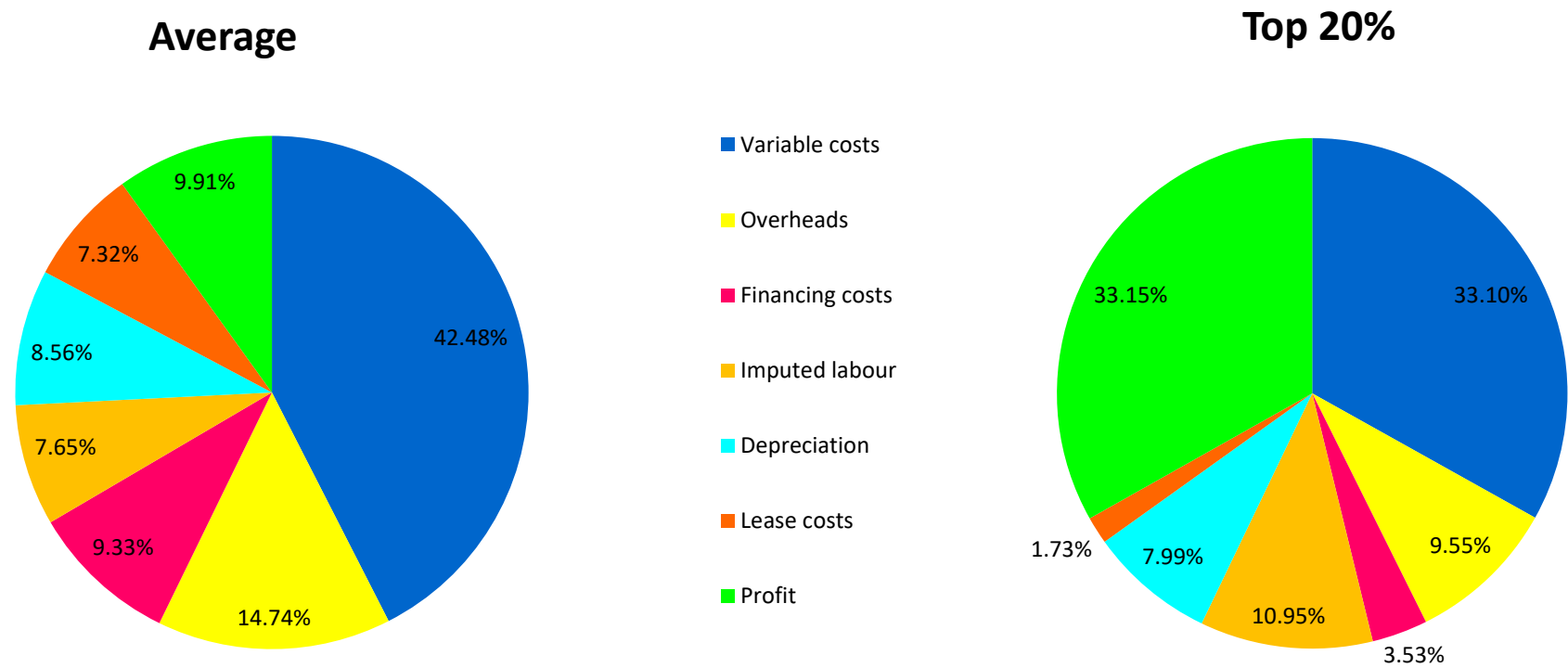
# **Profit Potential in Mixed Enterprise**

# Profit variation between Top 20% and average



MLA 'Profitable integration of cropping and livestock' project

# Profit as a % of turnover



MLA 'Profitable integration of cropping and livestock' project

# Retaining 30% of turnover as net profit

**30%** (of turnover retained as net profit)

What are these businesses doing differently?

