

The development approach to improving profitability

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If there's not a labour problem now – there might be shortly



Source: Mark Rober (<https://www.youtube.com/watch?v=hFZFjoX2cGg>)

How about you reimburse me for the last 18 years of fuel used driving you around & I will reimburse you for the quarter tank that you paided for on Sunday?



Why you have to strive for business efficiency

Operating profit = Operating return
Asset value

\$300,000 = 3.0%
\$10,000,000

\$600,000 = 3.0%
\$20,000,000

The development approach

Investing in the existing business



Steps to success with internal investments



Identify opportunities



Review production response



Evaluate costs



Conduct partial budget



Assess risk vs reward



Compare alternative options

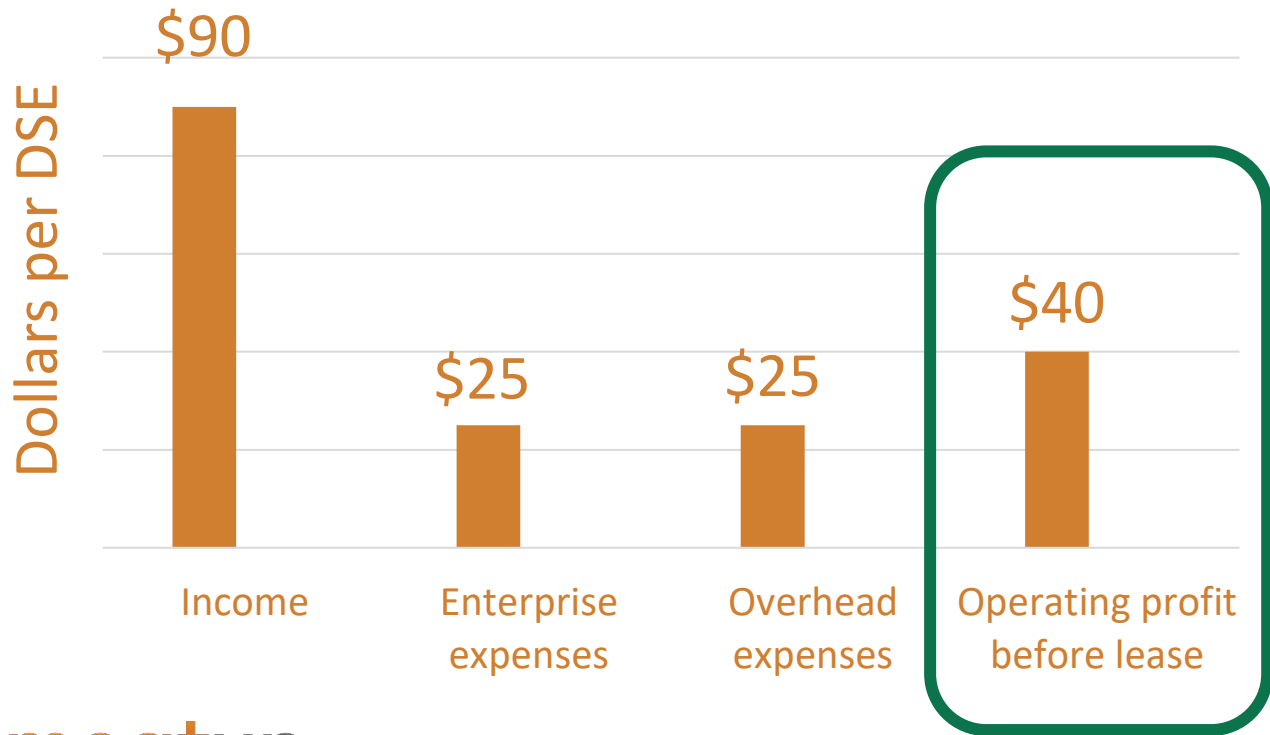


Partial budget

- Decision frame work
- Compares alternatives
- Measures change
- Compares with status quo
- Different to averaging



Average versus marginal thinking



You are given the chance to lease land with scale of 2,500 DSE next door at \$40 per DSE – should you take it?

