SHEEP CONNECT
SA sheep Industry Forum

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The Skills and Approaches for Successful Farming Systems

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The reality!

Background

- For this discussion we're talking about two groups
  - The Best
  - The Average (MOST)

OR

  - Those that get the system right and make it work
- The best farmers have systems that:
  - Are very profitable (successful)
  - Cope well with systems shocks
    - Price is the perfect example

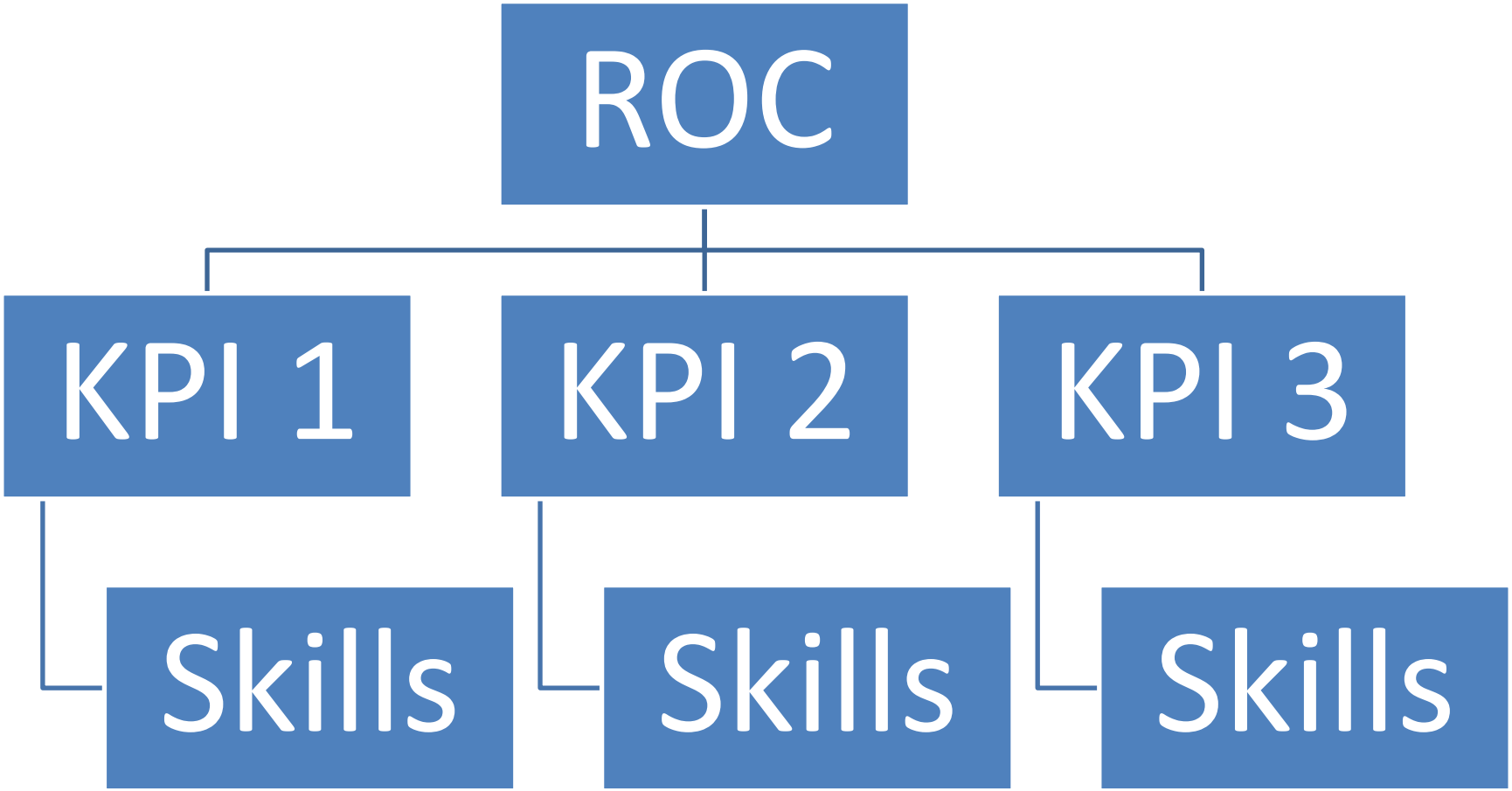
How farming systems should evolve!

- As a function of logical business decision making
  - Marginal analysis at the whole farm or part farm level
    1. Efficiency
    2. Net worth
    3. Cashflow
    4. Risk
  - Business benchmarking (learning process)
    1. Identify areas to improve (CSFs)
       - Ok
    2. Find top 5-10% (the benchmarks)
       - Good
    3. Document (understand) best practice
       - Poor
    4. Adapt the practice
       - Hopeless
    5. Monitor and continuously improve
       - Hopeless
- And the Top 5-10% do this well
  - Simple success model

Effective farming systems are based on:

1. A desire to farm for profit
   - Rather than how you want to farm
2. An understanding of the resource base
   - And it suitability to the production system
3. An understanding of business
   - Including profit and risk but especially MC vs MR
4. An understanding of the production system
   - How that drives profit
5. A high level of skill associated with the key profit drivers

So business analysis might look like…..

