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 business strategies, evaluate benefits, feasibility and risks, prioritise and then choose the best options.
- Implement the new business strategies, 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 enables you to communicate with business partners, allowing others in the business to access it too.

Successful business managers plan the future direction of their business in order to achieve their financial objectives, as well as 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 properties, 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 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 (ie it should address the key profit drivers) while managing climate variability, so that both the property and beef enterprise is sustainable for the long term
- enables flexibility within the enterprise to take advantage of good 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 and/or decision making
- improves your ability to predict and plan for threats, risks and more difficult periods.

Setting the strategic direction of an enterprise delivers the following 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 waste.

- 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, whilst also achieving environmental and social goals.

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

Enterprise profitability tree

The enterprise profitability tree 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:

- pasture utilisation

- sustainable stocking rate
- price per kilogram
- kilograms of beef produced per hectare.

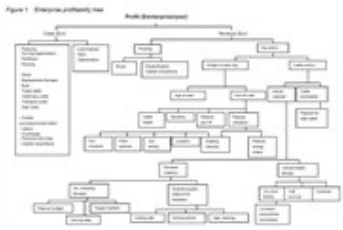


Figure 1: Enterprise profitability tree

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 property business. It is the logical starting point for the MLA More Beef from Pastures - Arid Zone Pastoral 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 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 chances 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 managing stock numbers is considered in Module 2: Managing your feedbase and Module 3: Managing your natural resource base.

Information on the selection of markets is outlined in Module 7: Meeting market specifications and Module 4: Cattle genetics provides information that also affects producers' capacity to supply target markets.

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

The same economic principles apply to all enterprises in a pastoral business.

While beef maybe the sole enterprise on a pastoral property, it is can also be run in conjunction with meat and/or wool sheep. There can be competition for shared resources such as labour, land (pasture) and capital, but may also complement each other in the way they are structured and managed. They use common assets, shared labour and the available forage supply.

When the whole-of-business economic analysis has been completed, the most appropriate herd structure, the timing of important management practices and target markets can be determined to maximise profit from a multi-enterprise business.

Principles of setting the 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

Note: Procedures 1 and 2 may happen in reverse order, depending on how long the enterprise has been established and the level of understanding you have regarding your business's performance.

Assess the current position of the business

When preparing a business plan, undertaking a comprehensive review of all aspects of your 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 to review and evaluate include:

- management systems and enterprise mix
- business financial and enterprise 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:

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

Business performance

This analysis evaluates where the business is, how the business 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, or be available for, at least five years to identify trends and account for items that influence performance, such as drought.

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

- physical property characteristics, including natural resources and infrastructure
- livestock inventory and trading accounts, including production
- labour use
- 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 1.01 Farm data questionnaire outlines the data that is required to carry out your business performance analysis. Many formats have been developed for completing this assessment and many consultants and service providers offer benchmarking and business analysis services to assist with this analysis.

Cost of production

Cost of production (CoP) is a key factor affecting the profitability of businesses. CoP, measured in cents per kilogram liveweight, is 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 CoP is a very useful benchmark as it integrates many other benchmarks. A comparison of your CoP will indicate whether you have scope for improvement, or are already performing reasonably well.

Tool 1.02 MLA Cost of Production Calculator has been developed as a 'do-it-yourself' tool to standardise this performance indicator. CoP is

simple to calculate. Generally, beef herds with a low CoP are more efficient at producing beef and have a lower financial risk when beef prices are low. For the pastoral zone, the aim should be around $1/kg. Anything below this means that you are competitive and the further you go above this, the less competitive you will be.

CoP in the pastoral zone should be calculated as a five year average, rather than a one off annual assessment. A one year result can be misleading because pastoral zone stocking rate and carrying capacity variations mean that production is not consistent. This will have a great impact on your CoP.

Interpret 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 the property. Analysis of the businesses 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 the property and in comparison with other enterprises and businesses.

Tool 1.03 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 either indirect, where beef producers calculate their own performance indicators and compare them against published industry benchmarks, or direct, where individual producers contribute their businesses information into a service which 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 1.04. At the business level, these will tell you how healthy your business is and 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 1.09). SWOT is a simple framework into which you can organise thoughts and analyse your position. It will help to clarify issues and enables 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 (for example, looking at where the beef enterprise is going over the next five years), or for selected parts of the enterprise (for example, assessing the breeding or finishing program).

