

Using business analysis to inform management decisions in beef businesses

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Abstract

Beef producers in northern Australia are struggling to cope with climate extremes and have experienced poor and declining profitability over the last decade. Producers on their own have difficulty assessing whether their business performance is 'just the state of the industry' or whether there are opportunities to significantly improve performance and join businesses who are coping much better. The Climate Clever Beef project in the Maranoa-Balonne region used a producer group to facilitate peer learning and assist with improved knowledge transfer amongst group members. Nine beef businesses, of the total twelve properties involved in the project, undertook a business analysis over three financial years, 2011-12, 2012-13 and 2013-14. The business analysis assessed current business performance, identified shortfalls in the business and assisted with setting the future direction and goals.

An industry consultant was engaged to support producers to compile the required business data and return reports detailing key performance indicators including: kg beef produced per adult equivalent, cost of production, operating margin and labour efficiency. Each business received their own report and a combined whole group report. An annual group debrief day enabled sharing and discussion of the performance of each business as benchmarked against the other businesses in the project, the group average and against average and top 25% benchmark data for northern Australia.

The reports and group discussion helped assist individual producers to redefine their management goals and identify where to make modifications and changes in the business. The process has encouraged practice change in 5 of the 9 businesses. For example two properties have undertaken management changes to improve reproductive performance by pregnancy testing cattle to identify and sell non-performing breeders improving cash flow, saving valuable pasture during the current drought for remaining productive livestock and reducing the greenhouse gas intensity of production.

Introduction

Beef producers in northern Australia are struggling to cope with climate extremes and have experienced poor and declining profitability over the last decade (McLean *et al.* 2014). On their own, producers have difficulty assessing whether their business performance is 'just the state of the industry' or whether there are opportunities to significantly improve performance and join businesses who are coping much better.

Engagement process

The Climate Clever Beef project in northern Australia aims to investigate methods to minimise methane emissions from livestock and increase carbon sequestration in the soil while focussing on those practices that also improve the productivity and profitability of the beef business. In the Maranoa-Balonne region, we used a producer group to facilitate peer learning and assist with

improved knowledge transfer amongst group members. To assist in better understanding current financial and production performance, businesses were given the opportunity to undertake a complete business analysis. Nine beef businesses, of the total twelve properties involved in the project, undertook a business analysis over three financial years, 2011-12, 2012-13 and 2013-14. An industry consultant was engaged to support producers in compiling the required business data and return reports detailing the following key performance indicators: kg beef produced per adult equivalent, cost of production, operating margin and labour efficiency. Each business received their own report and an aggregated whole group report. The analysis assessed current business performance, identified shortfalls in the business and assisted with setting future directions and goals. An annual group debrief day enabled sharing and discussion of each business as benchmarked against each other, the group average and against northern Australia average and top 25% benchmark data.

Impact of engagement

Group meetings and discussion were useful tools for building rapport between group members. This was particularly evident during two de-brief days held for the business analysis participants. During the first debrief day, no properties were named or allocated any letters on graphs of the whole group data, so that every data point was completely anonymous. However the following year, producers discussed and all agreed to have individual properties allocated a letter so that each property could benchmark their performance against the rest of the group more easily. This also facilitated discussion on the reasons why a particular property was performing better or worse than the average. Businesses were then able to apply this information to their own data and assess what changes to their business could mean for their profitability. The reports and group discussion assisted individual producers to redefine their management goals and identify where to make modifications and changes in the business.

Key issues identified

The group data highlighted a number of common issues:

- Scale is an issue for many. Land area is often limiting the ability to carry the numbers of cattle required to offset overhead costs.
- Labour efficiency is low, meaning not enough cattle are managed for the number of labour units employed.
- Kilograms of beef produced per Adult Equivalent (AE) are low in some cases and this is also affecting cost of production.
- The use of off-farm income may be helpful for some businesses to improve labour efficiency and offset costs.

Impact on management decisions

As business analysis reports were processed and weaknesses in the business identified, the project group began to undertake options modelling to assess the impact of certain management changes using BreedCow and Dynama software (Chudleigh, 2013). These included strategies such as: culling unproductive animals using pregnancy testing and improving overall reproductive performance, adjusting age of turnoff to sell heavier animals, increasing stocking rates and improving animal performance and property carrying capacity by improving the feedbase. The implications for each business were different and generally these differences resulted from differences in the scale of properties, current herd structures (e.g. backgrounding or fattening vs breeding) and the current performance of the herd.

A survey taken towards the end of the project showed that all of the businesses participating in the business analysis found it useful. The reasons for how it was useful included: understanding profit drivers in their business, outlining areas where improvements could be made in the business,

providing information on the performance of other beef businesses, having information on the long-term impact of management decisions and using data to see where to focus energy on improving the business.

As a result, five of the nine businesses have undertaken some form of practice change following the business analysis process. Interestingly, while many changes were prompted or triggered by the business analysis activity, all participants in the survey indicated that they did not make any changes to the business solely as a result of being involved in this aspect of the project. Practice change required the business analysis to be coupled with other extension and advisory services e.g. one-on-one property visits.

Of all the information from the business analysis, the lack of scale was the key limitation that many of the group took on board. In order to minimise the impact of lack of scale, three properties have altered their management strategies and long-term plans. Changes to these businesses include: bringing in a second enterprise to achieve greater scale and profit returns, continuing to sell heavier cattle, improving the feedbase and animal liveweight gains to improve turnover and moving further towards trading from breeding to assist turnover. Additionally, ensuring that animals held on the property were performing at optimum reproductive levels was also highlighted as key to achieving better scale. To ensure this, two properties which had previously not done so, pregnancy tested all females and culled empty breeders. This enabled them to remove unproductive breeders from the property and conserve valuable pasture for other stock during drought, also helping to improve their genetics and reproductive performance in the future.

In group discussion, another point highlighted was the need to optimise kilograms of beef produced each year, to increase proceeds of sale and better offset overhead costs. In line with this, a number of properties have assessed their current selling strategies, by keeping or expanding, and in one case moving towards, selling older trade or finished animals.

Conclusion

The group process using business analysis as a diagnostic tool for each individual business was a successful methodology to improve producers understanding of their business and identify options for improvement. This led to identifiable practice change in five out of nine producers in this project. Once options are identified, traditional extension support is still required to help producers make the final decision and undertake practice change.

References

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