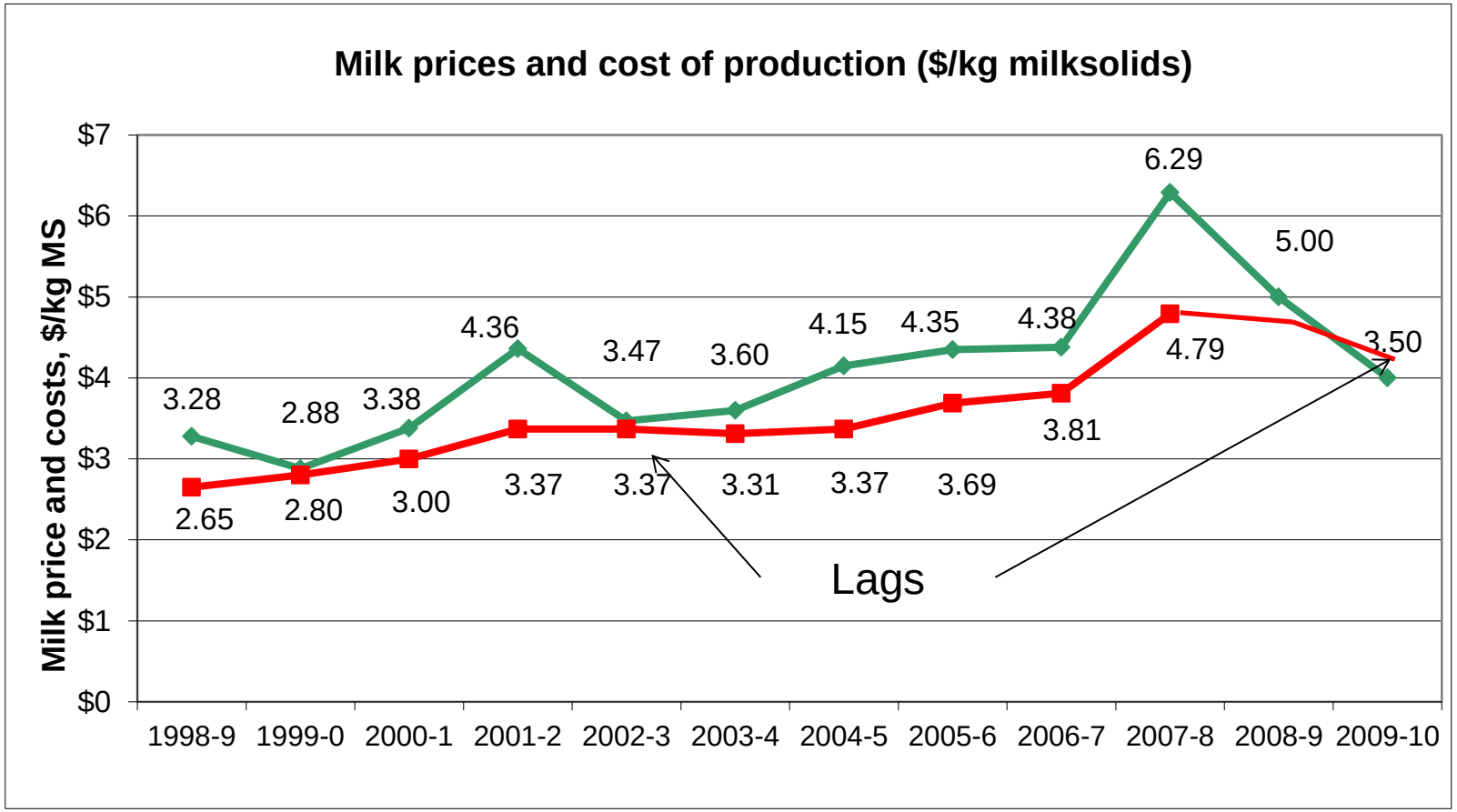


Awareness

1. A desire to farm for profit

- It is obvious that:
  - Most farmers do not actively look for profit
    - They have an overwhelming desire to farm the way they want
      - Generally compromises profit (hobby)
      - So they actively ***hope*** for profit
  - As price increases they gravitate towards this (rapidly)
    - Compromises short-term profit
    - Introduces sticky costs
  - Are great at working backwards from this and justifying it with bush economics

Example: As price increases.....