Marginal thinking is different



This is where the magic happens. Scale drives cost efficiency

Average versus marginal thinking

Average
thinking

Profit after lease (\$/DSE)

Scale (DSE)

Net return from lease

Return on operating capital

=

Lost
opportunity

Investment analysis concept

Initial investment cost

Net annual return

Return on investment



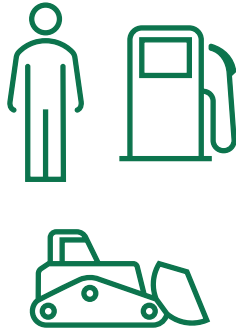
Components – up front costs

Initial investment cost

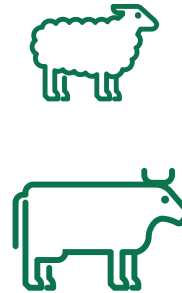
Works/
item



Labour/
inputs



Livestock



Opportunity
cost



Annual return

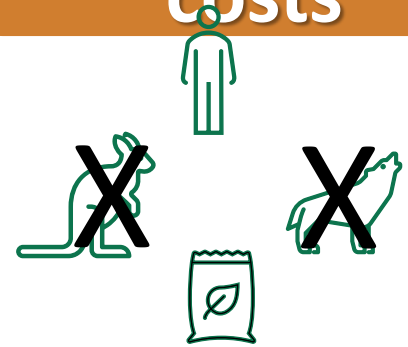
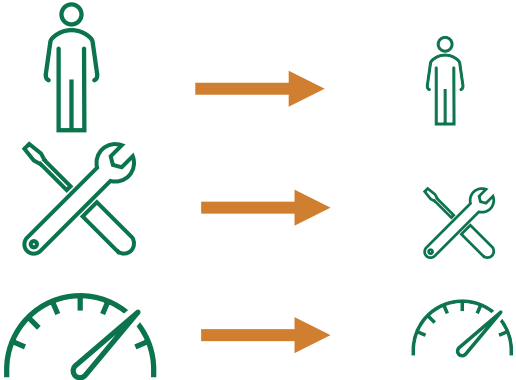
=

