

Setting directions

Key actions

- Set clear goals and objectives for your business and regularly review progress.
- Evaluate the current performance of your business.
- Explore alternative enterprises and strategies, evaluate benefits, feasibility and risks, prioritise and then choose the best options.
- Implement the new enterprise strategy, maintain accurate records and regularly re-evaluate performance with expected targets.

Why is setting the strategic direction of your beef enterprise important?

Every business has a plan, whether it's in your head or written down in a formal document. A written plan helps to clarify your goals and objectives and allows others in the business to access it too.

Successful business managers plan the future direction of their business to achieve their financial objectives, as well as to meet social and environmental goals. Strategic business planning can help you achieve your business goals even in an uncertain and risky operating environment.

A good plan is like a road map: it shows the final destination and usually the best way to get there.

Businesses require an investment of time, management skills and money, and on most farms, these are in limited supply. Once the direction of an enterprise has been set, plans should be regularly reviewed to ensure changing prices, climate, management and other factors are considered and appropriate responses can be adopted to achieve your business goals.

In a beef enterprise, a sound strategic plan:

- outlines clear goals and objectives and the steps or pathway required to achieve them
- reveals whether it is possible to meet your future needs and goals, as well as those of your family.
- assists in borrowing money at competitive rates
- provides a pathway for improving profitability (eg it should address the key profit drivers) while managing climate variability, so that the farm and beef enterprise is sustainable over the longer term
- improves your ability to predict and plan for threats, risks and more difficult periods
- provides flexibility within the enterprise so as to take advantage of better than expected seasonal conditions and opportunities
- provides a structured or disciplined method for considering changes or new options and opportunities for the enterprise
- helps communicate the nature of the business when more than one person is involved in ownership, management or decision making.

Setting the strategic direction of an enterprise delivers many benefits

- **Concentrates effort and investment on the important strategies** – the importance of each strategy is determined by its relevance to your enterprise objectives and its ability to deliver on those objectives.
- **Avoids wasted effort and investment on distractions** – distractions are a cost to the business and only a disciplined approach to identifying key issues will prevent this wastage.
- **Delivers job satisfaction** – through clear progress towards your goals and objectives and confidence in your ability to successfully adjust to new challenges.
- **Provides a framework to maximise profitability** – while achieving environmental and social goals.

Setting the strategic direction of an enterprise through sound business planning does require a bit of work, but in the long term, it results in less work.

Enterprise profitability tree

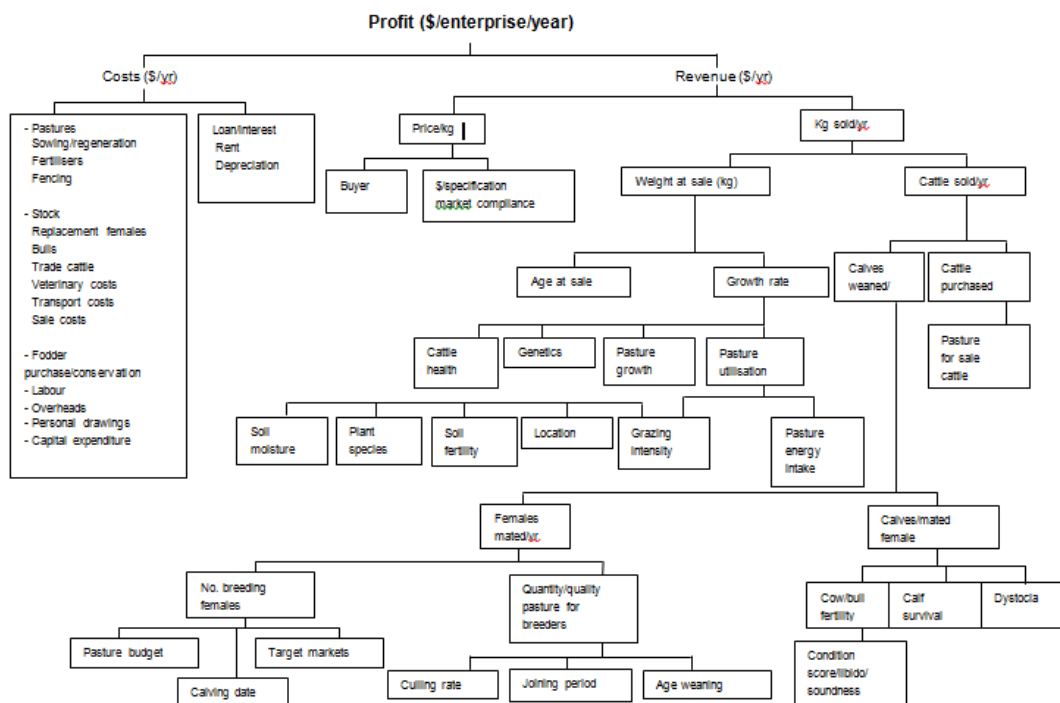
The enterprise profitability tree (Figure 1) presents the key areas of a beef production system

By identifying each aspect of production that incurs cost or generates revenue, the tree can help you assess those components of your enterprise that can be altered to have the most impact on productivity and overall profitability.

Your business plan shapes the productivity and profitability of your beef enterprise by influencing key profit drivers such as:

- increased pasture utilisation
- stocking rate
- price per kilogram
- kilogram of beef produced per hectare

Figure 1: Enterprise profitability tree



[Open PDF file](#)

How does this module assist you?

This module looks at setting and evaluating the strategic direction for your beef enterprise as part of the whole farm business. It is the logical starting point for the MLA More Beef from Pastures package as it considers the economic merit of options for improving productivity and profitability.

Consider the economic merit of management options to boost productivity

The procedures in this module take you through a planning sequence that sets the direction of your beef enterprise and enables a comparison of business performance from a change in enterprise strategy. This takes account of the range in options that will provide the most profit given your physical and financial resources, your preferred lifestyle and confidence to manage risks.

Careful planning increases the chance of the business being successful

In this manual, profit is defined as return on capital (also known as return on assets managed). This is a base measure of the efficiency of a business without considering the method of financing (interest and loan repayments), taxation and drawings, or profit distribution.

Linkages to other modules

This module sets the initial strategic direction for the beef enterprise, including the planning of goals and objectives now and for the future. It provides a process for exploring strategies, evaluating options and monitoring progress.

The process of manipulating stock numbers is considered in **Module 2: Pasture growth** and **Module 3: Pasture utilisation**. Information on the selection of markets is outlined in **Module 7: Meeting market specifications** and **Module 4: Cattle genetics** also affects producers' capacity to supply target markets.

All modules, including **Module 5: Weaner throughput** and **Module 6: Herd health and welfare**, are critical for plans to be implemented properly to optimise farm profit at the same time as managing financial, business, environmental and biological risks.

The same economic principles apply to all enterprises in the farming business.

The pasture-based beef enterprise is rarely the sole enterprise of an Australian farm business. Most consist of several inter-related enterprises such as sheep, cropping and fodder conservation for use on the farm or for sale. These enterprises compete for shared resources such as labour, land (pasture) and capital, but may complement each other in the way they are structured and managed. They use common assets, shared labour and the available forage supply.

The focus of this package is the pasture-based beef enterprise. The principles of economic analysis need to be applied across all enterprises within the farm business to ensure that the competition and supporting links between enterprises are accounted for and managed.

Evaluate all significant changes planned within the pasture based beef enterprise to assess the impact on the whole farm business. When the whole-of-business economic analysis has been completed the most appropriate herd structure, timing of important management practices and target markets can be determined to maximise profit from a multi-enterprise business.

Principles of setting direction of the enterprise

- Set clear goals and objectives for the beef business
- Determine the enterprise strategy that will best achieve your goals
- Establish a system to monitor and review progress

Procedures for setting the direction of the beef enterprise

- Procedure 1 – Assess the current position of the business
- Procedure 2 – Establish business goals and objectives
- Procedure 3 – Evaluate and choose the best options for improvement
- Procedure 4 – Document the plan
- Procedure 5 – Implement the plan, monitor progress and review.

Procedure 1

Assess the current position of the business

Determine the enterprise strategy and herd structure most likely to maximise profit

When preparing a business plan, undertaking a comprehensive review of all aspects of your farm business helps you to:

- understand the resources and capabilities available.
- identify the gaps in resources, capabilities, infrastructure or capital that need filling.
- learn from past decisions - the good and the bad.

Key components of your business that you should review and evaluate include:

- farm resources, skill base, management systems and enterprise mix
- farm financial and production performance
- natural resource management
- marketing plan
- staff management
- risk management
- development and implementation schedule

Guidelines to analysing the current situation

The first step in assessing your current position is to gather the appropriate information and data. This should include financial and physical information about the business, as well as key profit, social and environmental drivers.

Once the information has been gathered, it needs to be interpreted so you can establish benchmarks appropriate to your enterprise and set goals and objectives.

When analysing the current position of your enterprise, you will need to draw upon the following types of information:

- farm business performance
- cost of production
- feed supply and feed demand

Analyse farm business performance

A farm business performance analysis evaluates the business, how it is performing against other similar enterprises and helps identify areas for improvement. This should include both physical and financial aspects of the business. Ideally, data should be collected over at least three years to identify trends and account for abnormal items that may obscure true performance, such as drought.

For full analysis, the key information that must be collected includes;

- physical farm characteristics
- farm livestock inventory and trading accounts, including beef production
- labour use, supplementary feeding inventory and fertiliser inputs
- financial data from annual accounts, profit and loss statement and statement of annual cash flow
- balance sheet including all assets and liabilities, depreciation schedules and capital expenditure

Tool 1.1 outlines the data required for a farm business performance analysis. Many formats have been developed for completing this assessment and many farm consultants and service providers offer farm benchmarking and business analysis services to assist with this analysis.

Calculate cost of production

Cost of production (CoP) is a key factor affecting the profitability of beef-producing businesses. Cost of Production, measured in cents per kilogram liveweight, provides an indication of the outlay required to produce each kilogram of beef.