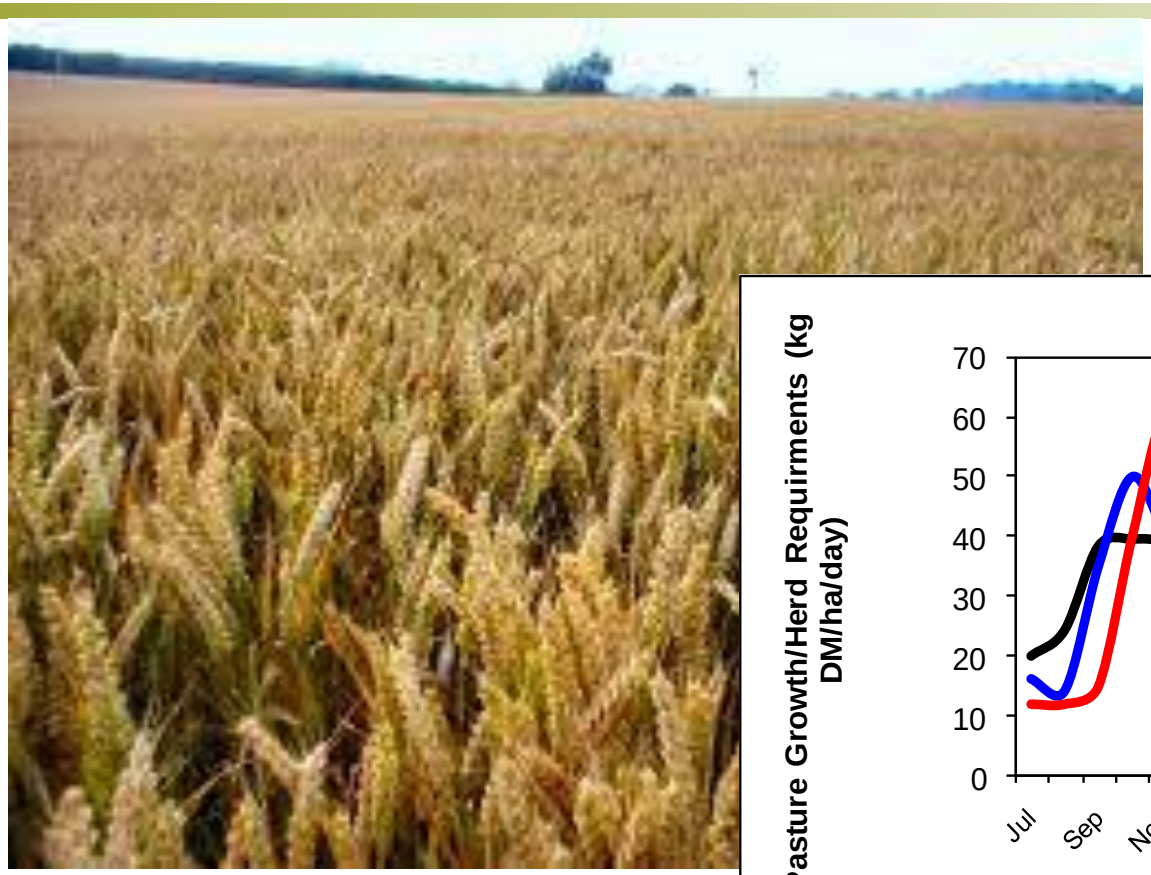
Reaction to price

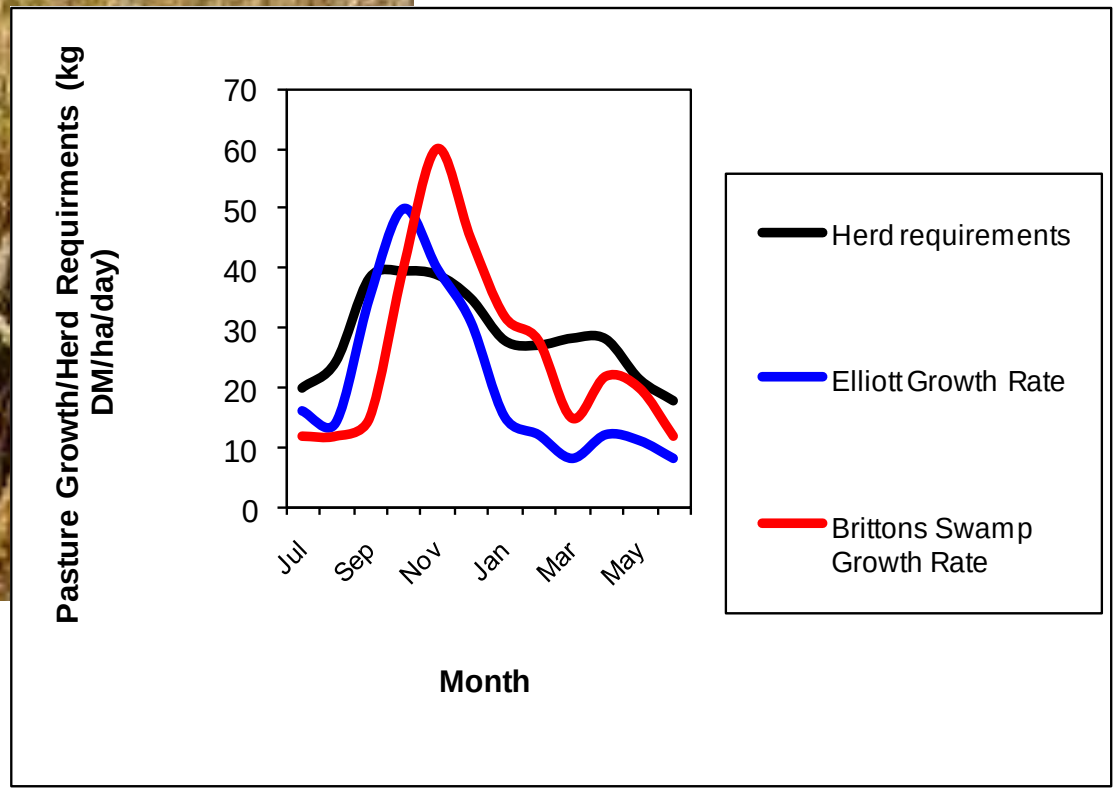
	2006-07		2007-08	
	Average*	**Top 10%**	**Average***	**Top 10%**
Milk price	4.39	4.39	6.33	6.33
Increase in farm value			15%	35%
ROC	5%	12%	8%	16%
MS	151,000	165,000	172,000 (10%)	204,000 (24%)
N/ha	144	192	212 (47%)	232 (21%)
Grain/cow	800	1,100	1,150 (44%)	1,200 (9%)
Pasture harvested/ha	9,210	11,290	9,320 (1%)	12,350 (10%)

No reaction to price

	2006-07	2007-08
	Average*	**Average***
Milk price	4.39	6.33
ROC	5%	10.5%

2. An understanding of the resource base





Trends of the best

	Average	Top 10%
Area (ha)	1047	1116
Rainfall (mm)	522	558
Area to crops (%)	25	38
Grain yield (t/ha)	2.0	3.4
Fertiliser ($/ha)	36	72
Interest ($/ha)	26	42
Contractors ($/ha)	15	27
Labour use (DSE/FTE)	3,271	5,045
Stocking rate (sheep/ha)	6.9	10.6
ROC	0.8	6.2

ABARES 2003 and 2011

To try to be the best……

- We’ve done what the best do
  - bigger farms
  - more fertiliser
  - more chemicals
  - more nitrogen
  - new species
  - new varieties
  - more contractors
  - more debt
- And we've had the cash to pursue these

Unfortunately.....

- These are associative, not causal
  - That is:
    - These are ***characteristics of*** the better farmers
    - They are not the ***cause of*** their success

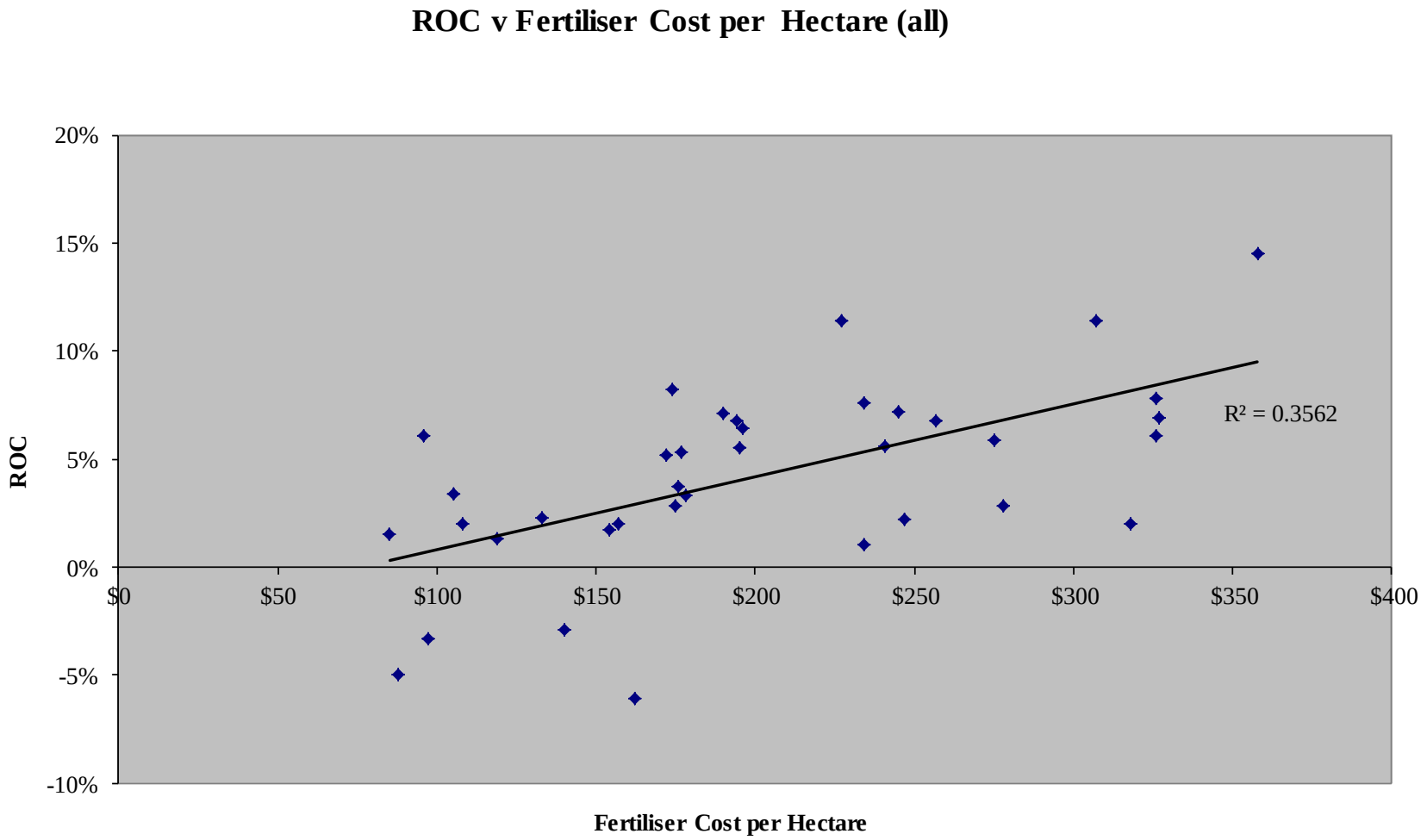
Done a good job in this area

	Average (2001)*	Average (2011)
Area (ha)	680	1047
Rainfall (mm)	550	522
Area to crops (%)	15	25
Grain yield (t/ha)	1.75	2.0
Fertiliser ($/ha)	15	36
Interest ($/ha)	6	26
Contractors ($/ha)	8	15
Labour use (DSE/FTE)	1,230	3,271
Stocking rate (DSE/ha)	3 (3.1)	6.9 (3.3)
ROC	3	0.8

