

Executive Challenge



Meridian Agriculture consultants Paul Blackshaw and Mike Stephens had the opportunity to work with four groups of beef producers from north and far north Queensland recently. The producers, involved in groups centered around Charters Towers, Mareeba, Mount Surprise and Georgetown, came together in July for a series of workshops in Charters Towers and Georgetown with a key focus on better business decision making through financial management and succession planning.

Following on from this activity, the producers were invited to attend an "Executive Challenge" workshop in Sydney in late August. In bringing them to Sydney attendees were taken out of their environmental comfort zone and were further challenged to face some of the important issues confronting them. Included below is a list of speakers and sessions from the Executive Challenge:

- Tim Reeves (University of Melbourne) – Agriculture mega trends and their relevance in FNQ
- Paul Higgins (Futurist – Emergent Futures) – Mega Trends beyond Agriculture in a changing environment
- National Australia Bank – Market update and inner workings of NAB
- Stephen Weidemann (Integrity Ag and Environment) – Towards carbon neutral beef (Carbon neutral by 2030)
- Glenys Oogjes (Animals Australia) – Community expectations from an animal viewpoint
- Andrew Ash (ex CSIRO) – Growing beef in a changing environment (Climate change)
- David Mitchell (Monaro Farming Systems) – Making producer groups work effectively – The MFS Story and taking advantage of Mega Trends at a local level
- Robert Adés (Meridian Agriculture Chairman) – Strategic planning which delivers results for your business
- Irene Sobotta (Meat and Livestock Australia) – How you can help MLA help you
- Paul Blackshaw (Meridian Agriculture) – Analysing your business and assisting you in the preparation of a business case for your bank
- Mike Stephens (Meridian Agriculture) – Succession Planning

The feedback from the Executive Challenge has been very positive and Meridian Agriculture look forward to working with the groups again in the future. The whole venture would not have been possible but for the leadership and inspiration of Queensland Department of Agriculture and Fisheries, Alison Larard and the team who support her.

Meridian Agriculture can specially tailor leadership and personal development training for groups, teams and organisations. For further information contact us on 03 5341 6100.

Article by Mike Stephens

How much income does a business need to generate?



*Guest Article by Michael Wellington and Ian McLean,
Bush AgriBusiness Pty Ltd*

How much income does a business need to generate to provide for the needs of its owners?

Operating scale, or the size of a business, is an important issue in agriculture, and what scale a successful business needs to have is a question many producers have.

One way we have looked at scale is to ask how much income a business needs to generate to be profitable.

Analysis of data from the Australian Beef Report found that to generate a positive EBIT (to cover operating expenses and owner wages, but not cover interest or financial provisioning), a business in southern Australia would need a minimum (break-even) Gross Profit of around \$230,000. So the income required for the business to pay interest, tax, provisioning and to provide an adequate return on capital will be more than this figure. How much more will depend on the circumstance of the individual business and the needs of the family.

Lack of scale means it may not be possible for a particular business to generate sufficient income to be profitable as a standalone business. Expansion may then be the best strategy for the business, but the sums need to be done very carefully. It may also mean the business may be best treated as a part time job. The analysis suggests that off-farm work and off-farm income have a double benefit for the business: the income not only helps pay the bills, the reduced time spent on property lowers the cost base of the business.

What the bottom line of a business needs to be to provide for the needs of the family and be sustainable in the long term, and what the top line needs to be to generate that is important information for any business to know. The Business EDGE workshop gives producers the knowledge and skills to ask this and other questions of their business.

While it may be daunting at first, improving financial literacy allows you to understand where your business is and isn't performing well, and helps you get the best information out of people like your accountant and bank manager. A recent Business EDGE workshop attendee commented that attaining

financial literacy as the most valuable learning, because you “can’t do the rest without it”.

Meat and Livestock Australia’s Business EDGE workshop is the primary industry-owned business skills and financial literacy training package for red meat producers in Australia. It provides attendees with core business skills to better understand and manage their business performance. There are two upcoming workshops in October (Sep 30-1 and Oct 3-4) planned for Victoria in cooperation with Bush AgriBusiness Pty Ltd.