Calculating your beef herd's cost of production is an important step in assessing your herd's performance and efficiency of beef production. The cost of production is a useful benchmark that integrates many other benchmarks.

The **MLA Cost of Production Calculator** is a 'do-it-yourself' tool that standardises this performance indicator, allowing you to easily compare your enterprise with others across the southern beef industry (**Tool 1.2**) and, importantly, to compare your own performance from year to year.

A quick comparison of your cost of production will indicate whether you have scope for improvement, or are already performing reasonably well. Cost of production is simple to calculate. It is not complicated by how you have financed the business, how much of it you own or how you acquire your land, and it only deals with one enterprise at a time. Generally, beef herds with a low CoP are more efficient at producing beef and have a lower financial risk when beef prices are low.

By industry standards, the cost of production scale indicators are tabled below:

CoP (\$/kg liveweight)	Performance rating
< \$0.80/kg	Performing well
\$0.80–1.10/kg	Could improve
\$1.10–1.50/kg	Significant room for improvement
> \$1.50/kg	Future may be at risk

Knowing your cost of production is just the first step. Once you have a rough idea of how your enterprise is performing, measure the performance of your business in more detail and for all enterprises.

Understand feed supply and demand

Understanding the feed supply and feed demand curve of your beef enterprise, (ie matching demand with feed supply) is an important strategy to maximise profit. MLA has developed a Feed Demand Calculator that can help you analyse the relationship between the feed demand and feed supply for your business. For example, the **Feed Demand Calculator** can be used to assist you in setting time of calving to fit pasture growth or running trade animals in times of feed surplus (see **Tool 1.3**).

The **MLA Rainfall to Pasture Growth Outlook Tool** (**Tool 1.4**) can help you understand how your pasture grows throughout the year and how it can vary between the years. This web-based tool uses long term rainfall records for over 3,000 sites across southern Australia. The tool will help you decide how to manage your herd structure, so that feed demand - influenced by management strategies such as time of joining and weaning, time of sale and livestock trading - best matches pasture growth and variability.

Interpret farm business analysis

Once you have collected data and analysed the business, interpretation of the information is required.

For a start, cash flow budgets are important to identify how much cash surplus is available to fund debt repayments, tax, personal expenditure and capital investment, both on and off farm. Analysis of the business' balance sheet provides information on the owner's net worth and trend over time. The profit and loss statement is valuable for benchmarking the business, both between enterprises on farm and comparison with other enterprises and businesses.

Tool 1.5 outlines a process that can be used to identify economic problems.

Industry benchmarks are readily available to provide a point of reference to indicate how your beef business is performing compared to others in the industry. These benchmarks allow you to:

- quickly check your business health.
- identify opportunities for further improvement in your business (comparing your benchmarks to others).
- monitor progress of your business over time (comparing your benchmarks between years).

Check against industry benchmarks

Benchmarking can be indirect, where beef producers calculate their own performance indicators and compare them against published industry benchmarks, or direct, where individual producers contribute their farm information into a service that generates the benchmarks for more direct comparison with other producers.

To determine which benchmarks will be relevant to your business, we suggest you start with some of the primary benchmarks in **Tool 1.6**. At the whole-farm or business level, these will tell you how healthy your business is and, at the enterprise level, they will identify those areas of the business where you have the greatest opportunity for improvement.

Complete a SWOT analysis

Another useful tool to assist you in analysing and interpreting the information you have gathered on your enterprise is a SWOT (strengths, weaknesses, opportunities and threats) analysis (see **Tool 1.11**). SWOT is a simple framework into which you can clearly organise thoughts and analyse your position. It will enable you to gain a more strategic understanding of the current situation.

The purpose of a SWOT is to analyse an enterprise's internal strengths and weaknesses in light of the external opportunities and threats. A SWOT can be completed for the whole beef production enterprise reviewing the five-year outlook of a beef enterprise, or for selected parts of the enterprise (eg assessing a breeding or finishing program).

A SWOT analysis can be done by an individual but is more powerful if more than one person is involved because different people will see the enterprise in different ways. The output enables you to:

- know the value of the enterprise as the basis for forward planning.
- determine whether goals and objectives are being met and if there are gaps.
- know the impact of proposed changes to the enterprise strategy.
- justify further investment of resources (time and money).

A key purpose of a SWOT is to assist you in identifying 'critical success factors' that will enable you to:

- build on your strengths
- eliminate or minimise your weaknesses
- exploit opportunities
- develop strategies to deal with threats

These factors become a key component in formulating your business plan.

Manage the risks

All business decisions involve potential (opportunity) and risks (threats). The SWOT analysis is an ideal starting point to quantify the risks as the basis of developing a risk management plan. Seasonal and price risks are the most obvious for beef enterprises. Less obvious - but just as important - are human resource, environmental and economic risks.

The degree to which any risk is a threat to a business will vary considerably according to location, production system, financial position, farm size and so on. The risk that external factors pose to the business is a combination of the probability of the event, the size of the loss that will be incurred and the longer-term implications for the business should it happen. These things change with time and must be constantly reviewed.

It is useful when making significant business decisions to carefully assess the potential and risks.

It is critical that each business completes its own risk assessment and quantifies the relative importance of the risks. A farm business risk assessment template (**Tool 1.7**) helps identify the 12 most common areas of risk. The tool asks questions you should answer when considering these risks. Do not limit yourself to the questions asked in this template; it is a guide to get you started.

Strategies to manage risk include ensuring you have:

- **a low cost structure**, including a low cost of beef production, so your business can withstand periods of low commodity prices. This is why a low cost of production is so important. This means the business is more profitable for more weeks over time.
- **a diversified income stream** to buffer periods of low prices in one particular enterprise. The downside of this strategy is that it may complicate your business and increase costs. An alternative to diversification includes developing off-farm income sources.
- **reserves**, both financial (such as farm management deposits) and fodder reserves to withstand periods of drought, low prices or change in the business (**Tool 1.8** provides a checklist for drought preparedness).
- **insurance against risks**, which may include fire, or financial tools to manage interest rate or commodity price variation.
- **managements systems to manage production risk**. Well designed management systems fit your pasture growth curve, are flexible to manage good and bad seasons and incorporate a management calendar that allows you to track key reproduction, stock growth and husbandry events.
- **adequate equity** to manage down turns in commodity prices while still taking advantage of opportunities to pursue business growth.

An acceptable balance between the business 'potential' against the 'risk' is required and this will vary between individual managers and family situations. If you consciously consider potential against risk each time a business decision is made then the outcome from the decision is more likely to be successful.

A useful process to gauge the risks is to prepare 'worse case', 'best guess' and 'good case' scenarios. This takes more time but, with computer software, these analyses can be run as one. Such analyses are invaluable, not only to see what the best guess might be, but also the upside and downside risks.

What to measure and when

Collating this information in the initial business planning process will provide valuable insights, but ongoing review of these data points is crucial to ensure you keep check on the on-going health of your business.

This on-going analysis of the position of the business can be drawn from:

- regular (eg: weekly, monthly, quarterly) business meetings to review and update all stakeholders involved in the enterprise. It is important to take formal meeting notes during these meetings to encourage thought behind what people say and to verify what was said in the future.
- annual use of the SWOT analysis to review the current and future position of the enterprise.
- monthly review of cash flow budget and updates of the profit and loss statement.

- annual review of profit and loss statement and balance sheet.
- annual benchmarking review and comparative analysis, assessment of cost of production (CoP) to evaluate performance and make tactical and operational change.
- annual risk assessment to help prioritise the operating risks in your farm business.

Use of these methods will form the basis for developing the strategic direction and build an understanding of the levels of planning (strategic, tactical and operational) and the benefits of thorough planning.

Further information

- MLA's EDGENetwork offers practice learning opportunities to help producers gain knowledge and develop skills necessary to improve their livestock enterprises. For further information visit <http://www.mla.com.au/edgenetwork> or email edgenetwork@mla.com.au
- The Department of Primary Industries, Victoria's Livestock Farm Monitor Project provides an annual report on farm performance that can assist in benchmarking. Available at <http://www.dpi.vic.gov.au>
- find private consulting groups who can provide benchmarking information specific to your region and enterprise by searching for 'farm benchmarking' on a web search engine (eg Google Search).

Procedure 2

Establish business goals and objectives

Planning is an ongoing process that should consider all aspects of your business.

The first step in developing a farm plan is to develop a mission statement together with a selection of goals that will cover the important aspects of the business.

Meaningful mission statements

A mission statement is a statement of purpose. It outlines why you are in business and helps you make decisions that align with your values and goals.

It is a concise paragraph (ideally a sentence) describing what your business does and for whom. A mission statement should cover three things:

1. who you supply (eg feedlots, consumers, other producers)
2. what you supply (eg cattle, beef)
3. what distinguishes your product (eg grassfed, MSA graded)

The best mission statements are usually born as a result of a combined effort, with input from all stakeholders involved in the business.

A meaningful mission statement should:

- be easily understood by any adult (if not, reword it).
- not box you in (it should withstand challenges and changes that occur over time).

Guidelines for setting goals and objectives

Goals imply a purpose or a direction, whereas objectives must be measurable. Often achieving a goal will require several specific objectives to be met. If you have multiple goals in your business (almost everyone does), then you will need to prioritise them.

Business goals and objectives define the purpose of your business and, once identified, should be revisited on a regular basis to ensure you remain focussed.

Goals and objectives must be balanced between personal, social, environmental and financial components of the business and should be unique to that business.

Tool 1.9 provides further information about setting goals and objectives, including choosing "SMART" objectives that are:

- Specific - detail what is to be achieved
- Measurable - for comparison with actual results
- Achievable - avoid overly optimistic goals
- Realistic - ensure objectives are 'do-able'
- Time bound - put a timeframe on achieving the objective

Goals must be prioritised and it is important to distinguish between levels of planning to ensure your plan and goals address:

- **strategic** decisions - these provide direction and purpose and focus on the 'big picture' for your business. They concern the long-term future (5-20 year timeframe) of the business and are the basis of annual planning to set directions.
- **tactical** decisions - these involve choice and decisions. They are often made each season and become the steps the business takes in the medium-term to achieve future goals.
- **operational** decisions - these relate to the day-to-day operation of a farm and are often made in 'real time'. They include decisions that need to be made quickly to allow the farm to adjust to change (eg in seasonal conditions or commodity prices).