A SWOT analysis can be done by an individual but is much 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 is factors that will enable you to:

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

These critical success 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 one of these are a threat to a business will vary considerably according to location, production system, financial

position, property 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 therefore must be constantly under review.

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

It is critical that each business does its own risk assessment and quantifies the relative importance of these risks. A business risk assessment (Tool 1.05) helps identify the 12 most common areas of risk. The tool asks the 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.
- **a diversified income stream** to buffer periods of low prices in one particular enterprise; if alternative enterprises are feasible. The downside of this strategy is that it may complicate your business and increase costs. An alternative to diversification includes developing off-property income sources.
- **financial reserves** (such as Farm Management Deposits) to withstand periods of drought, low prices or change in the business.
- **insurance against risks**, which may include financial tools to manage interest rate or commodity price variation.
- **management systems to manage production risk**. Well designed management systems fit your pasture availability, 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. See Tool 1.13 for an overall business management and monitoring system.
- **adequate equity** to manage down turns in commodity prices while still being able to take 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 'worst 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

Bringing all of this information together in the initial business planning process will provide valuable insights; however, regular review of this data is a crucial element of knowing the real health of your business.

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

- regular (e.g. weekly, monthly, quarterly) business meetings to review and update all stakeholders involved in the enterprise. It is important to take notes during these meetings and formalise them as this encourages thought behind what people say and allows these comments to be verified at a later date
- 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 station 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.

Establish business goals and objectives

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

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

Meaningful mission statements

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

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

1. who you supply (feedlots, consumers, other producers etc)
2. what you supply (cattle, beef etc)
3. what distinguishes your product (grass-fed, MSA graded, organic, etc).

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

A meaningful mission statement should be easily understood and should be able to withstand the 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 1.07 provides further information about setting goals and objectives, including ensuring the objectives are ‘SMART’, that is:

- **S**pecific - detail what is to be achieved
- **M**easurable - so they can be compared with actual results
- **A**chievable - avoid overly optimistic goals
- **R**ealistic - make sure objectives are 'do-able'
- **T**ime 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 (5-20 year timeframe) future 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 station property and are often made in 'real time'. They include decisions that need to be made quickly to allow the property to adjust to change (for example, in seasonal conditions or commodity prices).

Pastoral business managers 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 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 1.07 sets out 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 1.08. This is relatively simple and fits well with the SWOT analysis (Tool 1.09). Tool 1.10 outlines 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 measureable. 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 will not be able to 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 has measurable targets or key performance indicators (KPIs).

The frequency of measuring will depend on the particular target. For example, operational short term measures may require twice weekly measuring, such as water levels/quality. Financial performance may require monthly assessment, such as cash flow budgets – how actual cash flow compares with budgeted performance. Overall business analysis requires annual review and an assessment of performance against KPI's and specific targets (see Tool 1.13).

A 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, include impact of continuous dry seasons/drought (Tool 1.06).

Further information

- *Financing your Farm: A practical guide to financial growth,* 2006 by A Blackburn and A Ashby (Australian Bankers' Association and Grain Growers Association)

Evaluate and choose the best options for improvement

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

Guidelines for exploring options to change your business strategy

There are many different strategies that will improve business 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. Information that is important to consider includes:

- 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 patterns of pasture availability
- profitability and capital required for alternative enterprises
- impact on environment and natural resources
- impact on lifestyle and labour efficiency
- your management skill 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:

- 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 or per livestock capital invested in the enterprise; depending on what resources are most limiting.
- **Partial budgets** are useful to examine one aspect of change without including the whole business (additional returns minus additional costs). Tool 1.11 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 business 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 time frames 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). 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 this example a rate of 12%. This is often referred to as a nominal discount rate because inflation is included.
- When changes involved in the transition are substantial and multifaceted, for example when purchasing more land or changing enterprise or time of calving, you should undertake a **whole business budget** to fully understand the consequences for the business including cash flow, liquidity and financing. Tools for whole-station business 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 have complex interactions with each other. 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.

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 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 change in your enterprise, you should consider the impact 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. Management needs to have the knowledge and skills to manage change.

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

- recalculating 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 having reduced cash flow, such as is the case when increasing stocking rates as sales are forgone and assets (livestock) are increasing.