Net benefit

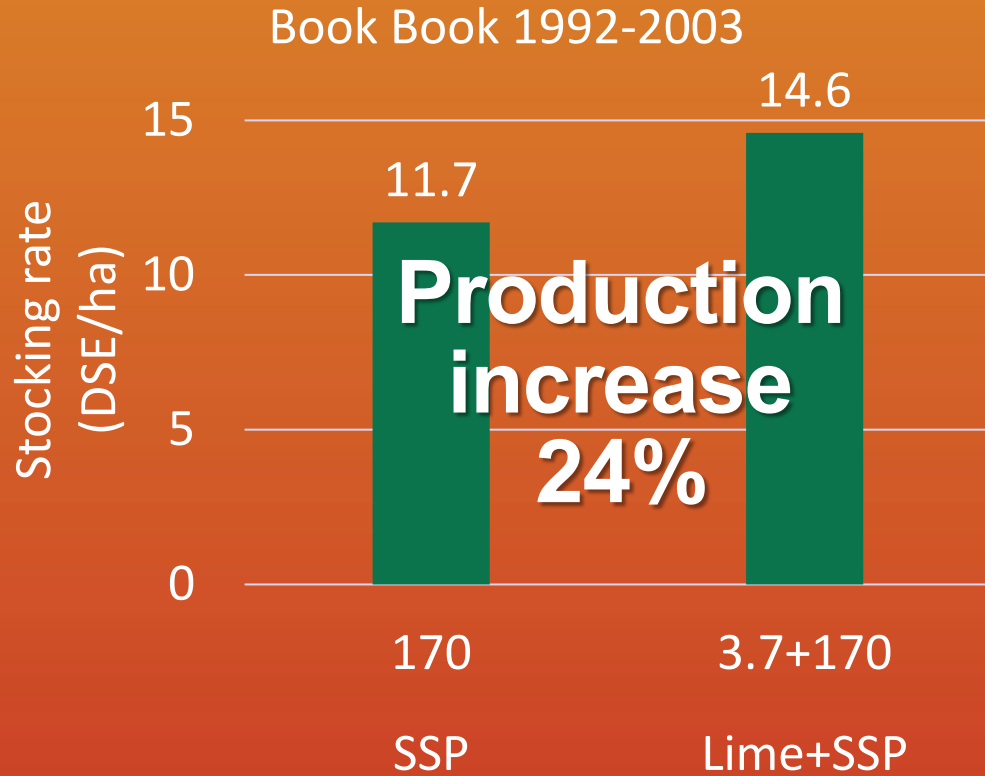
More **Less** on

Less cost

~~Ongoing costs~~



What's the opportunity & response?



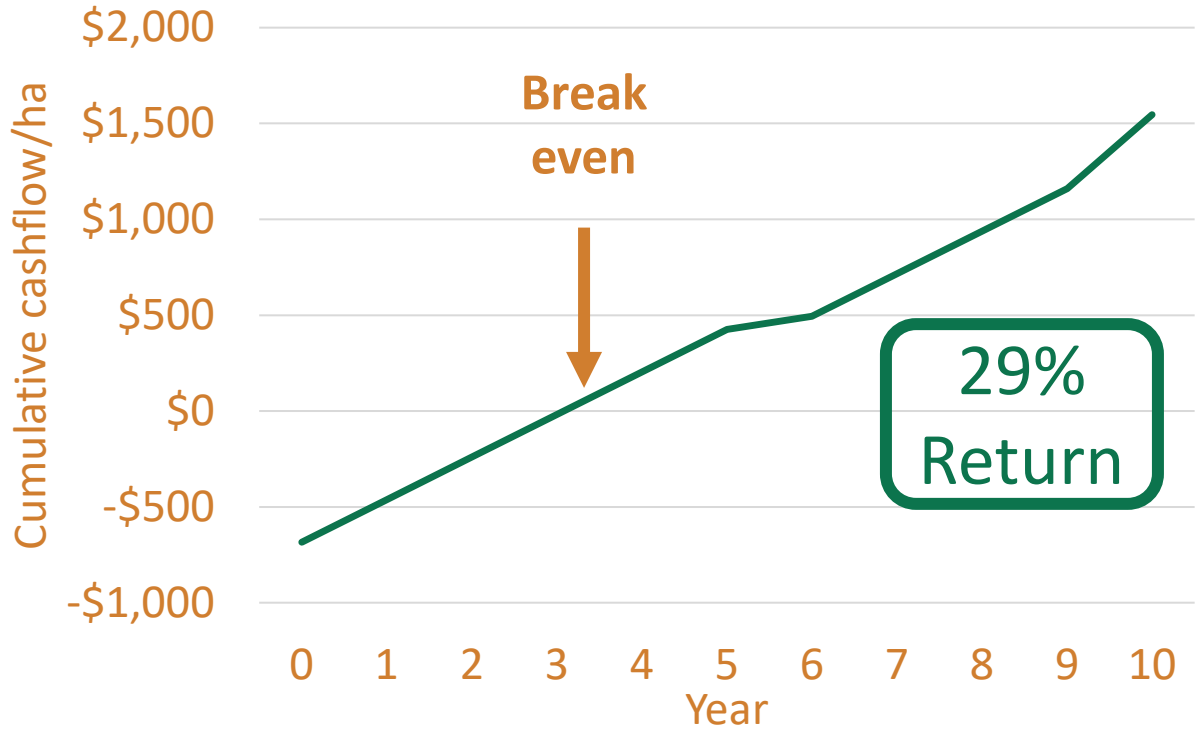
Source: Master trial Li et al

Partial budget – costs & benefits

Investment costs and assumptions (1,000 ha)



More profit – but at what cash cost?