* 2011 dollars

ABARES 2003 and 2011

Profit vs. fertiliser cost



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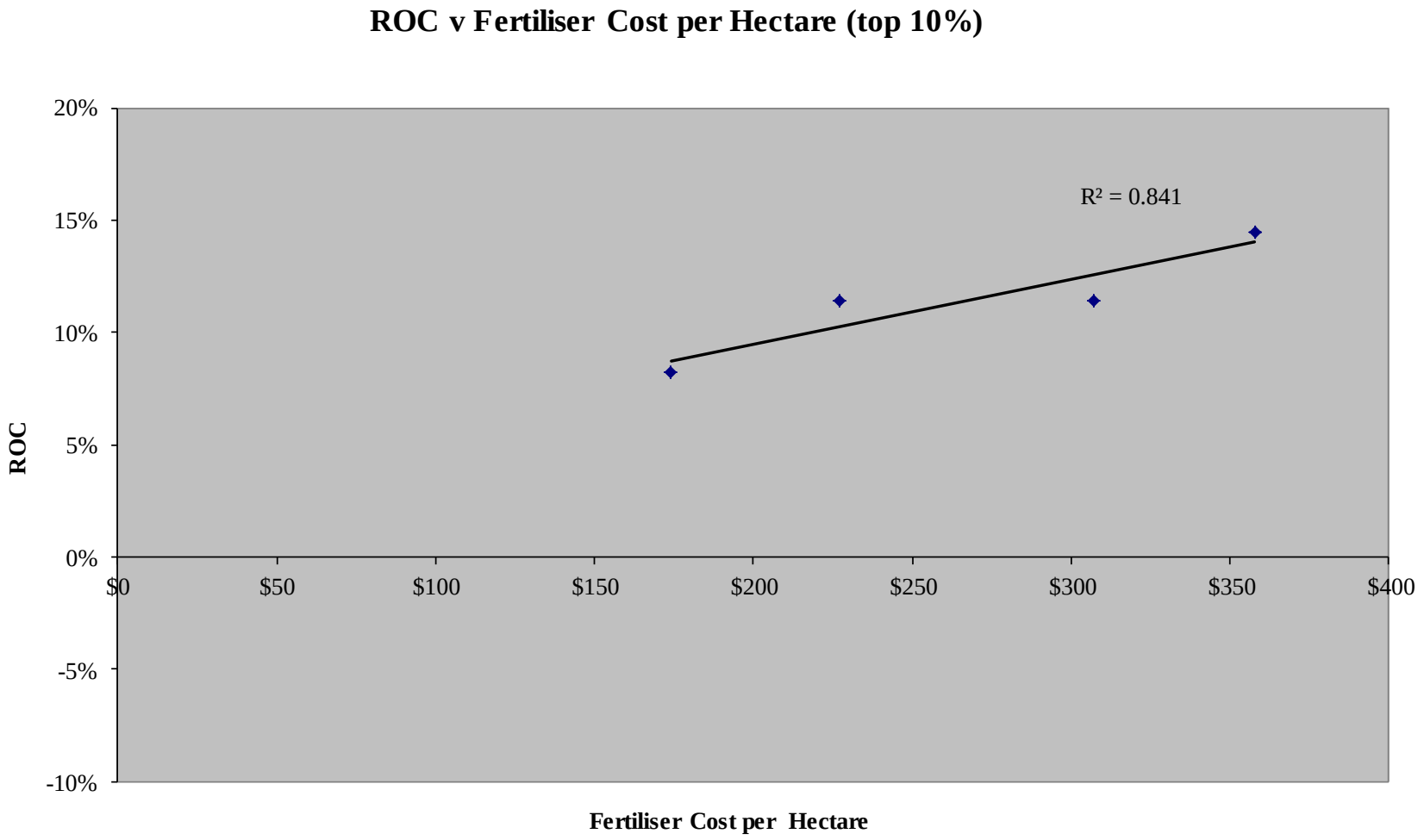

