

## GRAZING INDUSTRIES OUTLOOK:

# LIFT YOUR GRAZING PROFITS BY COPYING THE BEST

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**SUMMARY:** Michael Boyce & Co is an accounting firm specialising in farm management accounting. Our aim is to provide financial systems and advice to our farming clients to improve their profitability. This paper describes a comparative analysis process developed for a client group comprising 37 farms in the Monaro region of southern New South Wales. The comparative analysis process establishes benchmarks and best practices that represent the obtainable goals of the most profitable farmers. It is proposed that substantial gains in profitability are potentially achievable to farmers from the establishment of farmer driven benchmarking and adoption of best practices through participation in comparative analysis.

Most industries facing the requirement to be world competitive have developed BENCHMARKS and have adopted BEST PRACTICES. I was impressed to hear the stories of Dick Warburton (Director of DuPont Australia Limited and Chairman of Wool International) who says that DuPont improve the profitability of their factories worldwide using this approach.

If manufacturing industries are using this management approach, it follows that the same application in primary production is likely to produce similar results. On the Monaro, a comparative analysis of a group of our accountancy practice clients (Michael Boyce & Co) are developing new ways to apply this technique to agriculture - This is the story of that endeavour.

### How it started

As accountants in the country specialising in farm management accounting, our aim is to provide financial systems and advice to our farming clients that will improve their profitability and subsequently their wealth. The ingredients of this service are:

- A farm management computer recording system that can be operated independently by each farmer;
- Help with budgeting (where required) to bring the experience of other farmers and to add the tax planning, banking, and off farm investment perspective to the process;
- Assistance in arranging annual bank finance;

- Advice on major financial decisions, off farm investments and family re-organisations etc.;
- Tax planning before the end of the financial year
- End of year accounts produced on an enterprise basis with land and livestock at market value
- A business plan at least every five years that is reviewed annually.

While this service has proved to be very effective for farmers, it did not address the problem: "Why do some farmers make two or three times as much profit per hectare as their neighbours?"

To address this we had to establish the BENCHMARKS and the BEST PRACTICES of the top performers. It was out of this desire that the comparative analysis process was born.

### Assessing grazing

Three years ago we started a Grazing Comparative Analysis on the Monaro. There are 37 farms in the group with an average farm size of 1937 hectares and an average of 4979 sheep and 393 head of cattle per farm. The spread of results is shown in Figure 1.

Comparative analyses are not new in farm management, but if they potentially hold the keys to profitability of the top performers why have they not been more widely used? I believe the reason for this is that they have almost all been based on a GROSS MARGINS concept. To illustrate the seri-

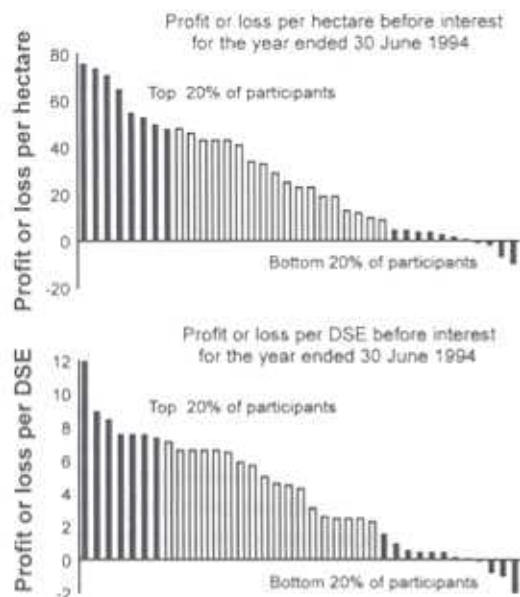


Figure 1. Combined livestock profitability spread for 37 farms in the Monaro region of NSW.

ous weakness of this approach, a gross margin analysis of the Monaro study would only enterprise one third of the expenses. The other two thirds would traditionally be regarded as fixed costs.

In our comparative analysis, every expense other than interest is allocated to an enterprise. In this way, the full cost of growing a kilo of wool or beef can be determined and the cost of running a DSE of cattle or sheep can be compared between districts.

### How do you find out the best practices?

Following the comparative analysis we held two annual wool conferences. At the conferences, the comparative analysis results were discussed and leading producers and other industry leaders spoke on topics selected to help farmers (particularly those who participated in the survey) improve their profitability.