Sensitivity – GM/DSE

Investment costs and assumptions (1,000 ha)

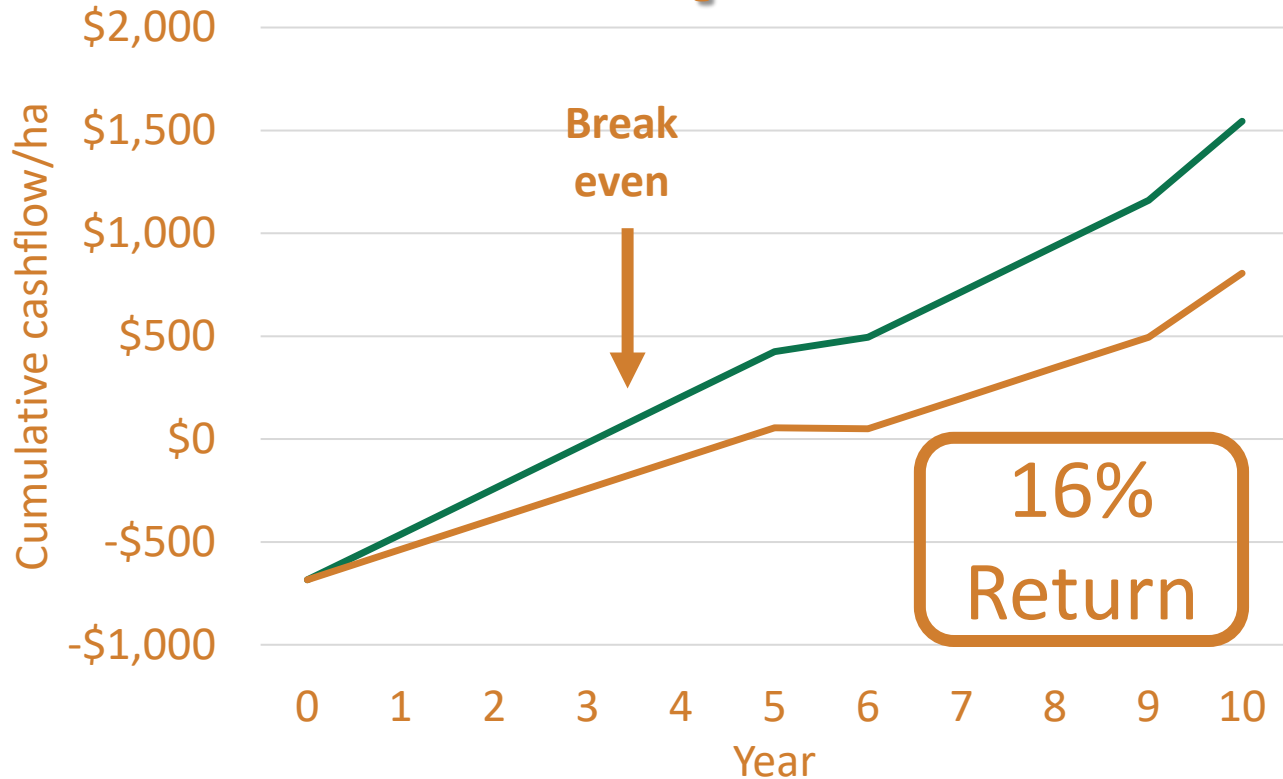
Total costs	\$684,500
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Livestock GM	\$40 x 3.7 DSE/ha	\$148,000
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Production: **-\$20/DSE**

Return **16%**

Returns per DSE matter



Sensitivity - lime rate & GM/DSE

Investment costs and assumptions (1,000 ha)

