



Empowering People

Making Beef Pencil

How to get into the Top 20% ROA

FARMERS... HEROES OF THE FUTURE



Don't under-estimate **your**
ability to control **your** own
circumstances and influence
your landscape



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Financial Performance of the Northern Beef Industry -

ARE WE IN TROUBLE?



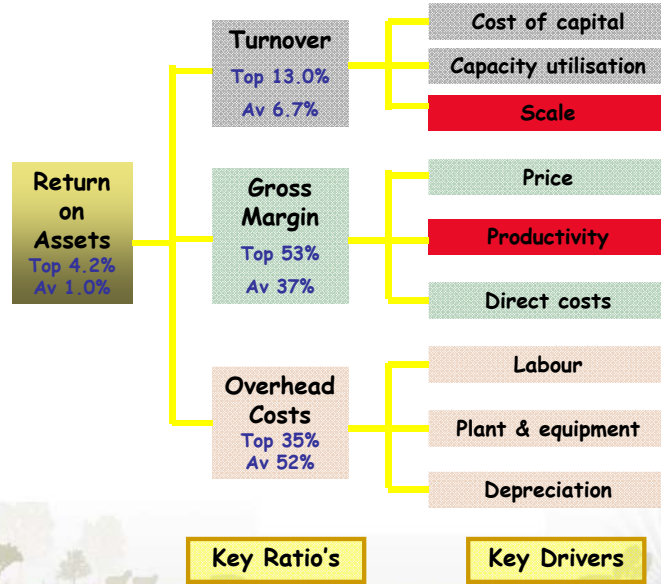
Are we in Trouble?

- Overview of trends
- Influences (Internal & External)
- Finance
- Production Issues
- Structural Issues
- Strategies for success



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Profit Drivers



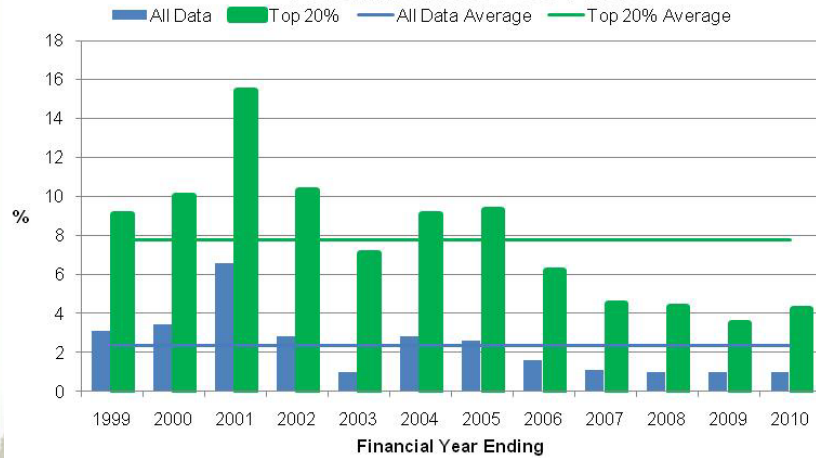
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ROA

Return on Assets Ratio

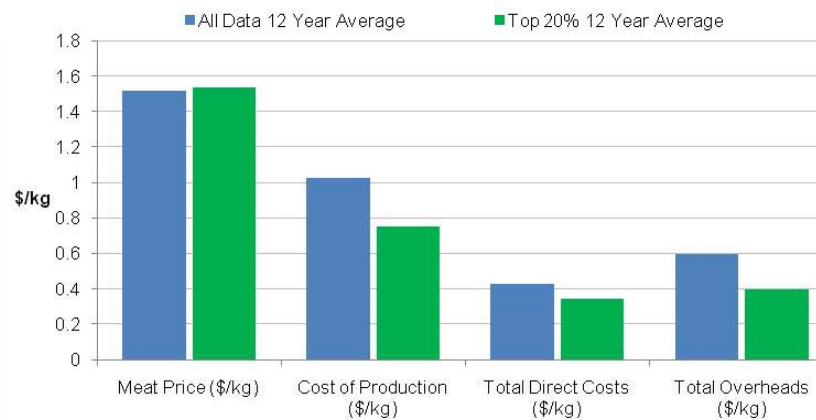


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But it is not PRICE.....