Farming businesses are usually very good at tactical and operational decision making, but often steer clear of the more difficult but important long-term strategic decision making and goal setting.

Guidelines to planning the business goals and objectives

The goals and objectives that are set for the beef enterprise must incorporate all aspects of the business including:

- business structure
- financial management

- production management and enterprise mix
- natural resource management
- marketing management
- family and staff management
- risk management

Tool 1.9 outlines a straightforward process for setting goals and objectives. To assist, there is a 'starter' tool included on how to prepare a business plan in **Tool 1.10**. This is relatively simple, and fits well with the SWOT analysis (**Tool 1.11**). **Tool 1.12** provides an example of a planning process.

These tools provide a relatively simple approach to analysing your enterprise, setting goals and objectives and preparing a business plan. Many businesses - inside and outside of agriculture - find that engaging professional assistance to facilitate the process and provide unbiased independent advice is the best way to get started with the development of formal business plans.

What to measure and when

A key requirement to preparing goals and objectives is to ensure they are measurable. It is important to establish concrete criteria for measuring progress toward the attainment of each goal you set. Without the ability to measure your progress you cannot determine whether you are on the right track.

To measure your progress towards or the achievement of your goals and objectives, you must assess all aspects of the business plan that have measurable targets or key performance indicators (KPIs).

The frequency of measurement will depend on the particular target. For example, operational short term measures may require weekly measuring, such as pasture growth. Financial performance may require monthly assessment, such as cash flow budgets (how actual cash flow compares with budgeted performance). Overall farm business analysis requires annual review and an assessment of performance against KPI's and specific targets.

Review is critical, but remember to consider variations in both climate and commodity prices to assist the development of measurable performance targets for future years.

Further information

- Financing your farm: A practical guide to financial growth by A Blackburn and A Ashby (Australian Bankers Association and Grain Growers Association).
- MLA's EDGENetwork offers practice learning opportunities to help producers gain knowledge and develop skills necessary to improve their livestock enterprises. For further information visit www.mla.com.au/edgenetwork or email edgenetwork@mla.com.au.

Procedure 3

List options for improvement, evaluate benefits and feasibility of options, and choose the best strategy

An enterprise's strategy may include options ranging from simple modifications of existing operations to complex changes affecting the whole enterprise. Being able to explore options and quantify the benefits of change is integral to developing your farm plan and committing to that change.

Understand what information is required and the process of determining options.

Guidelines for exploring options to change enterprise strategy

There are many different enterprise strategies that you can evaluate that will improve farm profitability, natural resource management and your lifestyle. Once opportunities have been identified to improve your existing business, consider other information important to your final decisions, including:

- your view of the value of future markets and commodity prices in the new enterprise
- historical commodity price variation in real dollars over longer time periods (eg 10–15 years if available, corrected for inflation)
- potential productivity improvements and how the new system fits the pasture growth curve
- profitability and capital required for alternative enterprises
- impact on environment and natural resources
- impact on lifestyle and labour efficiency
- your management skills to run the new or changed enterprise.

A wide range of scenarios can be reviewed initially for feasibility in a typical year using simple screening techniques. Depending on the type of changes considered, the options for improvement can be compared using the following techniques:

- Simple **gross margin analysis** to compare enterprise income and direct (variable) costs. The analysis can be conducted on a total basis or per hectare, per DSE (dry sheep equivalent) or per livestock capital invested in the enterprise; depending on which resources are most limiting.
- **Partial budgets** are useful to examine one aspect of change without including the whole farm business (additional returns minus additional costs). **Tool 1.13** shows a worked example of a partial budget and the subsequent return on investment calculation. This takes into account all the variations in returns and costs, including additional capital associated with the proposed change. It mirrors the whole farm budget but only accounts for those items that vary if this investment or option is adopted and implemented. The returns on additional capital required are as important as the overall return on total capital. You can use the spreadsheet tool to analyse your own scenario.
- With complicated investment decisions where large capital outlay or longer timeframes are involved before returns are generated, methods such as **discounted cash flow analysis** are useful analytical tools as the value placed on money changes over time – a dollar in the future is regarded as being worth less than current value (see 'Comparing analysis approaches' box, below). The discount rate chosen for 'devaluing' future returns is normally the assumed rate for borrowing, say 8%, plus an addition for risk, say 4%, giving a rate of 12% in this example. This is often referred to as a nominal discount rate because inflation is included.
- When changes involved in the transition are substantial and multifaceted, (eg when purchasing more land or changing enterprise or time of calving), you should undertake a **whole-farm budget** to fully understand the consequences for the business including cash flow, liquidity and financing. Tools for whole-farm analysis that require you to quantify the marginal costs, marginal income, discounted cash flow analysis, time to break even, lifespan of the investment and the relative return on capital invested across multiple enterprises and with complex interactions between them, are complex. If they are required, you should seek professional assistance.
- The **biological impact of strategies** should be investigated including potential impact on pasture utilisation, pasture growth rates, nutritional management and beef production. The Feed Demand Calculator (**Tool 1.3**) and MLA Rainfall to Pasture Growth Outlook Tool (**Tool 1.4**) are extremely useful to understand the impact of feed demand and feed supply with changing systems (eg time of calving, time of sale of stock or even changing enterprises from breeding to trading). Bio-economic models are available, usually with the assistance of a consultant, to assist complicated decisions.

Comparing analysis approaches

The differences in outputs from partial budget analyses and discounted net cash inflow analyses are as follows:

Partial budget analysis outputs

- Net gain (returns minus costs).
- Percentage return on extra capital invested (such as in livestock).

Discounted net cash flow analysis outputs

- Net present value of the investment over the period of time (discounting the value of returns and costs in the future).
- Internal rate of return is the interest rate that discounts a cash flow to zero (that can be used to compare projected returns with the opportunity cost of investing the money elsewhere).
- Nominal net cash flow (inflation included).
- Cumulative net cash flow.

Manage the risks

When planning a new enterprise, you should consider the effect of change on all options you are exploring. This should involve sensitivity analysis with budgeting to include a wide range of price scenarios and costs, the impact of drought and a range of productivity scenarios due to different seasonal conditions. Refer to **Procedure 1** for more information on risk analysis. Undertake the same procedures for enterprise changes and operational changes.

Management needs to have the knowledge and skills to manage change. The main risks with transition of enterprises are failing to gain the highest enterprise profit and taking longer to achieve profit objectives because:

- investment is not scheduled in order of the highest rate of return
- enterprise changes are not planned to maximise profit.

A worst case scenario is when the farm business is destabilised by declining cash flows during transition. This may contribute to reduced equity and liquidity. Options available to address this include:

- re-calculating budgets.
- stopping or limiting progress of change and re-directing investment to areas of higher returns and/or lower risk.
- delaying or advancing implementation to better fit cash flow and management constraints.

In some circumstances, business equity can increase while cash flow is reduced. Such is the case when increasing stocking rates as sales are forgone and assets (livestock) are increasing.

Constraints

Analysis with budgets of a new enterprise does not directly take into account the costs or benefits associated with quality of life, but these factors are important enough to be considered in the trade-off between personal goals and maximising profit. Such unquantifiable benefits include the ability to take a holiday, the total number of hours worked each day, the timeframe in which the work needs to be completed, attitude to borrowing money and taking risks.

Similarly, you may want to put constraints on some forms of development because of concerns about potential environmental or resource management effects.

In these instances, it is useful to assess the cost of these constraints in terms of any decrease in profitability, so you are in a better position to consider the pros (positives) and cons (negatives) and make a more informed decision.

What to measure and when

It is not uncommon for potential returns from on-farm investment to vary from 10% to more than 30% and therefore it is critical to identify better investment opportunities.

Assessing the competing investment options for a farm's scarce resources involves quantifying or qualifying the:

- **net change in income**, accounting for increased income and any trade-offs or income reductions, such as lower income, if there is an increased focus on an alternative beef production enterprise.
- **net change in expenses**, accounting for any increased costs (both cash outlays and any non-cash costs such as additional owner-labour requirements or depreciation on plant and equipment) and reduced costs.
- **scale of the investment** (capital and human resources). For example, an investment in pastures will need to be accompanied by an often greater investment in additional livestock and may require increased management inputs.
- **likely repayment period** for the investment and the cash flow implications, accounting for the climatic and production risks involved.
- **life span of the expected benefits** from the investment. An investment of \$50,000 in a change that produces a benefit of \$15,000 per annum over ten years (\$150,000 in total) is better than an investment of the same amount with the same benefit but only for five years (\$75,000 in total).

- **nature of and additional exposure to risk** associated with any new or alternative enterprise.

It is critical with all options to initially calculate the **marginal return on investment**, the overall annual impact on **enterprise profit** and overall **return on capital** and **cash flow**, business **equity** and **liquidity**. Undertake annual reviews to ensure strategies adopted are working to expectation and budget.

Guidelines to determine the sequence of investments when implementing change

Once you have identified the best strategies, develop a sequence and list the key steps needed to implement each strategy. Devise an approach that suits your farm and management ability and includes rigorous review of both biological and financial indicators.

The first step is to decide how your enterprise will change (eg time of calving from March to August or herd structure from predominantly breeding to a mixture of breeding and trading). For each strategy being adopted, list the practices by month, in order of their application, and align the costs and benefits. Quantify the total productivity (kg/ha) and profitability (\$/ha) for the enterprise and business.

Document the sequence of investments to identify cash flow and management inputs

Being able to explore the options and quantify the benefits of change is integral to committing to that change. The two critical outcomes of any change are that:

1. the change makes a good marginal return to the capital invested, and returns are over and above alternative, less-risky uses of capital, such as off-farm investment
2. investments in the farm go into the area of next-highest return on capital and effort invested.