The conferences were very well attended and stimulated great interest but they really did not greatly build on the information contained in the comparative analysis. It was as though a great deal of statistical work had been done in vain. The analysis did rank participating farmers but it did not have the impact that it takes to change farmers' programs.

### Best practice workshop the answer!

This year instead of convening a Wool Conference at Cooma we held a workshop attended by the participants, partners and employees from Michael Boyce & Co., the district agronomist, the beef cattle officer and the sheep and wool officer from NSW Agriculture, and Dr Phil Holmes - a leading rural consultant.

The format for the day was to divide the participants into four groups with fifteen people in each group. They debated the BENCHMARKS for the Monaro and produced a set of BEST PRACTICES by answering a string of critical management questions such as optimal shearing time, how to achieve high labour productivity *etc.*

The discussions raged from 8 am. to 7 pm. both in the small workshop groups and in the larger group. The leaders from each section reported the ideas of each small group to the large group. The ideas for each group were recorded on butcher's paper.

The benchmarks and best practices were completed in three sections. Firstly, whole farm - (mostly on pastures and overall investment) and then on Merino sheep and beef cattle. Each group had the benefit of a different group leader for whole farm, sheep and cattle. The group leaders had attended a briefing afternoon prior to the workshop.

To determine the BENCHMARKS for each group they were given the average of the comparative analysis, the average of the top 20%, and a statistical profile of each member of the top 20%. In this way, the benchmarks fairly represent the obtainable goals of the most profitable farmers.

The workshop was an outstanding success. It has changed the whole basis of farmer discussions to include the important economic issues. The reasons for this success, I believe, were because:

- Top farmers led the discussion;
- Farmers set their own benchmarks rather than benchmarks imposed by "consultants";
- Farmers had faith in the numbers because they were taken from actual reconciled financial statements and source documents; and,
- Farmers had studied their own results prior to the workshop.

## What does all this mean for farmers from other districts?

Some of the benchmarks and many best practices are transferable from one district to the next. However, there is no doubt that each district needs its own set of statistics.

The important common ground can be found in the profitability analysis between sheep and cattle,

the management principles of the top farmers and the method used in conducting the study.

## Summary of the benchmarks

Table 1 contains the BENCHMARKS set by the four groups of farmers at the workshop. The numbers for "high achievement" and "excellence" have been calculated as an average of the four workshop groups.

**Table 1.** Benchmarks set by four groups of farmers from the Monaro region of NSW.

<i>High Achievement</i>	WHOLE FARM BENCHMARKS	<i>Excellence</i>
\$61	Profit per hectare	\$75.00
\$10	Profit per hectare per 100 mm of rain	\$13.00
5%	Rate of return on farm assets	6%
75%	% of land crop sown or direct drilled	85%
84%	% of land with more than 500kg/hectare of fertiliser	92%
6.82	Stocking rate (DSE per hectare)	8.75
1.10	Stocking rate (DSE per hectare) per 100 mm of rain	1.45
43%	Profit as a % of gross income	58%
\$39	Investment in plant and vehicles per hectare	\$30.00
7.750	DSEs/person (50:50 mix)	10.357
	MERINO SHEEP BENCHMARKS	
	<i>Production</i>	
\$46	Profit per hectare	\$61.00
\$7.00	Profit per hectare per 100 mm of rain	\$9.00
\$6.40	Profit per DSE	\$8.00
37.5	Kilograms of wool per hectare	46.9
4.8	Kilograms per DSE	6
88%	Lambing %	95%
10	Age of shearing lambs (months)	12
35%	Flock structures = ewes	24%
39%	Flock structures = wethers	9%
26%	Flock structures = Weaners	17%
	<i>Marketing</i>	
76%	Fleece wool %	82%
Yes	Shed accreditation	Yes
	<i>Costs</i>	
\$12.55	Costs per DSE	\$10.13
7.500	DSEs per person	10.625
\$2.53	Cost of production of kg greasy wool	\$2.04
	CATTLE BENCHMARKS	
	<i>Production</i>	
\$95.00	Profit per hectare	\$144.00
\$13.00	Profit per DSE	\$16.00
\$14.00	Profit per hectare per 100 mm of rain	\$20.00
89%	Calving % - cows	95%
83%	Calving % - heifers	89%
3	Joining cycles - cows	2
2	Joining cycles - heifers	2
100%	Pregnancy testing	100%
100%	Bull testing	100%
14	Age of joining heifers (months)	14
	<i>Costs</i>	
11.500	DSEs per person	15.125
\$9.88	Total cost per DSE	\$8.63

*Note: Hectares available exclude waste buildings and bush areas*

It must be remembered that the numbers apply to the year ended 30 June 1994. Obviously the profitability will be most affected by the change in commodity prices. For instance, the average wool market indicator for the year ended 30 June 1994 was 514c. Based on current prices Merino sheep are currently more profitable than cattle. Because of the volatility of commodity prices, the cost of production benchmarks are the ones that can be compared between years and between districts. Once the costs are known it is easy to extrapolate the change in profitability from a change in selling price.