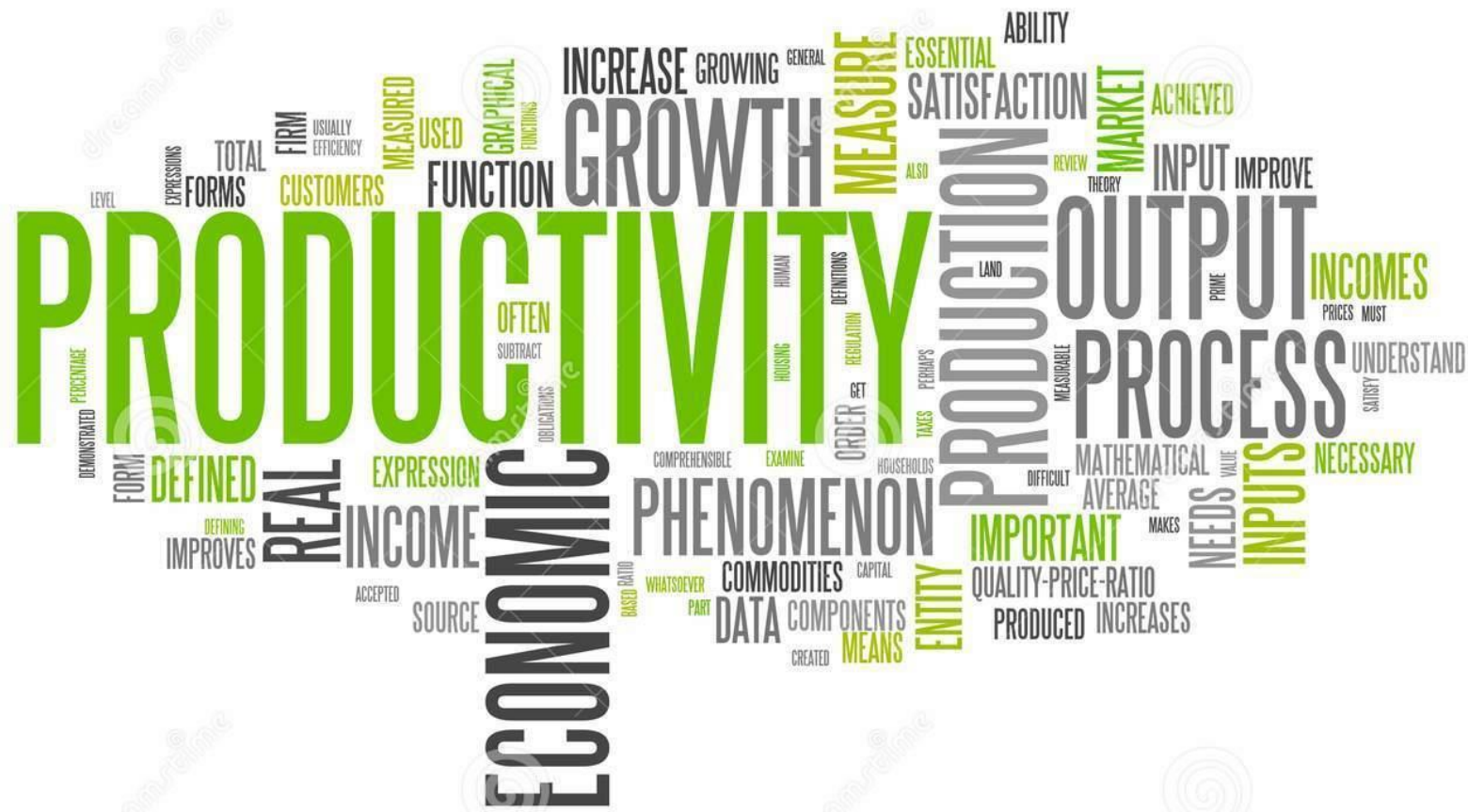
# Profit driver framework

- The following four primary profit drivers are relevant to agricultural businesses nationally:

1. Gross margin optimisation (*Operational*)
2. Low cost business model (*Structural*)
3. People and management
4. Risk management

- It is the interaction of these four primary profit drivers that is resulting in different profit outcomes
- If one of these four is overlooked it will compromise profit potential and long term financial performance