To ensure you will improve the returns over the whole farm, any calculations are best done on a whole-farm basis.

Farm businesses most often involve multiple enterprises with complex interactions between them. **Tool 1.12**, taken from MLA's publication *Towards Sustainable Grazing: The Professional Producer's Guide*, provides a framework for quantitative and qualitative information to be included as the basis for implementing a planned change. In a relatively systematic way, it assesses the benefits and potential flow-on effects and implementation challenges. It is most suited to evaluating the sequence of investments and likely benefits of important decisions that affect the operation of the farm. You might make several of these types of decisions in a year.

The focus is on decisions that can have flow-on effects across the system, or decisions in areas where you lack confidence to do something 'off the top of your head'. Examples of such decisions might include applying fertiliser, re-sowing a pasture, changing grazing strategies or selecting a different market sector.

Manage the risks

The main risks of any new project are taking too long to achieve enterprise goals and failing to gain the highest possible profit. This is likely when:

- investments are not scheduled in order of highest rate of return on investment
- enterprise changes are not planned to control cost and maximise returns.

Aim for minimum time and a cash flow when implementing transition plans

Key variables influencing the outcomes, such as fluctuations in sales and market prices, are used as long-term average values in the initial analysis. Use a range of prices (eg real 15-year beef price percentiles) to assess the risk at the bottom 20% of price and 'good case' scenario at the 80% percentile. On this basis you can select your preferred order of action to account for what you think are the areas of greatest risk.

Calculate the enterprise scenarios using inputs and outputs that are likely to vary.

What to measure and when

The following areas should be measured:

- marginal return on investment for each project and option
- annual enterprise profit (return on capital)
- yearly cash flow, business equity and liquidity
- pasture utilisation on a monthly basis (for projects that change pasture growth or feed demand).

Further information

Other sources of local information include:

- being a member of a production or marketing group
- attending field days, seminars and industry conferences
- reading widely to keep up-to-date with new technology and to gain insights from other producers.
- A reference for determining comparative return on investments is *The Farming Game: Agriculture Management and Marketing*, 2nd Edition, Cambridge University Press, 2005.
- Across Australia, a number of established private training and agricultural service providers deliver training courses and offer advice on

choosing business strategies. You can find these in the Yellow Pages or by web searching 'agricultural training'.

- MLA's EDGENetwork offers practice learning opportunities to help producers gain knowledge and develop skills necessary to improve their livestock enterprises. For further information visit www.mla.com.au/edgenetwork or email edgenetwork@mla.com.au

Procedure 4

Document the plan

The extent to which a business plan is documented is a personal and business choice. To avoid the risk of misinterpretation, it is best to write down your plan.

The very action of writing down goals and objectives and the overall plan gives the process more rigour, forces a deeper level of thinking and clarity, and can impose a discipline that might otherwise be lacking.

Further, research has clearly shown a person's wellbeing index (or happiness) can be significantly improved when they achieve goals they have previously set. When these are easily identified because they are in writing, personal happiness is generally better. This is a key reason for the formal planning process and in particular, writing it down.

While the business owner/s may have the final say, inputs from staff, suppliers and advisers can be sought more easily and incorporated if the plans are written and therefore easily shared. This helps everyone involved in the business to acquire a sense of achievement.

Accountability, including tracking progress towards the goals and objectives, is easier when they have been recorded.

Goals and objectives need to address short-term (this year), medium-term (3–5 years) and long-term (next 10 years) and this is difficult to clarify without a written plan.

Determining and balancing priorities, including between conflicting objectives, is easier when they are documented. In part, this will involve determining the core values of the business and determining the priorities on that basis.

Writing a plan down formalises the process, which is helpful if objectives need to be set and decisions made in an area where you do not have extensive experience.

Documenting a plan is also useful when you are seeking financing or external investors. Finally, it always makes for good reading to go back over your plans and see how you have grown and succeeded.

Tool 1.4 provides a structure or format for a written business plan. While you do not have to follow this to the letter, it gives a good indication of the typical information you will need to document during the planning process.

Procedure 5

Implement the plan and monitor progress

Once you have reviewed your enterprise, developed your goals and objectives and settled on the best strategies to pursue, you need to turn your attention to actually implementing and monitoring your activities as you move through the changes you need to make to achieve your goals.

Guidelines to implementing and monitoring a change

Ensure that all family and staff members know what is to be implemented and by when. In a successful farming business, it is important to:

- ensure each member of the business knows their roles and job responsibilities.
- develop a set of clear ground rules to reduce the risk of personal conflict.
- discuss and agree on expectations pertaining to key areas of the business.
- create a written agreement that has regular review dates set in advance.
- hold regular business meetings to ensure all people in the business spend part of their time and energy working on the business, and not just in the business.

The implementation of any enterprise transition plan should be part of the annual operating plan for your farm. Aim to achieve the change from current practice to new enterprise strategies in as short a time as possible. At the same time, ensure that cash flow maintains business equity and liquidity within the set limits. Develop a process that tests, prioritises and sequences the best-bet options to maximise return on investment of time and capital and annual business profit.

A successful transition plan should control then improve enterprise cash flow.

Monitor and evaluate

Monitoring and evaluation of progress are the basis for continuous improvement in a beef enterprise. Monitoring provides an extremely important check on the accuracy of the inputs and predictions from the analyses used to set the enterprise strategic direction. They are also necessary to ensure that the plan is being implemented as intended and that changes in enterprise productivity and profitability align with predetermined targets after accounting for variations in pasture growth, market prices and variable costs.

Monitor the productivity and profitability of your business regularly

There is generally a strong association between ongoing monitoring and feedback and the successful implementation of a plan. Continual monitoring of physical resources, livestock performance and financial outcomes provides you with confidence that the strategies are either on-track or need revision. The system must alert you to weaknesses in the enterprise operation and allow you to take the necessary corrective changes based on accurate information. This helps to reduce the risk and uncertainty about whether changes made to your beef enterprise are actually working.

Monitor physical resources, animal performance and financial outcomes to check enterprise strategies are on-track

Undertake sufficient monitoring to effectively update your short-, medium- and long-term objectives from the results of the previous year. It also makes sense to review the strategic direction periodically in relation to changes that have occurred in technology advances, genetic progress, pasture species and your own business and family goals.

Check the accuracy of inputs and predictions.

Benchmark your beef enterprise

Monitoring change to the business is achieved by benchmarking the performance of your enterprise as outlined in **Procedure 1**. Benchmarking is not only important to evaluate how the business compares with industry, but when your business is undergoing change, benchmarking the performance is a critical aspect to evaluate success and also to identify ongoing aspects that can be further improved.

Manage the risks

Risks associated with implementing a new strategic direction in the beef enterprise can be managed by carrying out the procedures in this module with attention to those parts that are relevant to your farming business.

The main risks of transition are failure to gain a higher enterprise profit from the restructure. To ensure success:

- management needs to have the knowledge and skills to manage change
- implementing the transition plan in a logical sequence leads to greater productivity

- investments must be scheduled in the highest order of rate of return on investment
- enterprise changes are planned to control cost and maximise returns.

Other risks include one or a combination of the following:

- not knowing the accuracy of the analysis or predictions used
- not having an accurate way of knowing whether planned actions or tactics are meeting targets
- lack of objective feedback to build confidence in change
- implementation of the planned changes is not successful
- over time, changes in the overall business environment, or in your own business or family goals, mean that the initial directions set are no longer the most appropriate.

Manage risks and take the appropriate corrective actions

When tracking progress, potential corrective actions include:

- identifying the reason for being off-track and taking the appropriate action when outside the limits you set
- rigorous checking that implementation is not at fault
- revising the analysis using updated values when change is implemented correctly
- re-examining the original analyses when the original projections are not on-track. Using your own information can add confidence to the review
- re-examining the strategy every five years, or in the event of a new opportunity (return to **Procedure 1**).

A worst-case scenario is when the farm business is destabilised during the transition phase by declining beef enterprise cash flow. This contributes to reduced equity and liquidity so that business commitments may not be met. The options for corrective actions include:

- **complete or re-calculate** partial budgets, beef business and enterprise budgets and cash flows to establish discounted rates of return and implement projects in order of decreasing return.
- **stop or limit progress** on those changes with relatively low discounted rates of return and re-direct investment to business areas with the highest rate of return and highest likelihood of success.
- **delay or advance implementation** of the rate of change as cash flow and time constraints increase or decrease.

What to measure and when

When changes to an enterprise are made, it is important to monitor both physical and financial indicators to allow a thorough comparison with targets. For a start, compare actual management change compared to budgeted changes on your monthly (or weekly) management calendar.

Cash flow budgets should be analysed, comparing actual to budgeted performance at least monthly in addition to an annual review. Annual profit and loss should be reviewed as should the farm balance sheet. This information can be used to perform an annual benchmarking review.

Monitor key performance indicators for your beef business>

Measuring the cost of production is a useful process (refer to **Procedure 1** and **Tool 1.2**). More specific business and enterprise benchmarks can be obtained from benchmarking services that are available within regions and across regions.

Monitor key physical and financial key performance indicators that impact on your beef enterprise, remembering that:

- **Lag indicators** can only be seen after the event and are more closely related to the ultimate measure of performance and return on assets (RoA). Examples of these include return on assets, cost of production and equity change.
- **Lead indicators** can be used in real time or before the event, with the aim being to track progress and reduce the impact of unforeseen events. These will be related to return on assets to varying degrees. Examples include stocking rate, pasture utilisation, weaning rate and percentage of carcasses meeting market specifications.

Refer to **Procedure 1** and **Procedure 2** for appropriate methods for re-examining the overall strategy.