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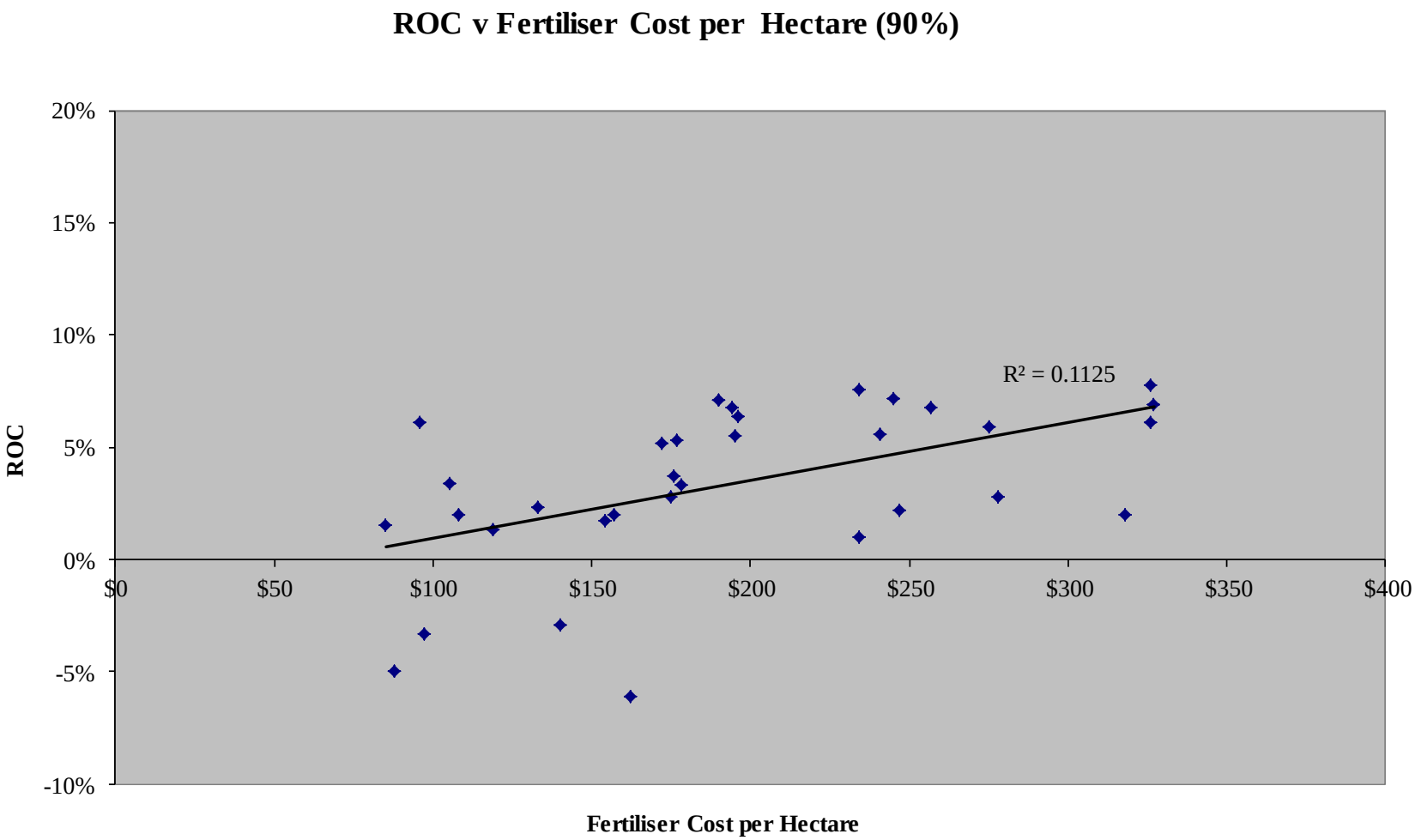
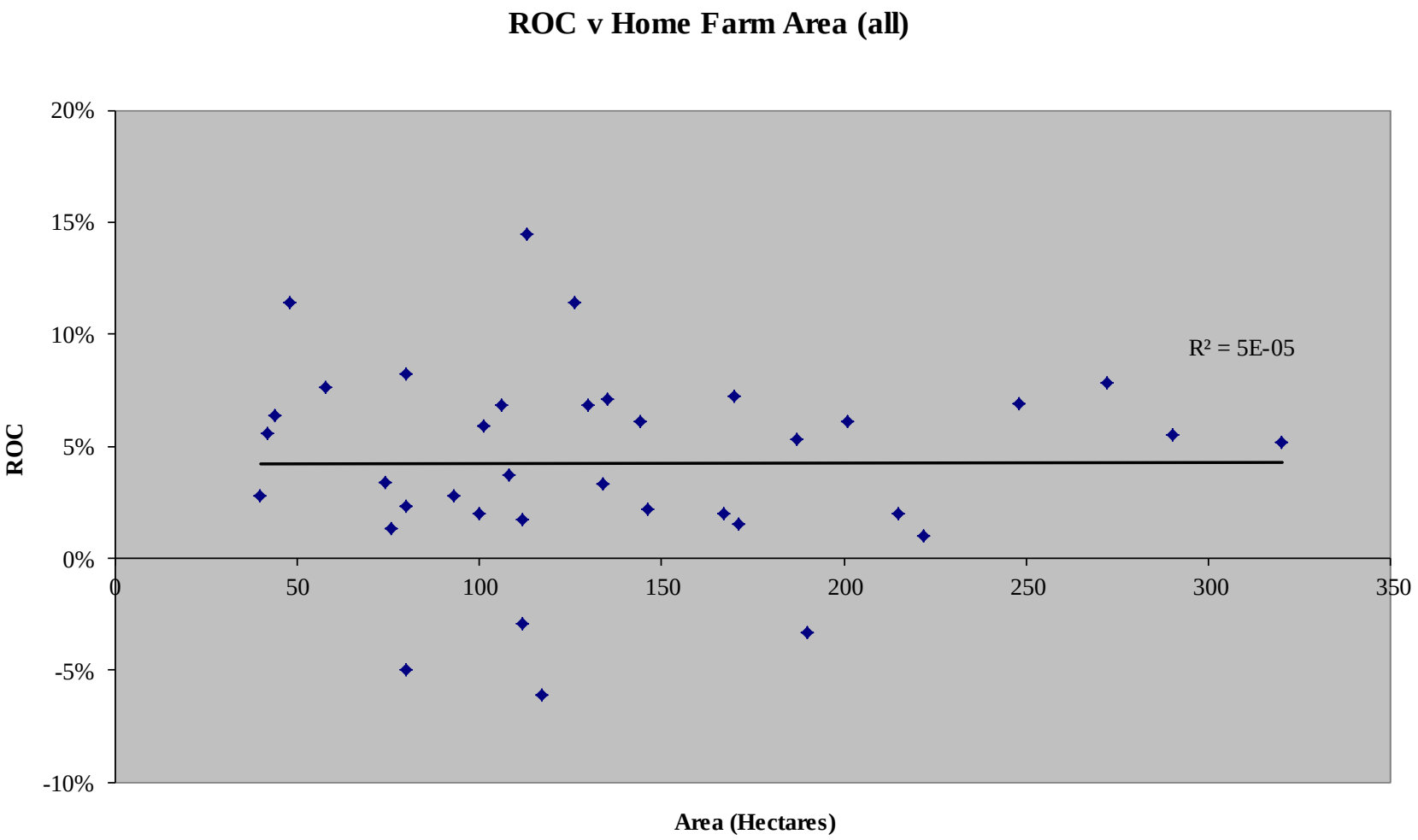


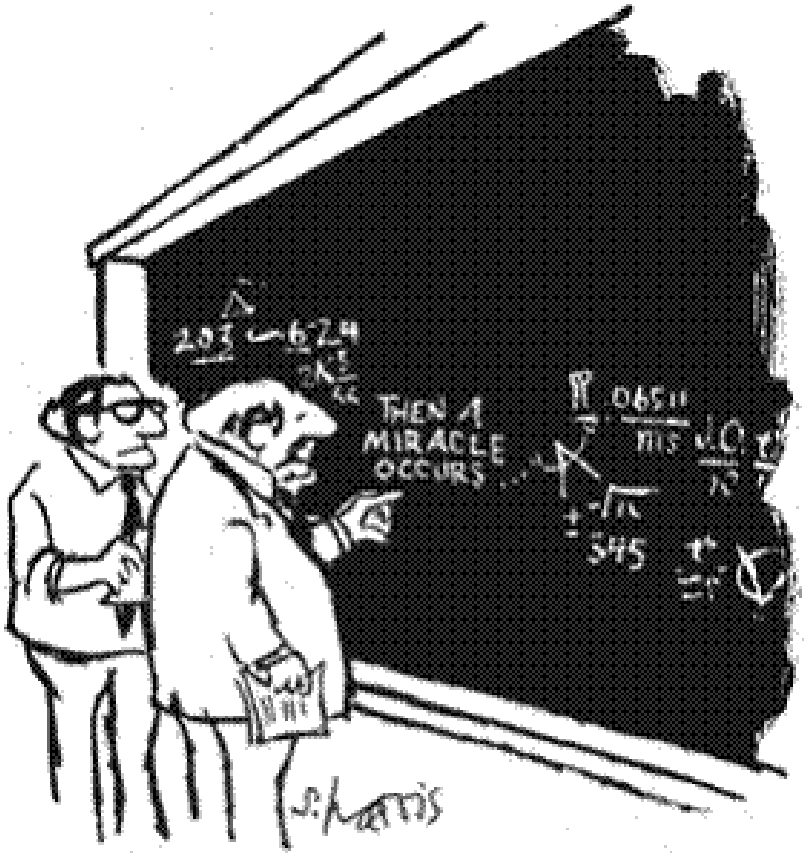
The myth: "*get big or get out!*"



Having said that....