# Key profit drivers



# Key profit drivers in a cropping enterprise

## Gross margin level

- >\$2.50 per mm of annual rainfall received (long term)
- Less than 40% and ideally 35% of income on variable costs
- 10% or less of income on fertiliser
- Approx. 8% of income on chemical
- Excellent operational timeliness





# Key profit drivers in a cropping enterprise

## Low overhead cost structure

- 0.7 to 1 machinery investment to income ratio
- \$600,000 of income per full time team member
- 25% of income on TPMI costs



# Key profit drivers in a livestock enterprise

## Gross margin level

- Pasture harvest and grazing management!
- Achieving our production goals from a 10c/kg diet wherever possible
- \$100 of gross income per DSE
- \$15 per DSE for replacements
- \$85 of net income per DSE
- \$25 per DSE for variable costs
- \$60 per DSE gross margins



# Key profit drivers in a livestock enterprise

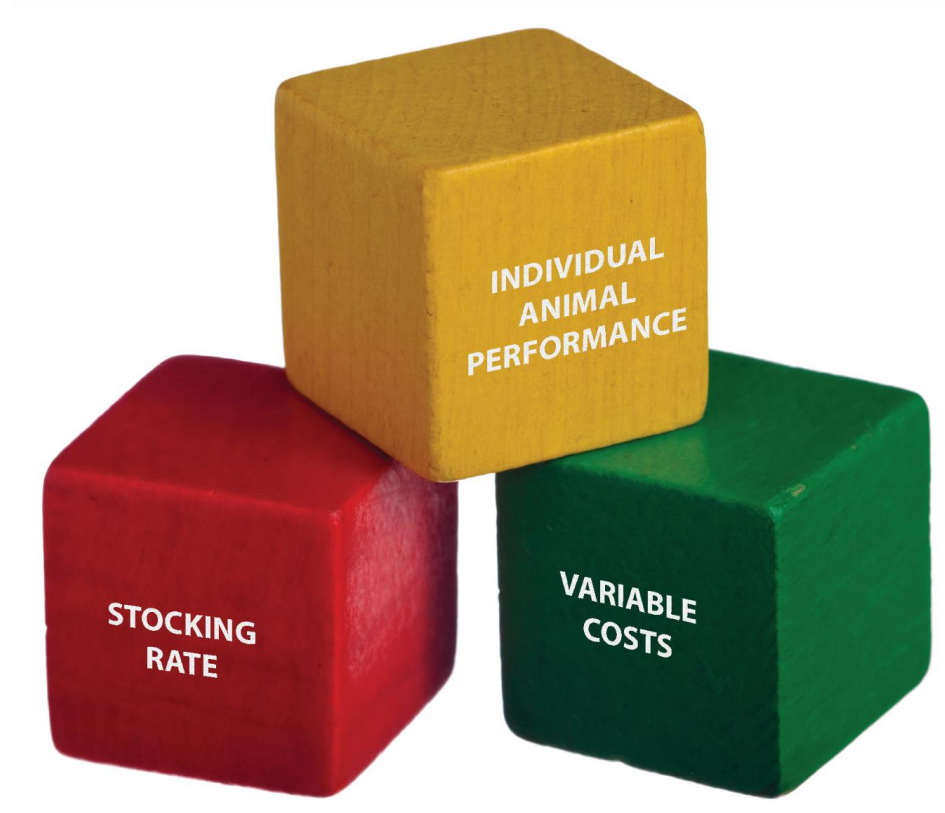
## Low overhead cost structure

- Infrastructure and technology to eliminate or reduce labour
- Suitable level of balance between diversity and simplicity
- \$600,000 of income per full time team member





# Building blocks to optimise gross margin



# Individual animal performance is driven by...

- **Reproduction rate** (beef, dual purpose, prime lamb)
- **Turn-off weight** (beef, dual purpose, prime lamb)
- Adult **fleece value** (dual purpose, wool focus)
- Low **mortality** (all production systems)