Total costs

~~3.7t/ha~~ 2t/ha \$540,000

Livestock GM

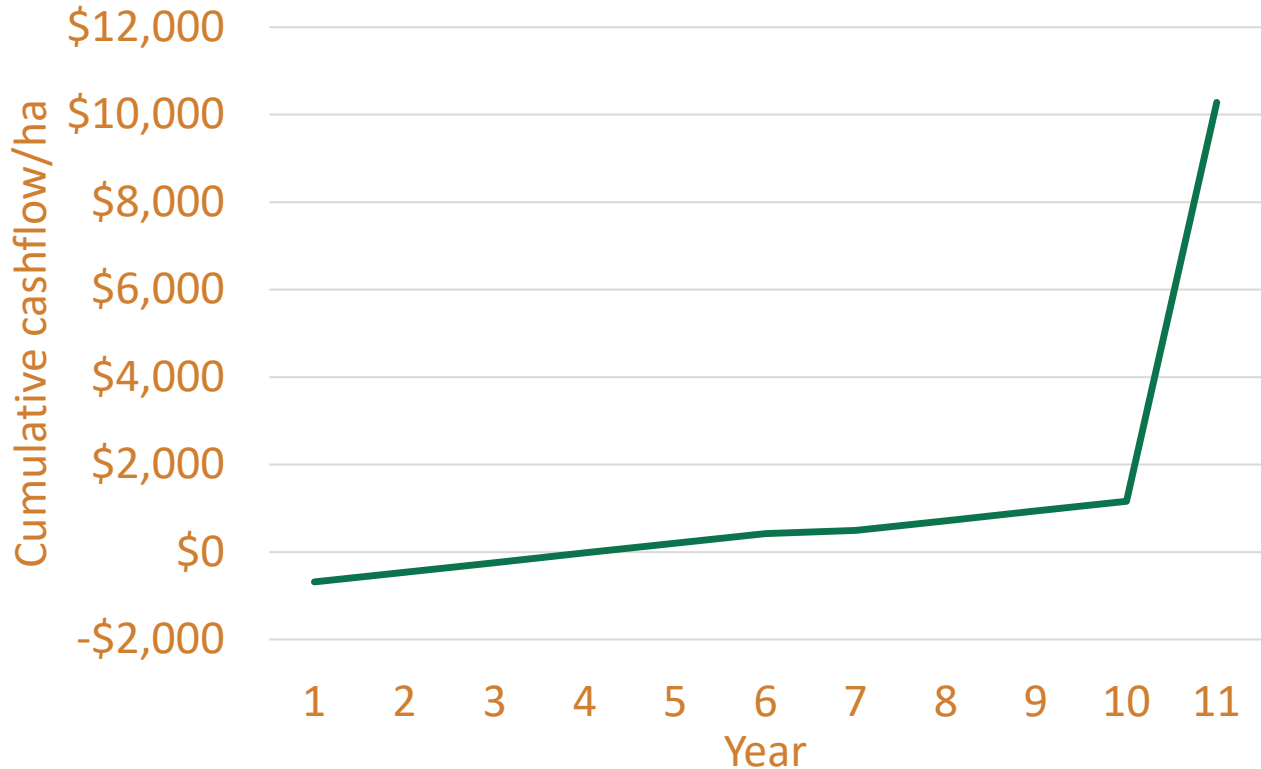
\$40 x
3.7 DSE/ha \$148,000

Lime cost: -\$145/ha Production: -\$20/DSE

Return 24%



Does production add capital value?



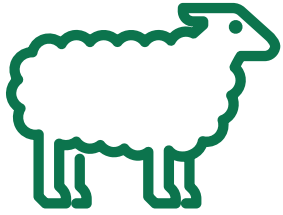
Additional capital
growth of land
(7% p.a.)
additional
3,700 DSE
= \$8.7M

How does liming improve profitability?

	Pre lime
Stocking rate (DSE/ha)	15
Investment (\$/ha)	\$18,000
Land & infrastructure (\$/DSE)	\$1,200
Livestock capital (\$/DSE)	\$100
Total investment (\$/DSE)	\$1,300
Profit (\$/DSE)	\$40
Profitability (ROAM)	3.1%