Average Price and Cost Breakdown

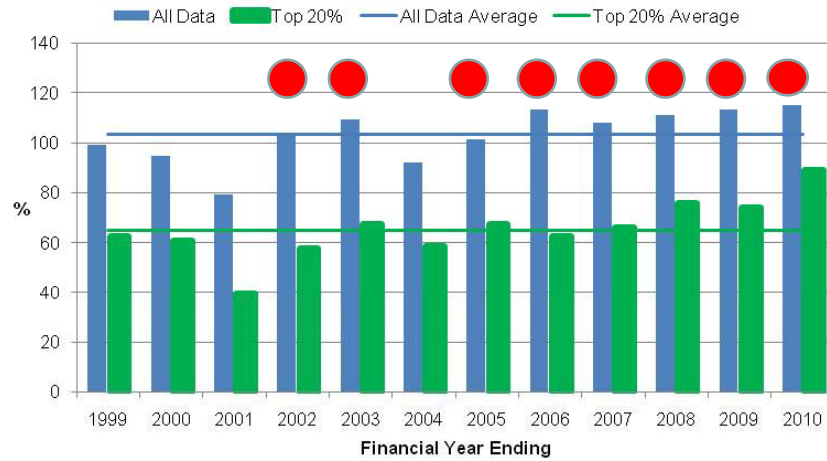


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Expenses Exceed Income!

Expense Ratio

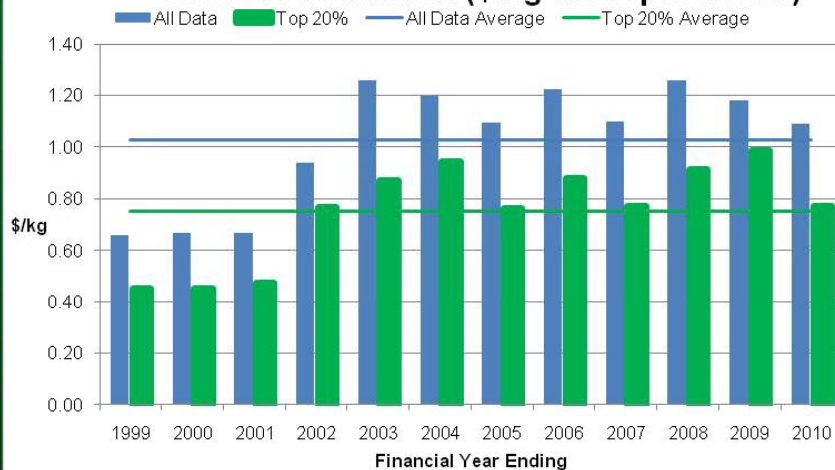


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COST of PRODUCTION

Cost of Production (\$/kg meat produced)