Further information

- Numerous farm management consultants or rural based accountancy practices provide benchmarking services and have similar regional specific publications that provide production and productivity benchmarks.
- MLA's *EDGEnetwork* offers practice learning opportunities to help producers gain knowledge and develop skills necessary to improve their livestock enterprises. For further information visit www.mla.com.au/edgenetwork or email edgenetwork@mla.com.au

Farm data questionnaire

This may include a checklist of questions that need to be answered when exploring and evaluating new options, for example variable costs, labour, special training, compliance, return, risk factors, capital investment required, maintenance, real asset depreciation, animal feed requirements, health issues, availability of livestock, market volatility, prices, specifications and variation.

If a consultant is being used to assist with the task, they are likely to require information relating to:

- land area and land use
- rainfall data
- fertiliser rates
- labour availability and usage
- herd numbers and livestock classes
- stocking rate
- marketing options
- stock sales
- herd reproductive data
- supplementary feeding amounts and practices
- cattle enterprise costs
- farm overhead costs
- cash flow
- balance sheet
- profit and loss statement.

CoP Calculator

The MLA Cost of Production Calculator measures the performance of your enterprise and enables a comparison of the health of your business with other producers. It also identifies where there is scope for improvement, or if your enterprise is already performing well.

The new MLA Cost of Production Calculator combines functionality for beef, lamb and goat production.

Cost of Production Tool

The cost of production calculator is a tool kit to help you determine your CoP and compare performance annually.

For Producers	How this will help you	What you need
 <p>Australia</p>  <p>Cattle, sheep and goat livestock</p>	<ul style="list-style-type: none">• Determine your cost of production over a 12 month period.• Track and compare your performance annually.	<ul style="list-style-type: none">• Herd/flock records (number of animals per stock class)• Sales and purchases records per stock class• Tax statement• Fixed and variable cost records by enterprise type (e.g. labour, supplements, transport)• Kill sheets (to calculate dressing percentages) <p> 15 mins</p> <p> Can use offline</p> <p> Mobile friendly</p>

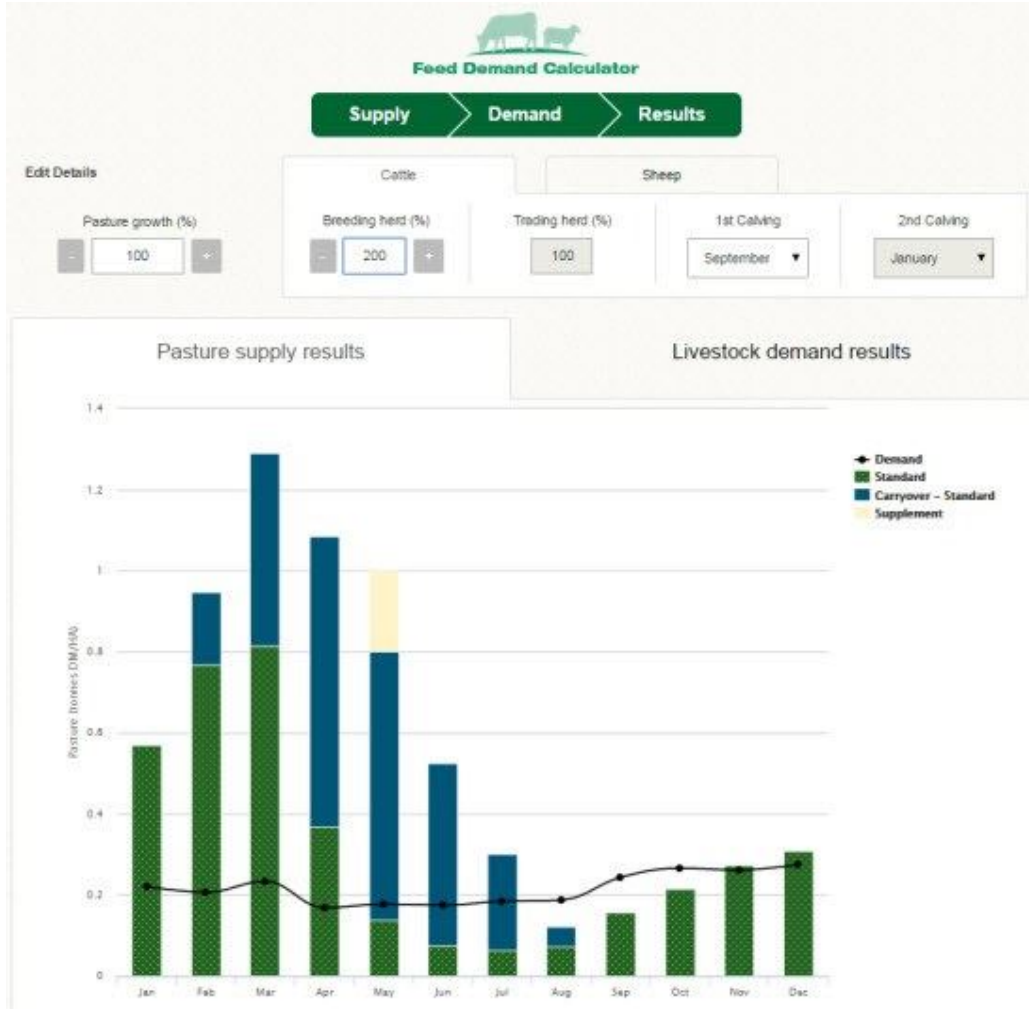
To get started, what enterprises do you manage? Beef Sheep Goat [Get started →](#)

Access the **Cost of Production Calculator** on the MLA website.

Feed Demand Calculator

The MLA Feed Demand Calculator clearly illustrates the pattern of feed supply and demand over a 12-month period, the location of feed gaps, and the ways in which modifying the livestock enterprise might help to close those gaps.

The calculator can be used by red meat producers in the planning stages of their enterprise.



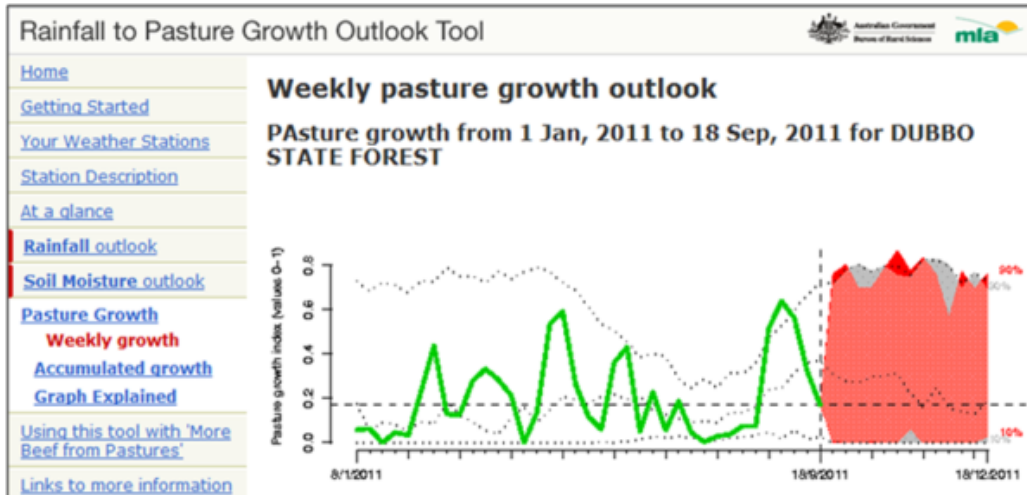
Access the [Feed Demand Calculator](#) on the MLA website.

Rainfall to Pasture Growth

The MLA Rainfall to Pasture Growth Outlook Tool presents the actual rainfall and indexes of soil moisture and pasture growth for the past 9 months, and a 3-month outlook for over 3,300 locations across southern Australia.

Because the tool covers such a diverse range of soil and pasture types across southern Australia, it provides an index of potential pasture growth, not a prediction of actual growth.

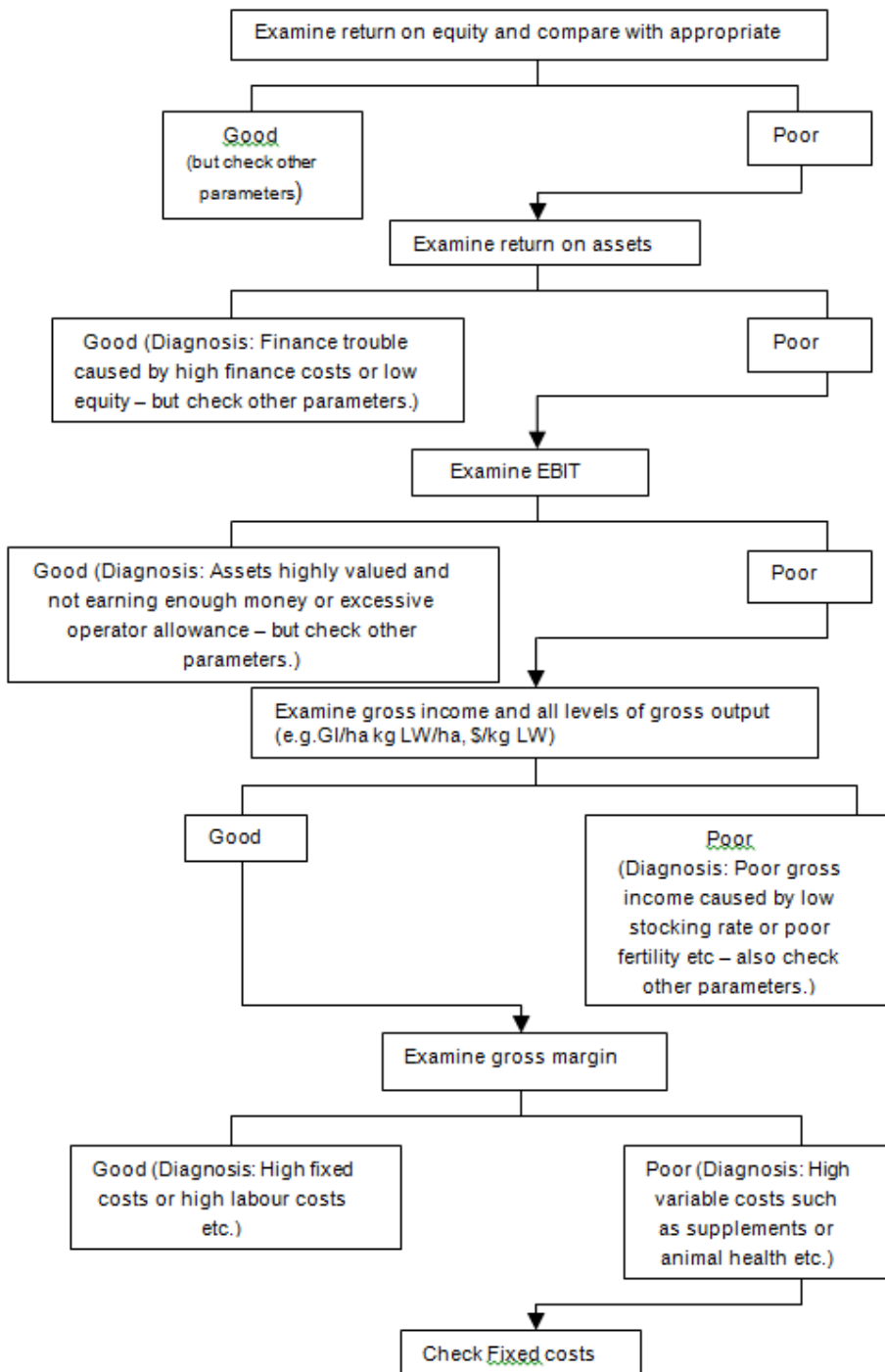
The pasture growth index should be interpreted in light of local knowledge about species, soil type, fertiliser history and aspect.