Although the farmer groups in the workshop had a free reign to determine their own BENCHMARKS, in practice they follow a pattern. The "high achievement" level tended to be close to the average of the top 20%. The "excellence" level tended to be the upper level of the top 20%.

**Long term profits and your responsibility**

There was considerable discussion about obtaining high levels of profitability by neglecting the farm improvements, weed control, pasture maintenance and genetic advancement. Clearly there is evidence of short term successful strategies in farming that will leave serious problems for future generations.

It was, of course, impossible to point out who were the participants in the top 20% (all participants are confidential). However a closer look at the make up of that group would prove that they are well above average on the long-term responsibility scale for those attributes (eg. farm improvements, weeds, pastures and genetics.)

**Conclusion**

A survey of our farmers on the Monaro showed that they obtained most of their "decision making" knowledge from their farming peers. It follows that the workshop approach to establishing farmer driven BENCHMARKS and BEST PRACTICES must be the most powerful way to stimulate ACTION.

To provide them with the statistics on which to make their own decisions, we believe that every expense of the farm (other than interest) must be allocated to the cost of production of the enterprise, ie. full absorption costing.

- IMAGINE if we had the cost of production of wool, beef, wheat and cotton in every dis-

trict that they are grown in Australia prepared on the same accounting basis.

- IMAGINE if workshops such as the one described in this paper were conducted in each district.
- IMAGINE if the results of these workshops were shared and compared.

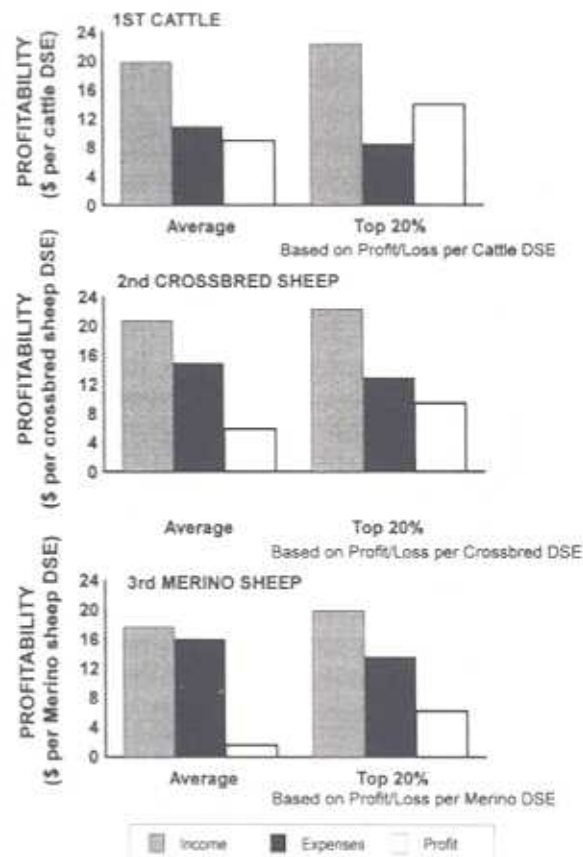
To achieve the outcome that this would stimulate you need three things.

- Acceptance of the full cost accounting method;
- Using top farmers to transfer the message; and,
- Government support to drive the data collection and information dissemination (particularly on the methodology).

Finally, "If you want to be the most profitable farmer in the district, then find the farmers who make the most money and copy them shamelessly".

**Appendix 1. Report on the grazing comparative analysis 1994**

Wool price ∪ Cattle price ∪ Profits ∪ Rain ∩  
 In 1994 wool price per kilo improved 16%, cat-



tle prices improved 18%, profits improved 19% and rainfall was down 32% on the previous year.

The average profit/ha increased from \$22.78 to \$27.13 and the top 20% increased from \$52.28 to \$59.49.

***What enterprise was the most profitable?***

On average, cattle were five times more profitable than Merino sheep. For the top 20%, cattle were twice as profitable as Merino sheep. Cross-bred sheep were in between.