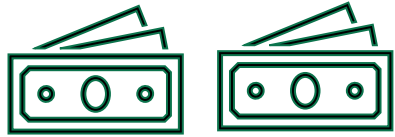
More production at less cost



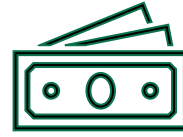
↑ Production



+24%



↓ Cost



-40%



↓ Asset val



-85%

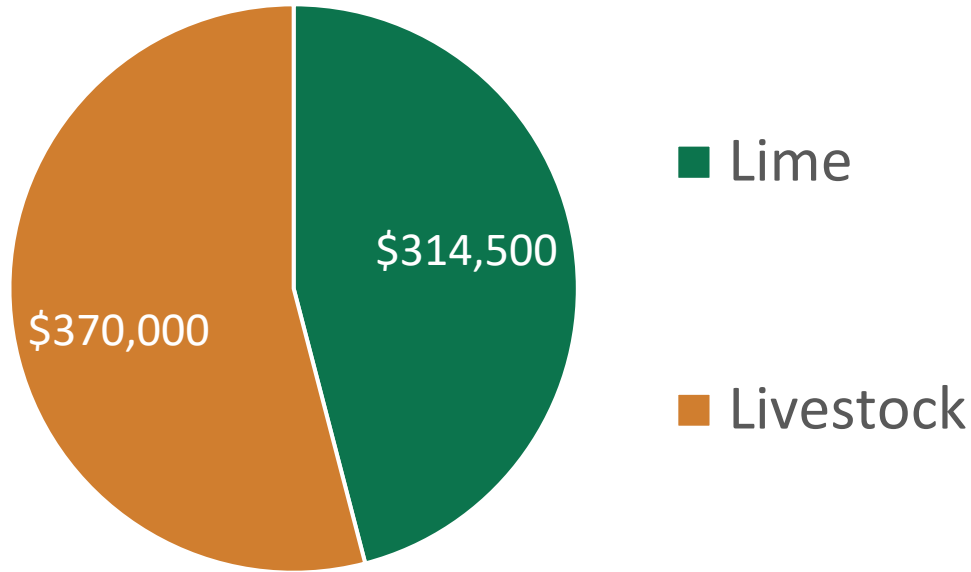
↑ Return



+926%

Cost proportions differ by project

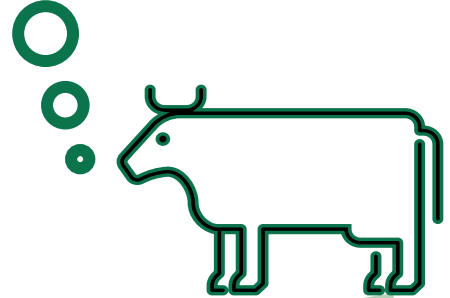
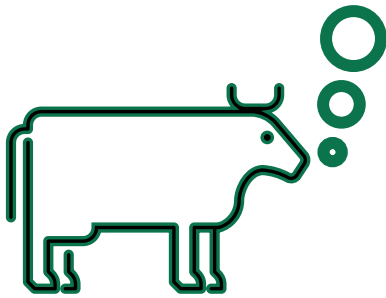
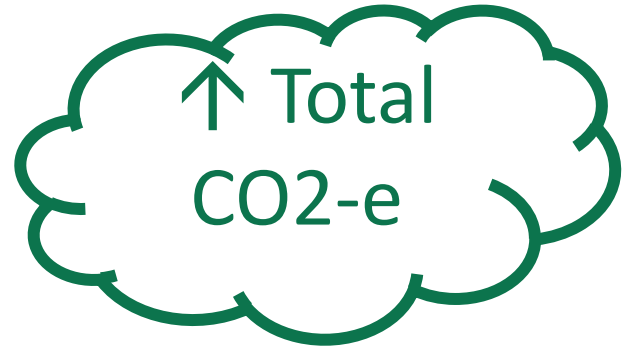
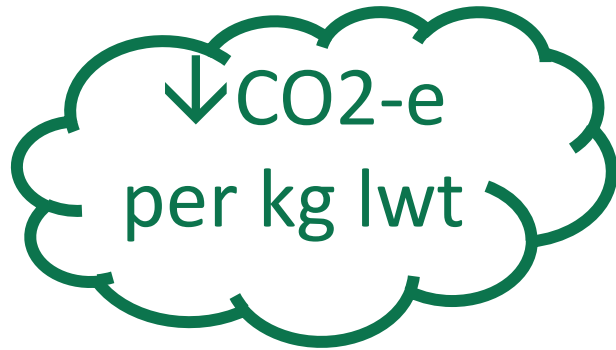
Don't forget to budget on more livestock!