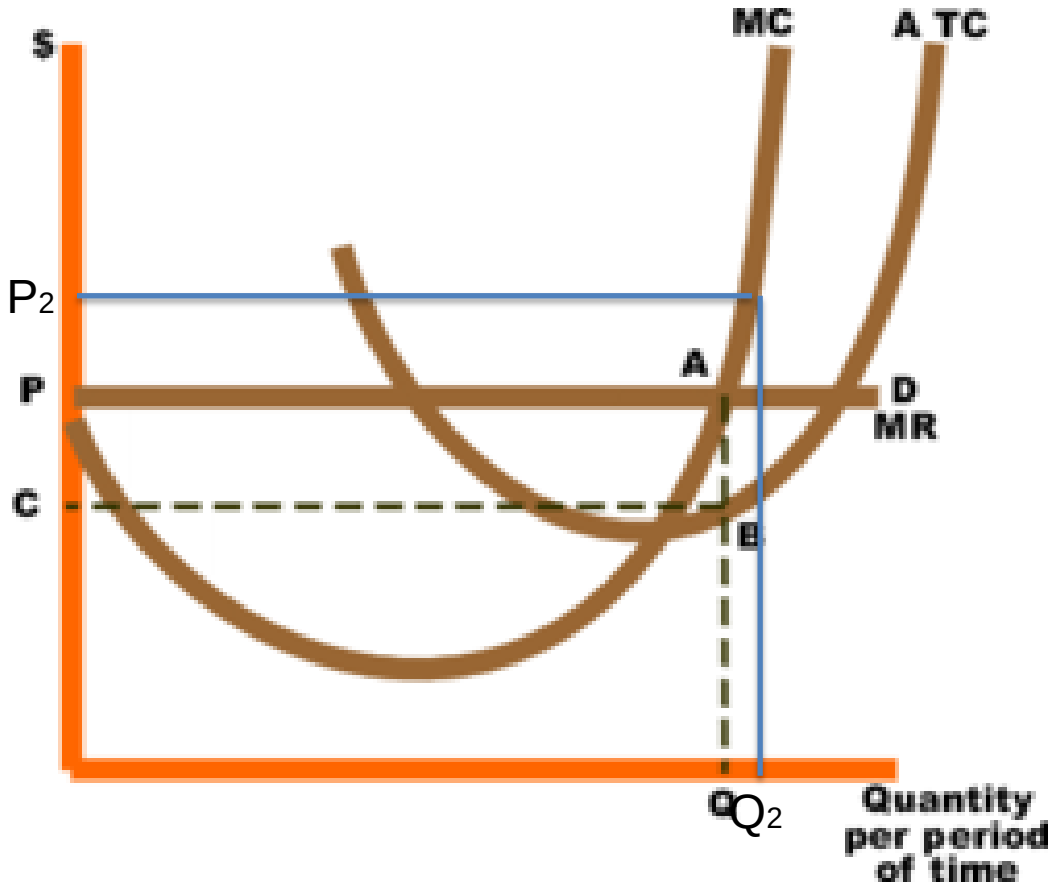
- The most profitable farms tend to be bigger
  - But were smaller, profitable and grew
    - Rather than got big to get economies of scale
- AND all businesses must grow
- BUT growing an unprofitable business....

But if your not top 10% - Hope....



"I THINK YOU SHOULD BE MORE EXPLICIT HERE IN STEP TWO."

3. An understanding of the business



Profitable decisions

- Economists are logical
- There is obviously a difference between profitable and unprofitable decisions
  - Less obvious is the difference between a profitable decision and the most profitable decision
    - A less profitable decision will often preclude a more profitable one
- The MC:MR analysis can be complex
  - Oversimplifying it usually gives the wrong answer
    - But often the one you want

Risk/Robustness

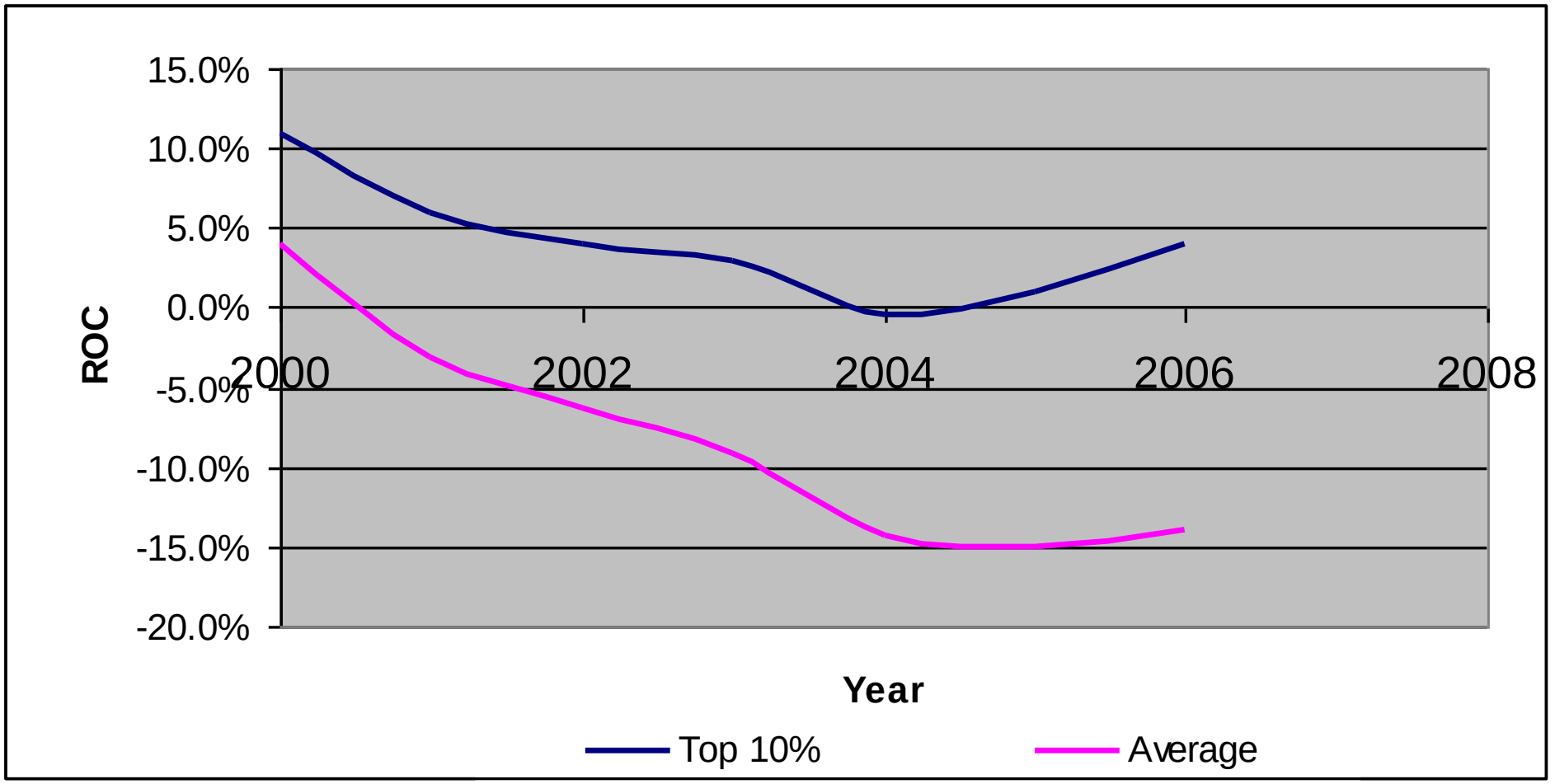
- Its all about price!
- 10-20% decrease from average will test system robustness