Access the Rainfall to Pasture Growth Outlook Tool on the MLA website.

Diagnosing problems

The figure below outlines a process to identify economic problems at all levels of the business as a first step to improving business performance.



Developed by The Mackinnon Project, University of Melbourne

Industry benchmarks

Primary farm business and beef industry benchmarks with questions answered, methodology and a guide to performance using publicly available references.

Table 1: Whole-farm benchmarks

Whole-farm benchmarks	Question answered	Methodology	Guide to performance*
Net profit before tax profit KPI	Will the profits meet your drawing and provisioning requirements?	Earnings before interest, lease payments and tax	> \$90,000 = strong ¹
Return on assets managed profit KPI	Is the farm meeting its operational efficiency targets?	Earnings before interest, lease payments and tax ÷ total assets under management	> 4% = strong ²
Return on equity profit KPI	Is the farm meeting your wealth creation targets?	Earnings before interest ÷ total assets under management	> 4% = strong ³
Interest cover solvency KPI	Is the farm generating enough profits to meet debt servicing obligations?	Earnings before interest, lease payments and tax ÷ interest and lease payments	3 = strong
Peak debt	Will your finance arrangements cover your working capital requirements?	Lowest working account balance for the year	n/a
Expense ratio risk KPI	Are you generating enough income to meet your ongoing expense needs?	Profit before interest and tax ÷ gross income	> 30% = strong ²

Table 2: Enterprise benchmarks

Enterprise benchmarks	Question answered	Methodology	Guide to performance*
Productivity efficiency KPI	Is this enterprise as productive as it should be?	Quantity of product produced ÷ grazed hectares	> 35kg beef lw/ha/100mm = strong ³
Price received efficiency KPI	Are you getting the price for this product that you should?	Gross income for the product ÷ quantity of product produced	n/a
Cost of production efficiency and risk KPI	Is the cost of producing this product more than it should be?	Total expenses ÷ quantity of product produced	> \$0.80/kg beef lw = strong ²
Stocking rate efficiency KPI	Are you running as many sheep and/or cattle as you should be?	Stock numbers as DSEs ÷ grazed hectares	> 2 DSEs/ha/100mm = strong ²
Gross margin	Is this enterprise as profitable as it should be?	Enterprise gross margin ÷ grazed hectares	\$20/ha/100mm = strong ²

* These are provided as a guide only and will vary depending on rainfall (total and seasonality), growing season etc.

1 Farm Management 500 (2006). Business Health Indicators for Professional Farmers.

2 Holmes Sackett and Associates (2007). AgInsights 2006 – Knowing the Past: Shaping the Future. Holmes Sackett and Associates Pty Ltd.

3 Department of Primary industries (2005). Monitor Farm Project 2004/05. Victorian Department of Primary Industries.

Farm risk assessment

This template is designed to help prioritise the operating risks in your farm business. Look at each of the 12 risk areas, one at a time. Each risk area is split into two components. Place a score from 0 to 5 as per the risk assessment criteria for each component.

Open PDF of Risk Assessment

RISK ASSESSMENT CRITERIA

- 0 No risk or not applicable.
- 1 Very low risk. Unlikely to have any measurable impact.
- 2 Low risk. Business likely to survive impact relatively unchanged.
- 3 Moderate risk. Could cause significant temporary setback.
- 4 High risk. Could cause significant permanent setback.
- 5 Extreme risk. Has the potential to destroy the business.

1. HUMAN RESOURCE

You should look firstly at yourself, the manager of the business. Are you the main problem or are you right on top of the job, constantly honing your skills? Hard question this! Can you answer it honestly? Next, look at the availability of a skilled labour pool. This can come in the form of individuals suitable for permanent or casual employment, or in the form of contractors or contract services. Is there a big pool available? How good does the pool look? What is your track record of finding, employing and retaining first class staff?

Owners/managers

Employees

2. PRODUCTION

Is your production system efficient? How competitive is your cost of production? A competitive cost of production is a ticket to play if you are in the commodity business; it is a given. Unless you have it together here, the rest is irrelevant. If your cost of production is uncompetitive, why is it? Is the problem a lack of operating scale, a poor production plan, expense over-runs or what? Obviously you cannot properly address this important area of risk unless you know your five year average cost of production for each product and the volatility inherent in it. Having cost of production data for one or two years is a good start and is way better than having none. If your cost of production is uncompetitive, is it because your output is too low or your inputs are too high?

Output too low

Input too high

3. DEMOGRAPHIC

This can come in two forms. The first form is associated with remote location where community infrastructure is suffering making it difficult to access essential services and attract competent staff. The second form is associated with closer settlement where a real estate premium on land values may be making it difficult to either expand operations or justify staying there. The same form of demographic risk can be created by higher value industry springing up in the district which can afford to pay a significant premium for land over and above its traditional use value.

Remoteness

Proximity

4. ENVIRONMENTAL

This also comes in two forms. The first form is the environmental health of the farm. Are there any major environmental issues that are constraining production and profitability? For example, salinity, acidification, woody weeds and soil erosion are serious constraints to production. The second form of environmental risk is external. What are the prospects of government or semi-government bodies imposing constraints on your operating activities to satisfy environmental requirements?

Health

Impositions

5. CLIMATE

This should be appraised on the basis of frequency and severity. Frequency is self explanatory, for example if you experience rain at harvest six years in ten, you have a frequent problem. Severity involves the failure of a particular season, drought, floods and severe frosts. Also, heavy rain at harvest is a severe climate problem. Relying on memory or guessing is not good enough so, ideally you need to access 100 year records and perform an analysis. If the risk of drought or flood or frost is, say 20% that means that on average you can expect one of these events every five years. If this is the case, you are then able to factor the economic consequences into budgets and forecasts.

Frequency

Severity

6. ECONOMIC

This is the risk posed to the business by general movements in the economy. For example, a change in interest rates or a recession can have financial implications for some farm businesses and the market for the products if demand is down. In general, businesses that produce commodities are more sensitive to economic risk than those businesses that enjoy pricing power. Specific economic risk is industry dependent. Is the industry deeply cyclical? When it troughs is your business still profitable?

General

Specific

7. GEOGRAPHIC

This refers to your location. Is your location constraining you in any business sense? For example, if you are in a remote location, does this remoteness significantly increase your cost of production? What other constraints does geography impose? For example, if you own upper river valley country, contiguous expansion through land purchasing can be very difficult. Specific geography refers to the quality of your land. Is it swampy, sandy, steep or rocky to the point where production potential is severely constrained?

General

Specific

8. MARKET

This refers to the overall trading conditions for the enterprises that you are involved in. If you are a horticultural producer, what is the inherent risk in the horticultural market? Overall, is it a local risk where there is a growing tendency for corporate agriculture to out compete individual growers for the available markets or is it from overseas?

Domestic

International

9. PRICE

This looks at the degree of price volatility over a period of time. The full spectrum of volatility needs to be carefully appraised, preferably so that price deciles can be derived. If price deciles are available, they can be used in budgeting and forecasting and are valuable when doing a full assessment of the financial risk of the business. Is the long term real price trend falling faster than you can lower your cost of production? Can short term price volatility send you into the red?

Long term

Short term

10. TECHNOLOGICAL

There are two forms. The first is the prospect of the current product being made redundant by technology. A classic example is the handheld calculator which made the slide rule redundant. A second form of technological risk involves the adoption of technology by the business. Does it have a good track record of adopting and using good, proven technology or, have initiatives in this area generally resulted in failure and lost productivity?

Redundancy

Adoption

11. FINANCIAL

There are two forms, debt and profitability. Is the debt low and manageable or high enough to put the business at risk? Is this position planned and temporary or a long term chronic problem? How much debt can the business afford to carry and where is the current level in relation to it. Is the business profitable enough to provide working capital for all the events in its life? Most importantly, does it generate enough profit to enable adequate provisioning of major future events like succession and retirement if they are on the horizon?

Debt

Profitability

12. FAMILY

How do you all get on? Do you talk openly and honestly, often enough? Is there a thorny issue serious enough to impair business performance? Can most issues be resolved sensibly and amicably through mutual respect and tolerance or is the pressure gradually building to finally explode and blow the business to bits? How about succession? Is it well planned and are all parties still talking?

Short term

Long term

Drought preparedness

This checklist outlines the important issues that should be considered with drought management. Substantial drought preparedness and drought management resources are available from MLA and state departments of primary industries and agriculture.