A conflict– production intensity

The upside

The downside



Which thongs are mine?

A



B



C



D



E



Rate the confidence of your response 1-10
(Where 1=No confidence 10=complete confidence)

**A good investment decision is an
informed investment decision.**

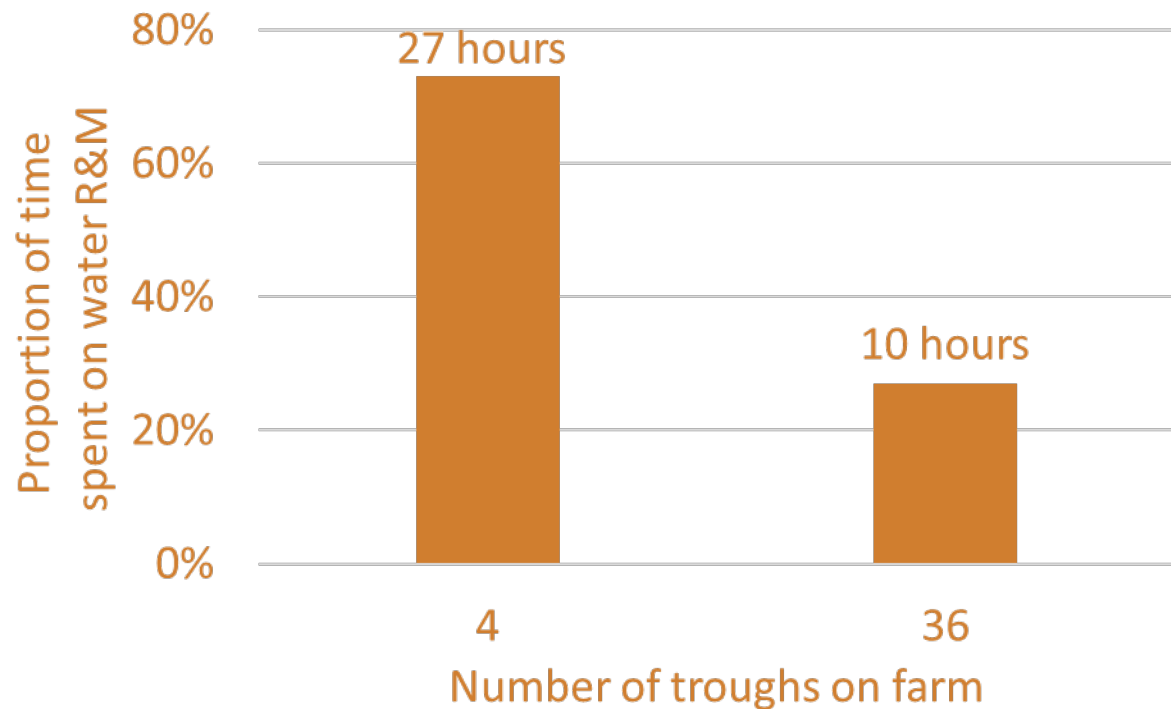
You need to understand your own

business to inform your decision.



Labour opportunities – chasing your tail?

Where is the time going?



What are the opportunities?

- Satellite yards or laneways (labour)
- Water monitoring (labour)
- Road grading (labour)
- Shearing infrastructure (opp cost)
- Handling infrastructure (labour)
- Grain storage and feeding infrastructure (labour/production)
- Containment pens



Other – Non-financial reasons?

- Attracts labour (machinery/handling)
- Longevity of work life
- Not dreading operational tasks
- Workplace safety
- Frees time – for personal needs



Take home messages

5%

Smart investments ↑ profitability



Opportunities are endless capital is not



Returns are sensitive to production & costs



Know your business – Build financial literacy

Tools and resources



Business EDGE Workshop



Profitable
grazing
systems



Q&A - Poll Everywhere