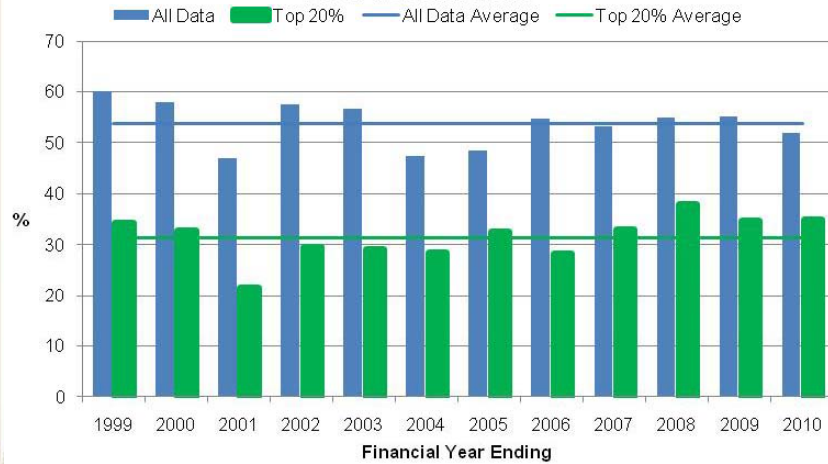


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OVERHEADS

Overhead Ratio

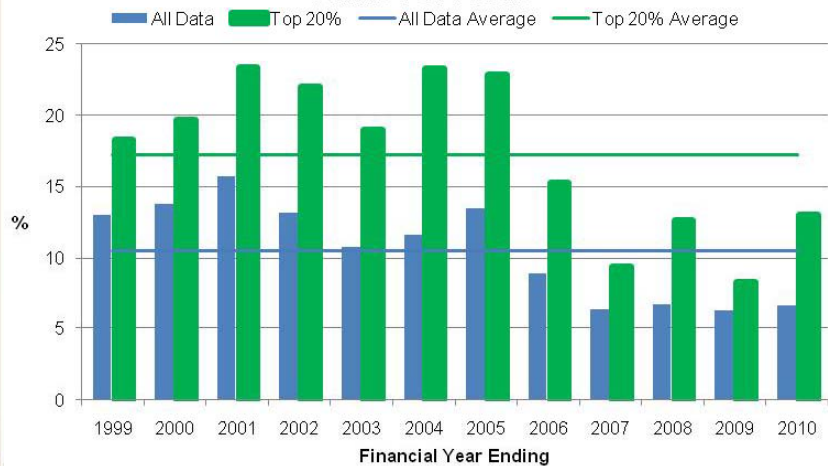


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TURNOVER

Turnover Ratio



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Internal Influences

- **Scale.** In 1999, 1,123 LSU were needed to maintain overheads at \$80/LSU. In 2,010, the corresponding number was 2,925 LSU.
- **Overheads** per LSU have risen by 54% over the decade and direct costs per LSU have risen by 150% over the same period.
- **Expense** ratios (total expenses including interest/gross product), have been over 100% in 8 of the last 9 years for average businesses.



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Internal Influences

- Finance ratios (finance costs/gross product) have averaged 25% for average businesses in the last 5 years, which means 25% of all income is paid out in interest and finance costs. This is an economically dangerous position to be in when average ROA is only 1.3% for the same period.
- The extremely poor and probably declining, performance of the extensive breeder herd is an alarming contributor to poor business performance.



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External Influences

- Land values have increased significantly (grazing property index has increased at least 250% from 1999 to 2008).
- Rainfall has been below average across the Queensland study group for seven of the last 10 years analysed for MLA study and cost of production has consequently risen.
- Beef prices generally increased until 2006, then levelled and have declined in the study group in the last four years.



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External Influences

- Legislation around vegetation management has impacted both development and maintenance options for producers in affected regions.
- Debt levels have more than doubled on a large stock unit (LSU) basis over the decade. **Could argue this is internal.**



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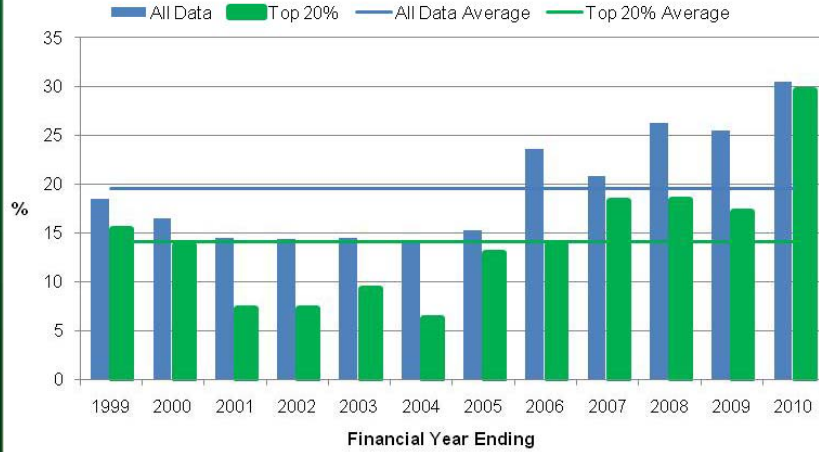