When faced with a failed season:

1. undertake an audit of feed reserves, labour resources and support network, including information sources.
2. determine likely duration of drought and worst case scenario (based on historical rainfall records), consider the MLA Pasture to Growth Outlook Tool (see **Tool 1.4**).
3. determine current value of livestock.
4. determine probable cost of feeding (or agisting) each livestock class
 - a) secure sources of fodder (roughage), concentrates (energy) and supplements
 - b) consider options to reduce price risk.
5. determine value of any production gained if stock class is kept.
6. determine future value of each class of livestock when drought breaks.
7. calculate likely cost–benefit of drought management options for each livestock class
 - a) feeding
 - b) selling and replacing after drought (also consider alternative enterprises)
 - c) capital cost of replacing stock
 - d) profitability of alternative enterprises
 - e) physical ability and knowledge to run alternative enterprise after drought
 - f) agistment during drought.
8. consider cash flow implications of feeding, including peak debt, ability to fund feeding and impact on profit for at least 3–5 years post drought.
9. consider if funding sources are secure for a period of drought.
10. consider possibility of production feeding any livestock class.
11. consider natural resource management
 - a) protect pasture resources – avoid erosion
 - b) ability to feedlot stock
 - c) audit of water resources.
12. consider pasture resources
 - a) grazing management to optimise pasture growth and preserve pastures
 - b) opportunist fodder cropping.
13. monitor physical and financial reserves regularly during drought.

Long-term considerations

1. Funding sources during drought.
2. Consider options to manage fodder supply and price risk
 - a) financial reserves
 - b) store fodder on-farm (buy when cheap or produce on farm in good seasons)

i. long-term costs

ii. adequate storage infrastructure.

3. Use forward contracts.
4. Use financial instruments to manage price risk.
5. Ensure enterprise fits with pasture growth curve to minimise impact of adverse seasons.
6. Ensure enterprise flexibility to fit pasture growth curve.
7. Optimise pasture growth, including use of drought tolerant perennial pastures.
8. Ensure adequate infrastructure, including water reserves.
9. Maximise profitability in good seasons to ensure adequate equity and financial strength to manage poor seasons.
10. Review drought policy after each drought, and finetune for future drought.

Simple goal setting

If you already undertake formal strategic and operational planning within your beef production enterprise, then you will already have goals and objectives set for both the short and long term.

Alternatively, if you have a less formal planning process, or if you keep all the farm plans in your head, then setting goals and objectives is a critical business activity if you want to improve your enterprise.

Setting goals

Setting goals is relatively easy. Goals are a general target for medium to long-range aims, or just a direction in which your beef enterprise might want to follow. An example of a goal might be to diversify your current focus on a cow-calf operation to a trading system.

- Begin with an action verb (create, change, increase etc)
- Followed by a more specific and desired outcome (eg to create a safer work environment on the farm).

The biggest difference between goals and objectives is that goals are not as concrete; they imply a purpose or a direction, rather than objectives, which must be measurable. Often to achieve a goal will require several specific objectives to be met.

If you have multiple goals, you will need to prioritise them. For those goals you think are important enough to proceed with, you will need to ask "What specific objectives must be undertaken to achieve this goal?"

Make sure you develop goals relating to strategic decisions, tactical decisions and operation decisions (see Procedure 2). You can note down your goals for each of these areas below.

Open PDF to print template



Strategic goals



Tactical goals



Operational goals

Setting objectives

Objectives are basically a description of what needs to be done to achieve a goal. You may need more than one objective for each goal. They are relatively short term and are the steps you take to achieve your goal. For example, if a goal is to:

- "Improve the look of the farm by protecting and enhancing the condition of the remnant native vegetation on the farm."

Then specific objectives might be:

- "We will fence off the 10 ha of remnant vegetation in paddock XX by autumn next year."
- "We will plant 500 trees and shrubs in the fenced off area by the following spring."

One way to making sure that your objectives are well focussed is to follow the SMART system. That is ensure your objectives are:

- **Specific** – be really clear about the action or what is to be done – in the example above, "fence off" and "paddock X" provides the clarity needed for the objective to be specific.
- **Measurable** – how much, how many etc are included in the objective – in the example above, "10ha" provides the measurable target.
- **Achievable** – do you have the time, skills and resources to achieve this objective? How much are you reliant on factors outside your control? The degree to which an objective is achievable is a personal assessment.
- **Realistic** – is the objective 'do-able' and will meeting this objective make a significant contribution to the goal? Will it give you the return you are looking for on your investment and time? Again, this is personal assessment, but in the example above, fencing off a 10ha patch of remnant vegetation to allow more specific management should make 'realistic' progress towards the goal.
- **Time-bound** – be as clear as possible about the time lines – in the example above, "by autumn next year" provides the clear time line.

Like goals, you will need to clarify the priorities of your various objectives. One way to assist with determining the priorities across objectives is to do a quick analysis of the consequences if the objective is not achieved.

You can write your objectives, as they relate to each goal, here:

Goal 1 - Objective 1

Goal 1 - Objective 2

Goal 1 - Objective 3

Goal 2 -

Objective 1

Goal 2 - Objective 2

Goal 2 - Objective 3

Goal 3 - Objective 1

Goal 3 - Objective 2

Goal 3 -

Objective 3

Preparing business plans

Use the guide below as a review of what needs to happen when you are preparing or reviewing your business plan.

Quick guide for preparing a business plan

1. Identify what you want to achieve

- What is the purpose of the enterprise?
- What is the scale of the enterprise?
- What resources do you have or will you require?
- What are the critical factors for achieving the desired product and profitability?

2. Identify clients and customers (suppliers)

- Which clients (suppliers) will provide the services, collaboration and expertise your business will need?
- What are the requirements and product specifications required by your customers?

3. Identify the key financial and production risks

- How will you know first if things are going wrong?
- What can be done to minimise the risks?

4. Write your plan based on available information, practical experience, and financial and market research

- Prepare a detailed operational plan to account for the scale of the operation.
- Outline the procedures, labour requirements, target market specifications and financial involvement to be used.
- Prepare a detailed budget that includes likely variables in costs and returns.
- Specify targets to be achieved.
- At critical stages in the production cycle, have a backup plan that includes possible exit strategies.
- Determine an appropriate recording system to enable ongoing monitoring and financial analysis.

5. Review the plan with an independent person

- Seek assistance from a technical and financial adviser or industry representative familiar with the proposed enterprise.

6. Periodically update the plan to retain relevance

- Review and update the plan as technical, financial and operational changes occur.

SWOT analysis

A SWOT analysis is a simple framework into which an individual or a group can organise some thoughts. SWOT stands for Strengths, Weaknesses, Opportunities and Threats, and will help you clarify these issues and gain a more strategic understanding of your current situation. A SWOT does not lead directly to new goals or objectives – refer to Tool 1.9 for that step.

SWOT analysis template

Open PDF to print SWOT analysis template as below

A SWOT analysis is a simple framework into which an individual or a group can organise some thoughts. SWOT stands for Strengths, Weaknesses, Opportunities and Threats and will help you clarify these issues and gain a more strategic understanding of your current situation. A SWOT does not lead directly to new goals or objectives – refer to Tool 1.9 for that step.

SWOT Analysis Template

Strengths		Weaknesses	
1.	<input style="width: 180px; height: 25px;" type="text"/>	1.	<input style="width: 180px; height: 25px;" type="text"/>
2.	<input style="width: 180px; height: 25px;" type="text"/>	2.	<input style="width: 180px; height: 25px;" type="text"/>
3.	<input style="width: 180px; height: 25px;" type="text"/>	3.	<input style="width: 180px; height: 25px;" type="text"/>
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7.	<input style="width: 180px; height: 25px;" type="text"/>	7.	<input style="width: 180px; height: 25px;" type="text"/>
8.	<input style="width: 180px; height: 25px;" type="text"/>	8.	<input style="width: 180px; height: 25px;" type="text"/>
9.	<input style="width: 180px; height: 25px;" type="text"/>	9.	<input style="width: 180px; height: 25px;" type="text"/>
10.	<input style="width: 180px; height: 25px;" type="text"/>	10.	<input style="width: 180px; height: 25px;" type="text"/>
Opportunities		Threats	
1.	<input style="width: 180px; height: 25px;" type="text"/>	1.	<input style="width: 180px; height: 25px;" type="text"/>
2.	<input style="width: 180px; height: 25px;" type="text"/>	2.	<input style="width: 180px; height: 25px;" type="text"/>
3.	<input style="width: 180px; height: 25px;" type="text"/>	3.	<input style="width: 180px; height: 25px;" type="text"/>
4.	<input style="width: 180px; height: 25px;" type="text"/>	4.	<input style="width: 180px; height: 25px;" type="text"/>
5.	<input style="width: 180px; height: 25px;" type="text"/>	5.	<input style="width: 180px; height: 25px;" type="text"/>
6.	<input style="width: 180px; height: 25px;" type="text"/>	6.	<input style="width: 180px; height: 25px;" type="text"/>
7.	<input style="width: 180px; height: 25px;" type="text"/>	7.	<input style="width: 180px; height: 25px;" type="text"/>
8.	<input style="width: 180px; height: 25px;" type="text"/>	8.	<input style="width: 180px; height: 25px;" type="text"/>
9.	<input style="width: 180px; height: 25px;" type="text"/>	9.	<input style="width: 180px; height: 25px;" type="text"/>

10.

10.

Critical Success Factors

Review the items you have listed in your SWOT and consider what needs to happen in each to:

- Build on your strengths
- Eliminate or minimise your weaknesses
- Exploit opportunities (usually using your strengths)
- Develop strategies to deal with threats

These critical success factors (CSFs) become a key component in formulating your business plan, you can write them down in the spaces below.