Michael Wellington and Ian McLean deliver the Business EDGE workshop across northern Australia. The above analysis was drawn from Bush AgriBusiness’ data set, and the Australian Beef Report.

What is an appropriate level of equity?

We often get asked what level of equity should I be aiming for in my business? While there are some industry benchmarks, and good technical reasons for having a certain level of equity, the answer really is “it depends”.

A persons approach to risk will be a major factor that will influence comfort in a particular equity level. It’s important to understand that no risk position is right or wrong, it’s what you are comfortable living with. Personal attitude to risk will depend on a range of factors, including:

- Financial security
- Stage of life
- Health
- Family circumstances

Attitude to risk will change throughout life and can sometimes change rapidly, often triggered by sudden events.

A good example of changing approach to risk is to think about a young, passionate, enthusiastic farmer who is wanting to increase their scale and grow the business. They will be more comfortable with a lower level of equity than a farmer who is approaching retirement, and is wanting some certainty and security about their ability to fund a more relaxed way of life.

Often 80% equity is used as a good mid-range benchmark for an appropriate equity, with greater than 90% being very strong and less than 70% being weak. There are arguments that a business with high equity may have “lazy” capital, suggesting that increased borrowing may be an appropriate strategy to grow wealth. Alternatively, there have historically been many business that have been highly profitable with well less than 70% equity. At peak debt, just prior to harvest, many cropping businesses report an equity of 60%.

A range of other factors need to be taken into account, such as climatic security of the farm location, what enterprises are being farmed, what is the skill of the business manager and what other risks might the business be exposed to.

What’s probably most important is to actually calculate your own equity accurately and regularly, and to understand your own per-

sonal and business current situation and future aims well enough make informed decisions about your own circumstance.

These are about as big as decisions get in farm business, so make sure you contact one of Meridian Agriculture’s Farm Business Consultants on 03 5341 6100 to help guide you.

Article by Paul Blackshaw

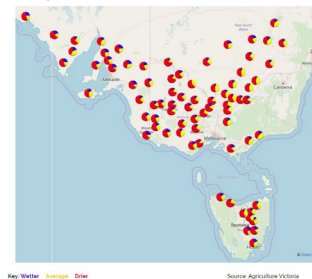
Seasonal Outlook

Are you ready for the coming Spring?

With an Indian Ocean Dipole (IOD) positive spring predicted for southern Australia what do we need to consider?

In IOD positive years the balance is very firmly skewed towards average or below average rainfall outcomes in many parts of Victoria. Thankfully some of Victoria currently have good soil moisture profiles which will give some buffer for the likely dryer than average conditions this spring.

The map below shows the September – November rainfall probabilities for IOD positive years.



With the likelihood of average or below average rainfall spring what needs be considered?

1. Consider urea on good pastures to produce more dry matter with the same rainfall.
2. Calculate water required for stock on hand until next June.
3. Evaluate stored water on farm and see if storages can be topped up
4. Investigate and plan to use water saving technologies such as Water Guard™ by Aquatain.
5. Plan fodder conservation to be earlier i.e. shut up paddocks earlier.
6. If planting spring/summer fodder crops, conserve moisture by spraying out existing pasture and sow as soon as conditions allow.
7. Ensure worm control and other animal constraints are kept to a minimum so that livestock put on the most weight for the pastures on offer.
8. Monitor and weigh stock regularly so that they can be market-ed appropriately.
9. Evaluate whether stock should be sold as stores or fattened.

Please contact the Meridian Agriculture team to help with your seasonal plan both from a production and financial perspective on 03 5341 6100 or email info@meridian-ag.com.au.

Article by Andrw Speirs

Yendon

a 96 Harbours Road,
Yendon, VIC 3352
p 03 5341 6100 | f 03 5341 7630
e info@meridian-ag.com.au

Casterton

a PO Box 226, 32 Henty Street,
Casterton, VIC 3311
p 03 5581 2826 | f 03 5581 2746
e info@meridian-ag.com.au