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DEBT INCREASE

Finance Ratio

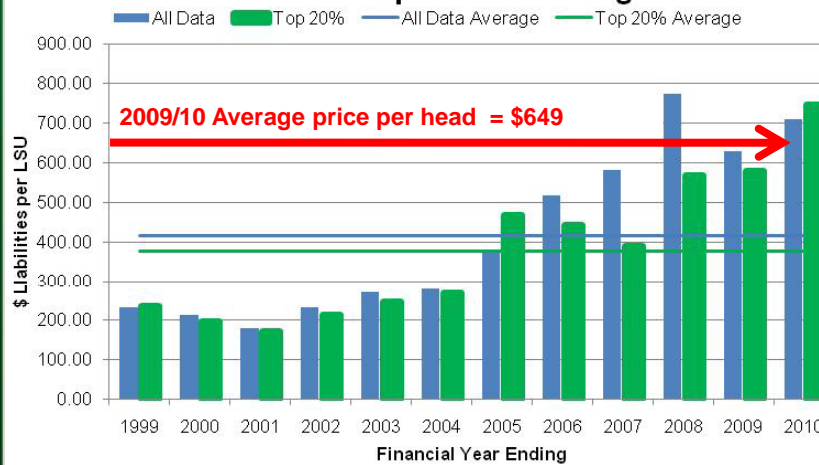


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DEBT INCREASE

Liabilities per LSU Managed



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Houston - We have a Problem

1. **Lactational Anoestrus bred into the herd by uncontrolled mating.**
2. **Cow body weight getting bigger due to the wrong emphasis in bull selection.**
3. **Weight at heifer conception has increased for the same reason.**
4. **Increasing Stocking Rate to make up for lower branding, which will in turn lower branding rates.**



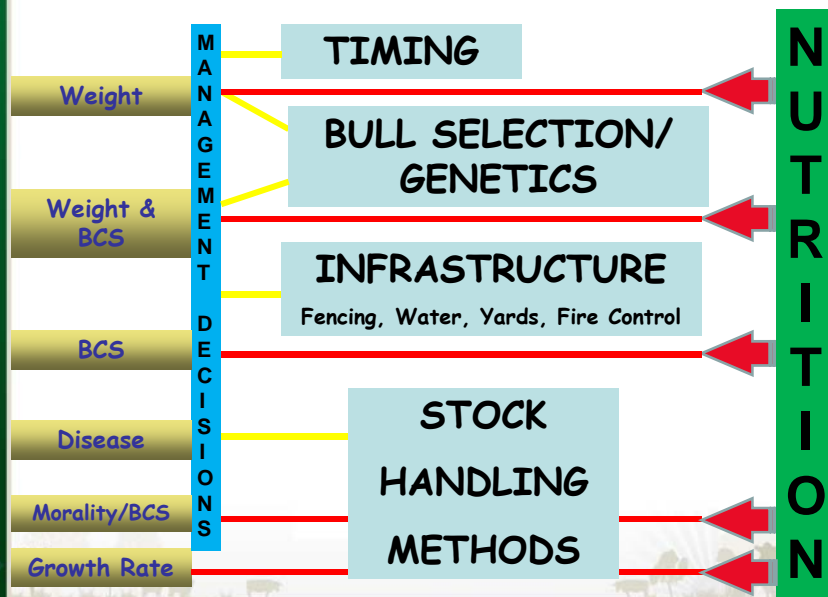
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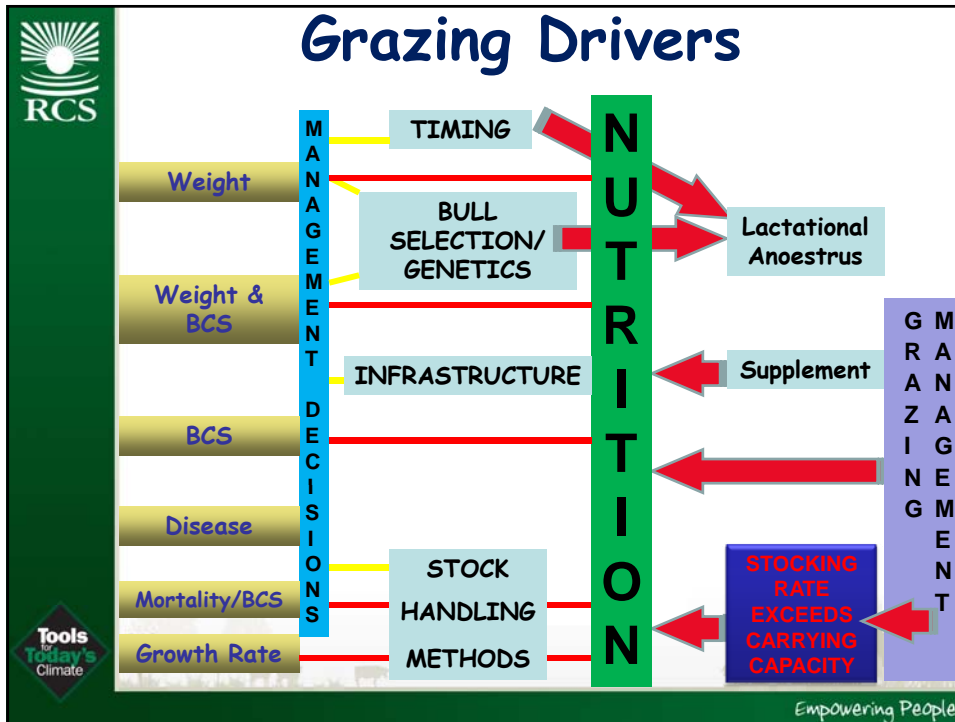


And... Male FERTILITY??