Impact of season/price on ROC

	Top 10%	Average
Good season/price	13%	2.1%
Average season/price	8.6%	1.4%
Poor season/price	6%	-9.9%

Source: Redsky (Mixed farming) 2004 - 2006

Tracking into and out of drought - recovery



Source: Davey and Maynard 2007

4. An understanding of the production system

	Profit
Technical/Tactical/Feedbase	70%
Business	40%
People	30%
Operational	15%

Hoekema 2002

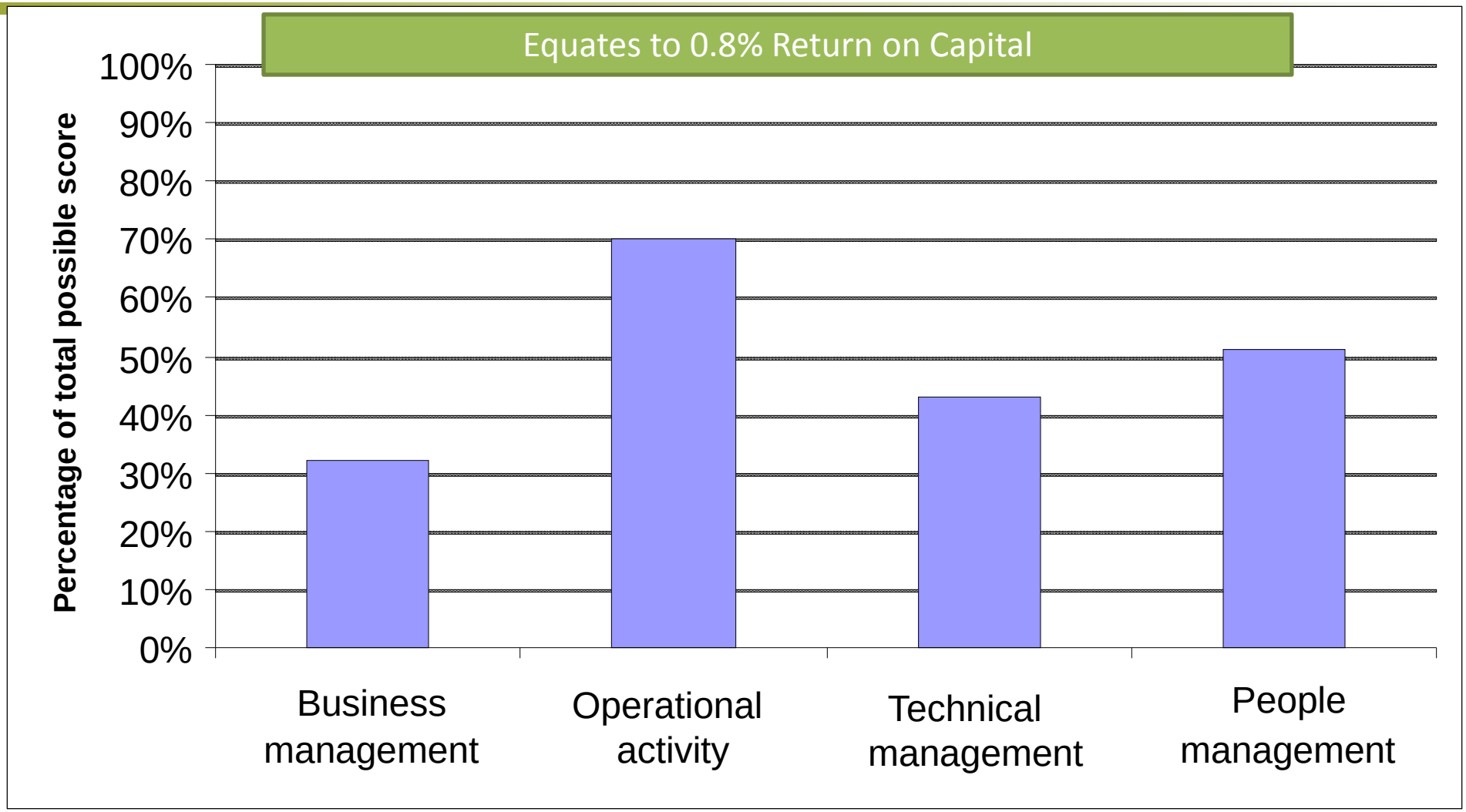
Team work

5. A high level of skill associated with the key profit drivers

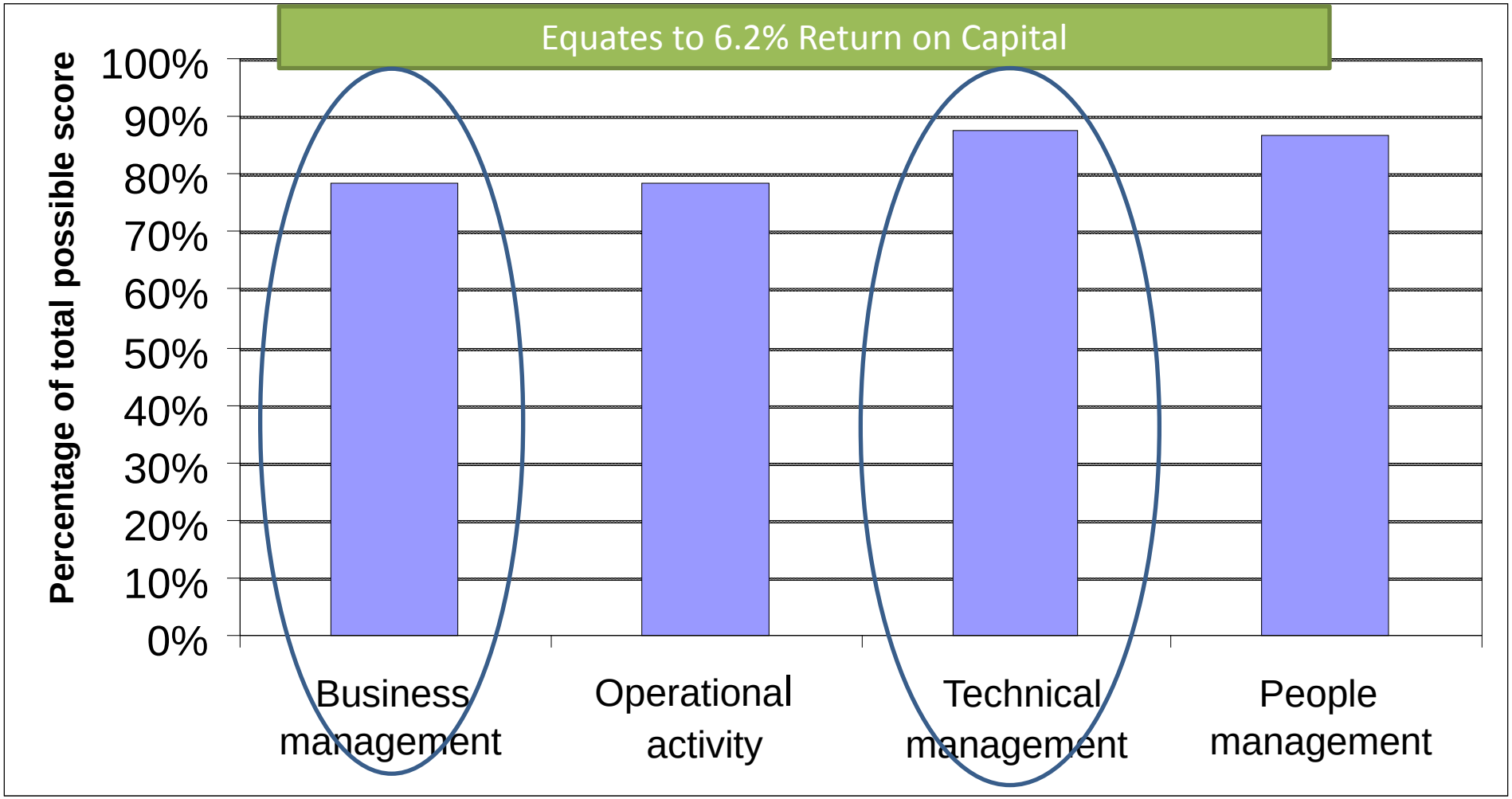
- Its no use knowing what to do if you cant do it!
  - Implementing good decisions is critical to business profit
  - Under game day pressure
    - Vs armchair critic