Constraints

Budget analysis does not directly take into account the costs or benefits to 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 undertaken, 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 impacts.

In these instances, it is useful to get an assessment of the cost of these constraints in terms of any decrease in profitability, so you are in a better position to weigh 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-property investment to vary from 10% to more than 30% and therefore it is critical to identify the better investment opportunities.

Assessing the competing investment options for the business's financial 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.
- **net change in expenses**, taking account of 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 improving property infrastructure may need to be accompanied by an investment in additional livestock and require increased management inputs.
- **likely repayment period** for the investment and the cash flow implications, taking account of 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 10 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**. Annual reviews should be undertaken 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 property and management ability and includes rigorous review of both biological and financial indicators.

The first step is to decide what you want to change to, for example changing 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 identifies 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:

- it makes a good marginal return to the capital invested and returns are over and above alternative less-risky uses of capital, such as

off-property investment
- investments in the property go into the area of next-highest return on capital and effort invested.

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

Tool 1.10 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 station. 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 bull selection, 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 goals and failing to gain the best profit. This is likely when:

- investments are not scheduled in order of highest rate of return on investment
- 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, perhaps 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

Further information

- 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
- Across Australia, there are a number of established private training and agricultural service providers that deliver training courses and offer advice on choosing business strategies.

Document the plan

The extent to which a business plan is documented is a personal and business choice. To avoid the risk of misinterpretation, however, 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, enables a deeper level of thinking and clarity and can impose greater discipline.

Further, research has clearly shown a person's wellbeing index (happiness) can be significantly improved when they achieve their goals. 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, input from staff, suppliers and advisers can be incorporated if the plans are written and 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 makes the process more formal, 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 1.12 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 information you will need to document during the planning process.

Implement the plan, monitor progress and review

Once you have reviewed your business, 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 required in order 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 business, it is important to:

- make sure each member of the business knows their roles and job responsibilities in relation to any proposed changes
- where possible, involve family and staff members in the change process and activities, so that they have a sense of ownership and take some responsibility for its success
- 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 transition plan should be part of the annual operating plan for your business. Aim to achieve the change from current practice to new enterprise strategies in as short a time as possible; remember some changes cannot be rushed. 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 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. Monitoring provides an extremely important check on the accuracy of the inputs and predictions from the analyses used to set the 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 seasonal conditions, 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 be able to effectively update your short, medium and long-term objectives from the results of the previous year/period. It also makes sense to review the strategic direction periodically in relation to changes that have occurred in technology advances, genetic progress, markets 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 is outlined in Procedure 1. Benchmarking is not only important to evaluate how the business compares with industry standards 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 business.

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 (refer to Procedure 1).

What to measure and when

When changes 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 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 1.02). 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, weaning rate and percentage of sale stock meeting market specifications.

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

Setting directions

This may include a checklist of questions that need to be answered when exploring and evaluating new options.

The information required to complete a description of the business includes:

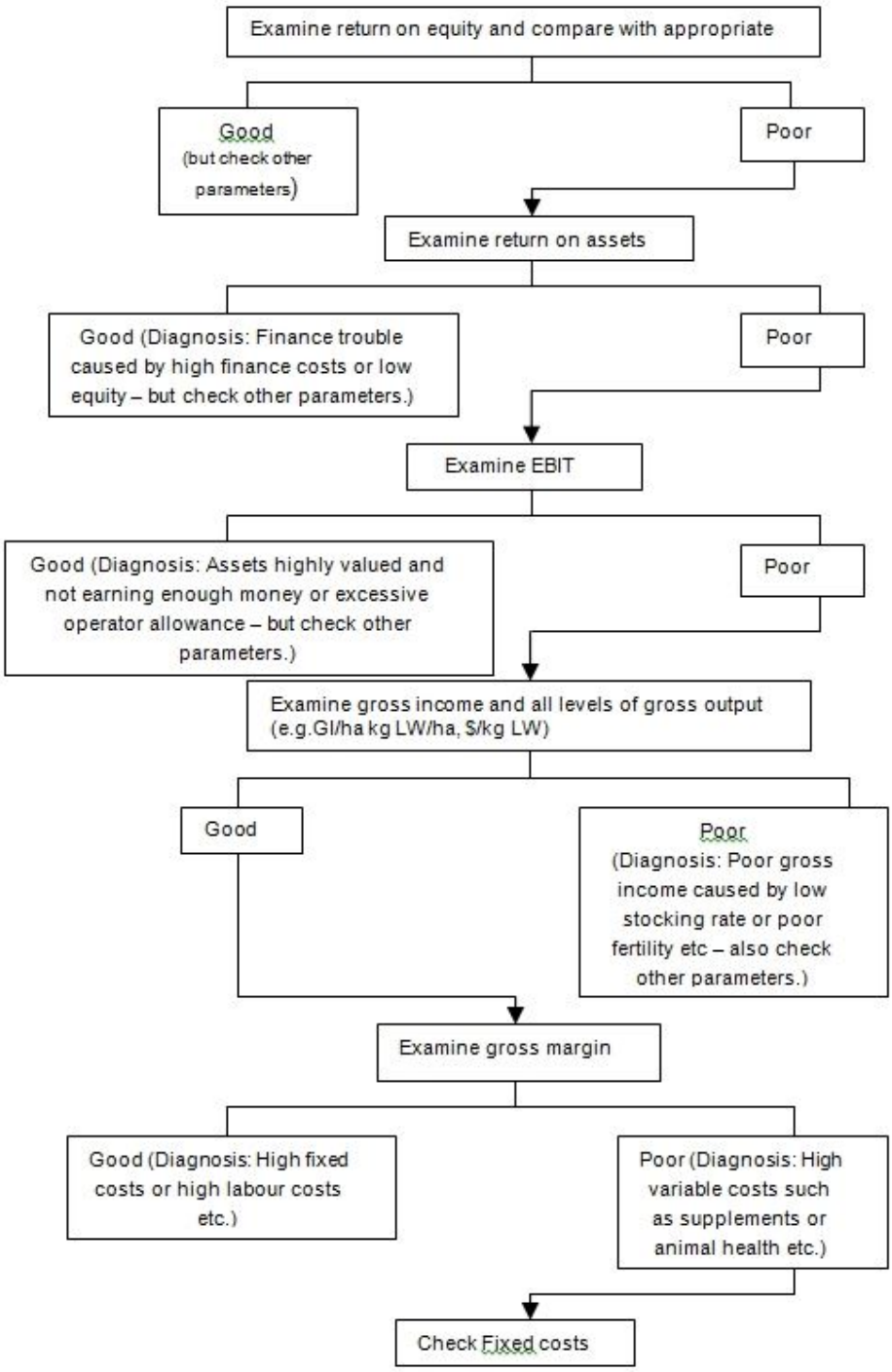
- land area and land use
- rainfall data
- description of land types and major vegetation/soils
- description of available/accessible water resources
- existing infrastructure and equipment
- labour availability and usage
- herd numbers and livestock classes
- stocking rate and carrying capacity
- marketing options
- stock sales
- herd reproductive data
- animal health considerations and practices
- cattle enterprise costs
- station overhead costs
- cash flow
- balance sheet
- profit and loss statement

Setting directions

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

Setting directions

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

Setting directions

The table below describes the key whole of business and beef industry benchmarks with questions answered, methodology and a guide to performance using publicly available references.

Business 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	>$100,000 = strong[1]
Return on assets managed profit KPI	Is the station business 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 station business meeting your wealth creation targets?	Earnings before tax ÷ Net assets under management	>4% = strong3
Interest cover solvency KPI	Is the station business 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% = strong2

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

[2]Holmes Sackett and Associates (2007). AgInsights

[3]2006 – Knowing the Past: Shaping the Future. Holmes Sackett and Associates Pty Ltd

Setting directions

This template is designed to help prioritise the operating risks in your pastoral 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.

This tool asks the questions you should answer when considering business risks. Do not limit yourself to the questions asked in this template; it is a guide to get you started.

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 on top of the job, constantly honing your skills? 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. As a cattle producer, what are the inherent risks in the beef/red meat 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

Adapted from Holmes Sackett and Associates AFBR Business Risk Calculator

Setting directions

This checklist outlines the important issues that should be considered with drought management and the points in time (decision points) when they should be considered.