Management Drivers





-
- Are we in Trouble?**
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 - **Structural Issues**
 - Strategies for success
- Logos: RCS (top left), Tools for Today's Climate (bottom left), Empowering People (bottom right).



Structural Constraints

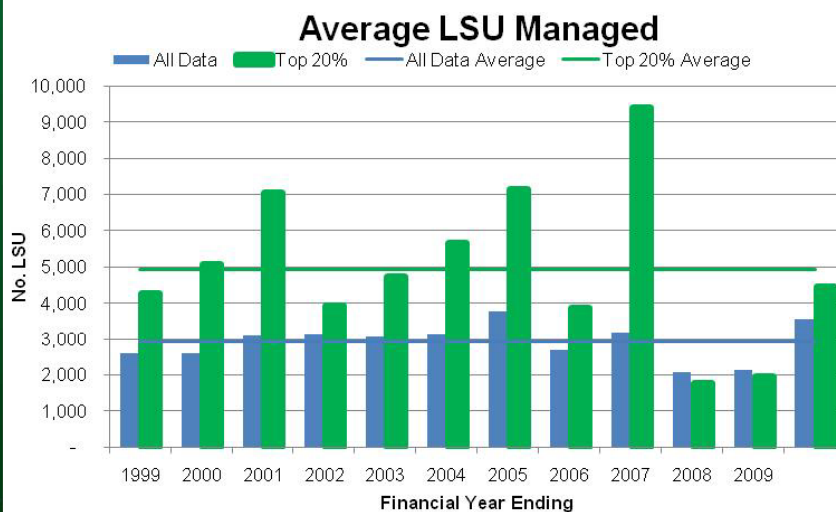
- **Scale**
- **Productivity Increase**
- **Increasing Costs**



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SCALE - 2,000 LSU Difference



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OH per LSU Climbing

OH/LSU	Number of LSU required		
	1998/99 to 2000/01	2005/06 to 2007/08	2007/08 to 2009/10
\$50	3,147	7,952	11,077
\$60	2,110	5,000	6,609
\$70	1,505	3,378	4,270
\$80	1,123	2,405	2,925
\$90	867	1,782	2,095

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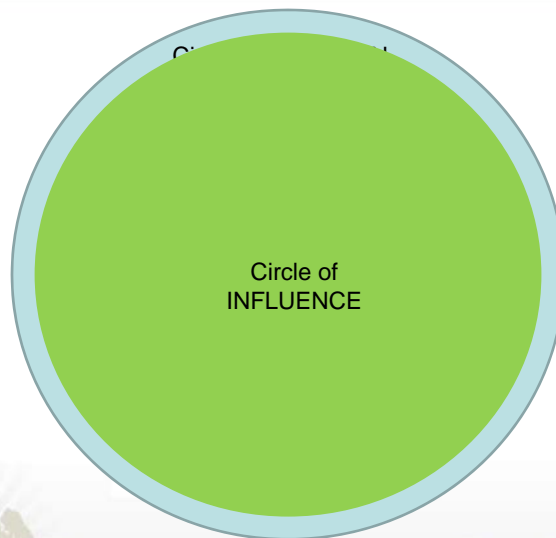
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When defeat comes, accept it as a signal that your plans are not sound, rebuild those plans, and set sail once more toward your coveted goal.