Critical Success Factor 1:

To build on Strength 1 I/we have to:

Critical Success Factor 2:

To build on Strength 2 I/we have to:

Critical Success Factor 3:

To eliminate Weakness 1 I/we have to:

Critical Success Factor 4:

To eliminate Weakness 2 I/we have to:

Critical Success Factor 5:

To Exploit Opportunity 1 I/we have to:

Critical Success Factor 6:



To Exploit Opportunity 2 I/we have to:

Critical Success Factor 7:



To deal with Threat 1 I/we have to:

Critical Success Factor 8:



To deal with Threat 2 I/we have to:

One-page planning

This is a planning process and not a recipe. It provides a framework that draws on your existing knowledge and aspirations and, in a relatively systematic way, assesses the benefits, as well as potential flow on effects and implementation challenges, of any change under consideration.

Step 1: Deciding the options and priorities

Where am I now?	Where do I want to go?
<ul style="list-style-type: none"> ■ This is where you describe your current situation and perhaps why you are dissatisfied with what you are doing or the results you are currently getting. 	<ul style="list-style-type: none"> ■ This is where you describe your vision, or where you want to get to, or what results you want to achieve. It is important that this section highlights as specifically as possible what you want to see or achieve from any changes in your plan.
What are my options?	What is the highest priority?
<ul style="list-style-type: none"> ■ Can I modify my enterprise mix? Is there a pasture management solution? Are there off-farm options? ■ There are often many different options or approaches to achieving your vision of where you want to be. List as many as you can think of. 	<ul style="list-style-type: none"> ■ From the list of options, select the one that you think is most appropriate or the best option for you. This may require further information or discussion with others (advisors or co-decision makers)

Step 2: Planning the change

Possible impacts on the farm	Possible impacts off the farm
<p>List the likely impacts, for example:</p> <ul style="list-style-type: none"> ■ pastures and animals ■ finances ■ you and your family ■ soil and nutrients ■ native or remnant vegetation. 	<p>List the likely impacts, for example:</p> <ul style="list-style-type: none"> ■ your customers ■ your community ■ catchment natural resource management (NRM) priorities.
Likely impact of profitability	Overall assessment
<p>Profitability</p> <ul style="list-style-type: none"> ■ What is the expected impact on profitability and where will it come from? Reduced costs? Increased returns? How sure is the gain from year to year? <p>Other key considerations. What issues have to be considered? Examples might include:</p> <ul style="list-style-type: none"> ■ Are extra skills needed? ■ How will the change be financed? ■ Are additional animals required? ■ How long before the change breaks? ■ How committed am I to the change? 	<p>Main advantages</p> <ul style="list-style-type: none"> ■ What are the main advantages (small number only) you expect from the change? <p>Main disadvantages/risks</p> <ul style="list-style-type: none"> ■ What are the most critical potential downsides and risks to be considered and managed? How will you know if things are not going according to plan? <p>Conclusion and implementation</p> <ul style="list-style-type: none"> ■ Decision to proceed and steps for implementation.

Source: *Towards Sustainable Grazing: The Professional Producer's Guide* (2005), MLA.

Example – “I’m wanting to increase pasture production and animal output”

Step 1 - Deciding the options and priorities	
Where am I now?	Where do I want to get to?
<ul style="list-style-type: none"> I don't have a lot of spare winter feed, but my current stock numbers (12.5 Dse/Ha) are not high enough to generate the income I'm going to need over the next few years. I've been rotationally grazing for several years and I have a reasonable paddock layout to handle more stock. Rotational grazing allowed me to increase my stock numbers and cut fertiliser but I seem to have hit a barrier. I've seen demonstrations that improved pastures can boost feed supply by 50% or more. 	<ul style="list-style-type: none"> I think I need to increase my stocking rate by about 20% over the next two years in order to increase my income, but my facilities could handle an even larger increase. However, I want to make sure that as I increase my stock numbers, I do it in a sustainable way. My property has some quite steep sections that if overgrazed, may start to erode. I would like to reduce grazing in these areas and maybe use them for NRM objectives such as trees
What are my options?	What is the highest priority?
<ul style="list-style-type: none"> Try to manage my rotational grazing better to increase utilisation Increase subdivision for more intensive grazing Increase fertiliser use on existing pastures Re-sow some under-performing pastures with some of the latest perennial grasses and clovers Seek higher paying markets Buy additional land or install irrigation 	<ul style="list-style-type: none"> My soil tests are moderately low, but I don't have the species in some paddocks to respond to extra fertiliser. Buying additional land is always at the back of my mind, but optimising production at home comes first. Resowing and fertilising a couple of paddocks seems the best option, so long as I graze them correctly and increase stocking rate to utilise the extra production.
Step 2 - Planning the change	
Possible impacts on the farm:	Possible impacts off the farm:
<ul style="list-style-type: none"> There will be extra pressure on other paddocks so some overgrazing is likely Contract labour will be needed Direct drilling should avoid any erosion risk Should not be any impacts on water use or on any remnant vegetation Highly productive pastures will be beneficial for soil structure and increase organic matter Will need capital to fund both the new pastures and more stock 	<ul style="list-style-type: none"> The paddocks are already pasture, so additional impacts should be minimal Extra fertiliser may pollute run-off water Profitable farms are important for my community
Likely impact on profitability:	Overall assessment:
<ul style="list-style-type: none"> Profitability At an average gross margin of \$20/dse, a 30% increase in stocking rate will yield around \$70 more per ha. About \$15 extra fertiliser is needed per year. Given \$250/Ha establishment costs and say 12 – 15 years pasture life, the annual cost of the improvement is around \$25/ha, leaving me \$30/ha profit per year Other key considerations What is the best mixture of species for my place? Is my lambing time matched to the increased feed How will I finance the development Natural increase, buy or agist? Are there additional pasture pests I'll need to watch Are there additional market opportunities if I have better quality pastures? 	<ul style="list-style-type: none"> Main advantages Increase total feed supply and quality Economies of scale within my existing farm Fits my existing management skills Allows increased profit and NRM objectives Main disadvantages/risks Sowing pastures has a high capital cost Extra pressure on other paddocks, but my feed planning/monitoring systems will help avoid this Significant risks including, establishment failure, falling stock prices, and the fact that the extra production may not cover the costs. Conclusion/implementation Careful planning will be needed, but on balance it looks profitable and will increase the overall sustainability of the farm operation. First step is to identify the two paddocks I will re-sow.

Partial budget template

This template provides an example of a partial budget to plan, cost and test modest investment projects, and changes to operating procedures that will impact on enterprise budget if implemented. Figures in current dollar terms and annual cost, where applicable.

Current situation	Current situation	Change scenario 1	Change scenario
From details of your current financial information, pull out the summary information into the categories below.		Assemble details of what the proposed change will involve and then summarise these into the categories below.	
A Gross income	\$ <input type="text"/>	A1 Extra gross income	\$ <input type="text"/>
B Variable costs	\$ <input type="text"/>	B1 Extra variable costs	\$ <input type="text"/>
C Total gross margin (A minus B)	\$ <input type="text"/>	C1 Extra total gross margin (A1 minus B1)	\$ <input type="text"/>
D Total overhead costs	\$ <input type="text"/>	D1 Extra overhead costs	\$ <input type="text"/>
E Operating profit before interest and tax (C minus D)	\$ <input type="text"/>	E1 Extra operating profit before tax (C1 minus D1)	\$ <input type="text"/>
		F Extra interest and tax (at marginal tax rate)	\$ <input type="text"/>
		G Extra operating profit after tax (E1 minus F)	\$ <input type="text"/>
H Total capital invested	\$ <input type="text"/>	H1 Extra capital invested	\$ <input type="text"/>
		I % Return on extra capital invested after extra interest and tax $(G \div H1) \times 100^{**}$	\$ <input type="text"/>
		J Whole enterprise total capital $(H + H1)$	\$ <input type="text"/>
		K Changed whole enterprise operating profit before extra interest and tax $(E + E1)$	\$ <input type="text"/>
% Return on capital before interest and tax $(E \div H) \times 100$	\$ <input type="text"/>	New enterprise return on total capital before interest and tax $(K \div J) \times 100$	\$ <input type="text"/>

** Interpret this figure carefully as it is based on the marginal change in capital. This is used for comparing among the change scenarios only, not with the 'current situation'.

Refer to the spreadsheet to calculate your own partial budget.

The three critical goals of any decision to change enterprise investment strategies are that:

- it makes a good marginal return to capital over and above alternative less risky uses of capital, such as off-farm investment
- any additional investments in the farm go into the area of next highest return on marginal capital invested
- investments must increase the current rate of return, or significantly reduce risk. It won't do this unless its marginal rate of return is higher than current return on total funds invested.

Examples of items in the returns and costs categories:

■ Gross income

Income from sale of cattle will be the main source, but there may be others like sale of excess hay and agistment.

■ Variable costs

Costs associated with cattle health, feed, pasture production, casual labour etc.

- **Overhead costs**

Operator's labour and management, permanent and part-time paid labour, depreciation of plant and improvements and administration costs etc.

- **Capital investment**

Land value, improvements, cattle value, plant and equipment.

Business plan basics

While the specific format of business plans vary depending on the enterprise and industry, the basic format for any business plan is fairly consistent. You can use the template below to prepare a written business plan that can be presented to investors, your bank etc.

■ **Executive summary**

A concise overview of the entire plan. Sometimes a diagrammatic representative of the plan on one page is useful and can be kept on the wall as a reminder.

■ **Company details**

Company name, location and pertinent production details (land class, average rainfall etc), personnel, business structure.

■ **Mission, business goals and objectives**

Refer Procedure 2: Establish business goals and objectives.

■ **Product offering and target market**

What you are selling, trading or producing and who you are selling your product to. Also include anything that differentiates you, such as quality assurance programs etc.

■ **Capital requirements**

What capital items you need to achieve your goals and objectives.

■ **Financial plans and budgets**

Relevant information and budgets showing historical and current performance and financial information, as well as forecast budgets and performance based on the attainment of goals and objectives.

■ **Implementation and action plan**

The steps, activities and timeframes you will work on to achieve what you have specified in the plan.

■ **Monitoring plan**

An outline of what you measure and monitor and when, who is responsible and also which early warning indicators will give you advance warning if you are drifting off course.