Skill is the missing variable

Audit results - Average



The best


Equates to 6.2% Return on Capital
Percentage of total possible score
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Business management
Operational activity
Technical management
People management

Link to skills

- Strong link between ROC and skill
  - The difference between a good farmer and an average farmer is two weeks?
    - That's skill
- We audit our clients!
  - And remunerate on skill!
    - Remuneration is a function of skill – not experience

Australia - a great sporting nation

Analysis of countries at the 2012 Olympics

Country	Gold medals	Population (million)	Medals/million people
USA	46	275	0.16
China	38	1261	0.03
Russia	24	146	0.16
Australia	**7**	**20**	**0.35**
Japan	7	126	0.06
New Zealand	6	4	1.5
South Africa	3	45	0.07

A professional approach

NSW INSTITUTE OF SPORT

60 World champions

- same resource base

- better managed

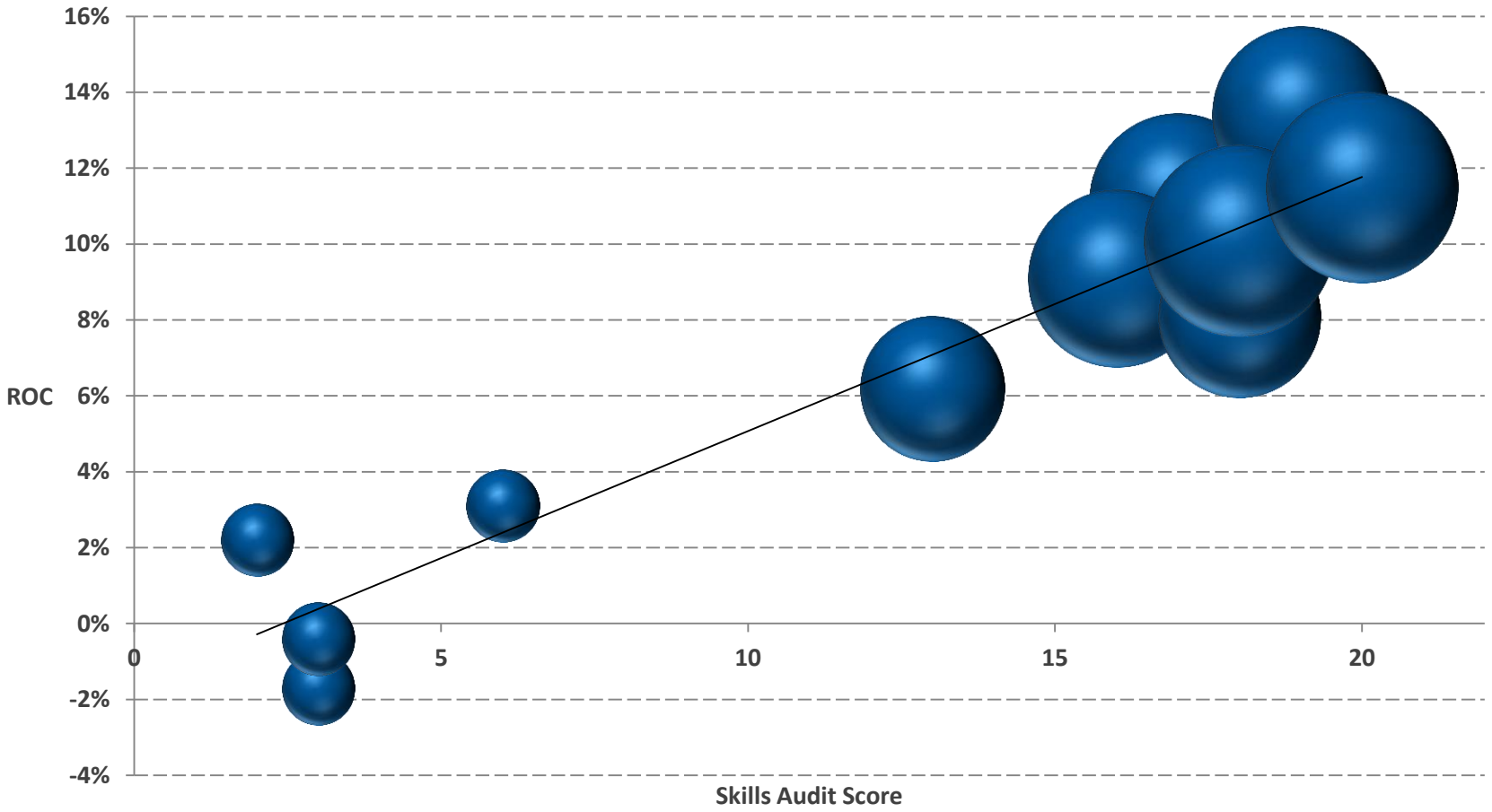
TIS

The TIS aims to provide leadership and quality athlete and coaching services to assist TIS athletes in realising their potential to become successful international athletes.

We're not alone?

- Each year Australian golfers spend $300m to upgrade their equipment
  - Over the last 10 years average handicap has increased
- They're now hitting the ball further in the wrong direction
  - We always tend to believe that our skill are higher than they actually are!

Profit and Skill



Summary

1. Farming businesses are complex and conducted in a leaky and dynamic environment
2. Historically farming systems have evolved from comparative analysis
    i. The rest copying the best
    ii. Right things the wrong way
3. Successful farming systems should evolve by logical business decision making
    i. Marginal analysis (whole or partial basis)
    ii. Risk must be incorporated (price)
    iii. The farms' resource base plays a key role
4. Skill is the most important and overlooked aspect of successful farming
    i. Advisors should look to increase client skills (supported learning)
    ii. Better do the wrong thing well than the right thing poorly in farming
        i. Or at least the basics well

Thank you

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