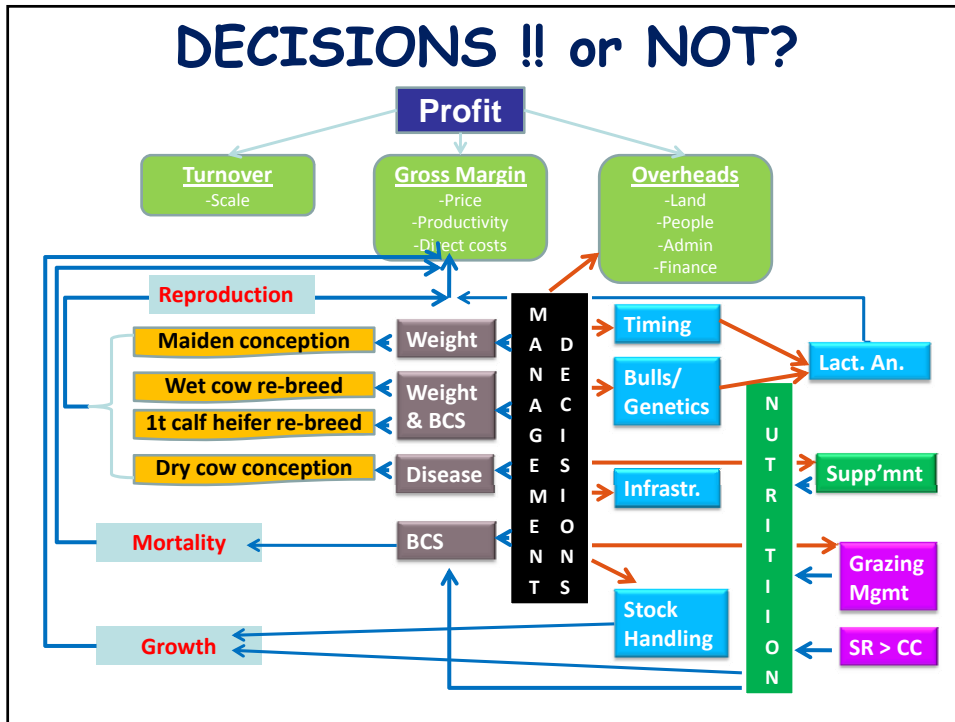
[Napoleon Hill](#)



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DECISIONS !! or NOT?



Features of the Top 20%

Feature	What the Top 20% have	What they do NOT have
4% to 6% higher ROA	Lower OH ratio Higher asset turnover ratio Higher gross margin ratio Expense ratio < 100%	Much higher prices
Lower cost of production	Lower cash OH/LSU Lower direct costs/LSU Higher gross margin/LSU Slightly lower stocking rates Higher productivity/LSU	More beef production/ha Higher stocking rates
Larger scale	Almost twice the gross product 2,565 more LSU per business Double the land area	More unpaid labour subsidy





Trends in a CHANGING Business

Reaching the Top 10% this Year

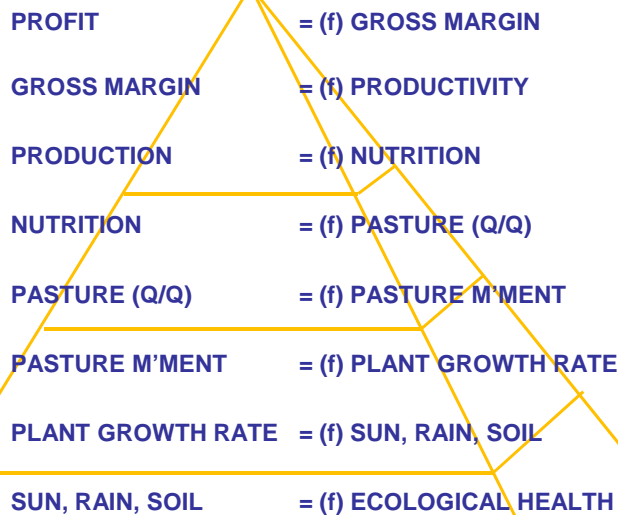
Measure	06/07	07/08	08/09	09/10
ROA	0.0%	1.7%	4.3%	5.6%
EBIT (\$/ha)	\$0.00	\$4.30	\$10.50	\$16.00
Asset TO Ratio	3.9%	5.1%	9.9%	10.2%
Gross Margin Ratio	-2.0%	48.0%	60.0%	69.0%
OH Ratio	47%	38%	32%	25%
Gross Product/FTE	\$162,000	\$291,000	\$234,000	\$387,000
Training (d/FTE)	11	49	21	22
Finance ratio	37	23	12	7

WHY & HOW

- Rain
- Training & Attitude Shift
- Water, Wire and Grazing Management
- Enterprise shift to Trading (sheep mainly)



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**WE WILL NOT SOLVE THE
PROBLEMS OF THE INDUSTRY
WITH THE MENTALITY WHICH
CREATED THEM**