# Dual purpose flock targets

**120%** weaning

**\$150** per head minimum for lambs

**\$60** adult fleece value

# Reproduction rate

- Optimising fertility and lamb survival
  - Condition Score (CS) 3 at joining and lambing
  - Lamb survival\*
    - Extra 0.5 of a CS on twin bearing ewes
      - Has a positive influence on lamb birth weight
    - Mob size at lambing
    - Feed on Offer at lambing (>2,000kg DM/Ha)
    - Shelter
  - Reduce the 30% leakage
- \* Andrew Thompson, Murdoch University, Maternal Productivity

Prime lamb stretch target

55 : 5



# High return investment projects

# Southern BusinessEDGE

For grazing businesses



# 7 day challenge...

- Identify and stress test at least three on-farm projects that can create an IRR  $> 15\%$
- Plenty of opportunities on most farms to find \$10k to \$100k type capex projects that will generate long term returns on investment of  $>15\%$
- Find 3 x \$100k capex projects that do 20% IRR
  - Equally as good as having \$1m earning 6%!

# Where they could be hiding...

- Soil amelioration (pH, clay delving, drainage)
- Management change for improved lamb survival
- Infrastructure development or technology to reduce or eliminate labour
- Improving your grazing management skill set to grow more kilograms of pasture per mm of rainfall received
- Hay storage shed to increase quality and marketing flexibility

# Where they could be hiding...

- Investment in additional breeding ewes...or retaining sound ewes for an extra year...if your current flock size is below your true carrying capacity
- Annual superannuation contributions to facilitate provisioning for an independently funded retirement
- Additional trade or agistment stock to harvest spring fodder flow

# Professional development

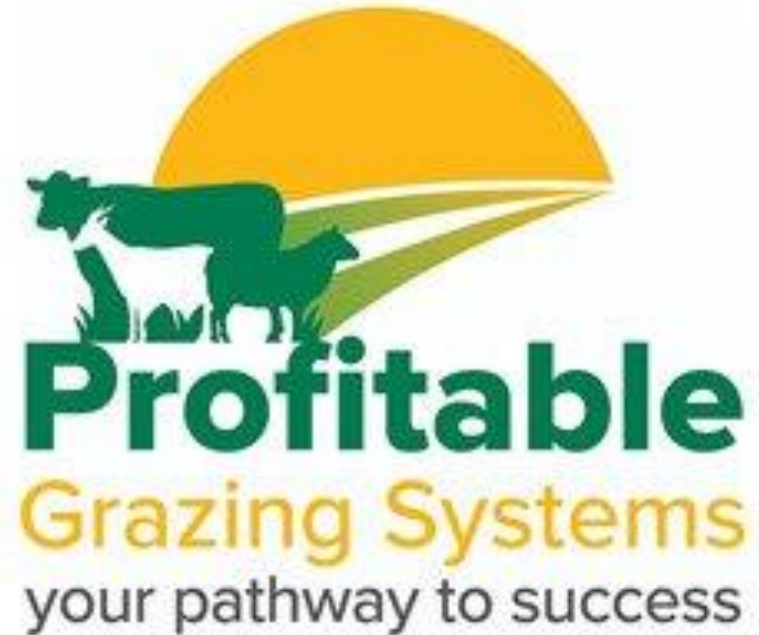
Are you investing 1% of your business turnover into professional development every year?

- \$5,000 if turning over \$500k
- \$10,000 if turning over \$1m
- \$20,000 if turning over \$2m



# MLA Profitable Grazing Systems

- Pasture Principles
- Pay Dirt
- Meat the Market
- Lifting Lamb Survival
- Business Essentials
- Dollar Making Decisions



# Take home messages

- Top 20% performance is within your control
- There is excellent profit potential in mixed enterprise done well
- Embrace the 7 day challenge to find three projects generating >15% IRR
- Invest in yourself and your management capability



# Abundance mindset

- Set goals and develop plans
- Continuously learn
- Operate from a transformational perspective
- Embrace change
- Share information
- Talk about ideas
- Have a sense of gratitude