When faced with a below average/drought season:

1. Determine current value of livestock.
2. Estimate the cost of feeding (and/or agisting) each livestock class:
    1. secure sources of fodder (roughage), concentrates (energy) and supplements
    2. consider options to reduce price risk.
3. Estimate the value of any production gained if the livestock class is kept.
4. Calculate likely cost benefit of drought management options for each livestock class:
    1. feeding
    2. selling and replacing after drought
    3. capital cost of replacing stock
    4. agistment during drought.
5. Consider cash flow implications, including peak debt, ability to fund feeding and impact on profit for at least 3-5 years post drought.
6. Are funding sources secure and will they last for a period of drought?
7. Consider natural resource management:
    1. maintaining pasture resources, including the ability of vegetation to regenerate
    2. securing water resources.

Decision Points

Decision points are dates by which decisions are made and actions are taken each year. Experience shows that those people who work to decision points, and act on their decisions, come through tough periods in a better frame of mind, and with their business in a stronger position. Knowing your decision dates and having strategies in place to deal with a range of circumstances, means decisions are actually being made before you are under stress, which is when people have a tendency to make irrational decisions.

Decision point dates are normally used for:

- making stocking rate decisions,
- developing a livestock production calendar, and
- conducting on-property monitoring.

For example, when should breeders be calving to optimise the performance of both the breeder and the offspring? Production and hence profit will not be maximised if cows are calving when then is little chance of having plentiful feed on the ground.

How to determine a decision point

The first step in determining decision points is to have a good understanding of seasonal rainfall patterns. Understanding rainfall pattern is a bit more involved than just knowing the annual and monthly averages. Averages can be very misleading, particularly in the more northern regions where infrequent cyclonic rains can distort the figures and give false impressions of expected rainfall.

Analysing rainfall

Rainfall averages can be misleading, the use of rainfall probabilities will give you a better indication of the reliability of rainfall in any month or season.

Critical Rain Date: The date beyond which you do not expect to receive effective rainfall (ie don't expect pasture growth). It is mainly used for stocking rate decisions and for determining when to turn-off livestock. The critical rain date can vary from year to year depending on the preceding seasonal conditions.

Key Date: The date by which there is a 70% chance of the growth season having started. It is mainly used for stocking rate decisions and planning the production calendar. Typically the same key date is used each year, as it is based on long term seasonal data.

Long term considerations

- use forward contracts
- use financial instruments to manage price risk
- maximise profitability in good seasons to ensure adequate equity and financial strength to manage poor seasons

Setting directions

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 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.

When setting goals it is important to:

- begin with an action verb (create, change, increase, etc)
- followed by a more specific and desired outcome - for example, to create a safer work environment on the property.

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, then 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 (refer to Procedure 2). You can note down your goals for each of these areas below.

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 herd reproductive performance'

Then specific objectives might be:

- 'We will implement an early weaning strategy (all calves weaned off of mothers by 10 months of age) by the first muster of [year].'
- 'We will implement a program of annually pregnancy testing all first calf heifers by [year]'.

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, 'early weaning' and 'pregnancy testing' 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, 'all first calf heifers' 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, early weaning and/or pregnancy testing should make ‘realistic’ progress towards the goal.
- **Time-bound** - be as clear as possible about the time lines - in the example above, 'by the first muster of [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.

Setting directions

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.

Setting directions

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.

SWOT analysis template

Strengths	Weaknesses
■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■ ■ ■ ■ ■ ■
Opportunities	**Threats**
■ ■ ■ ■ ■ ■ ■ ■ ■	■ ■ ■ ■ ■ ■ ■ ■ ■

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.

The structure below can be used with writing critical sucess factors:

- To build on {insert strength} I/we have to {insert action}.
- To eliminate {insert weakness} I/we have to {insert action}.
- To exploit {insert opportunity} I/we have to {insert action}.
- To deal with {insert threat} I/we have to {insert action}.

Setting directions

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 get to?**
■ My branding %'s are consistently lower (10 year average 70%) than what I believe they should be and this affects the number of young stock I have available for sale, and therefore total property income, and the number of replacement heifers I have available. ■ I don't wean as such; young sale cattle are taken off their mothers at each muster and trucked to markets soon after. ■ I cull breeders (heifers and mature cows) for defects in conformation and/or failure to conceive and raise a calf in two consecutive years. ■ I'm in a herd rebuilding phase, after a run of poor years.	■ From what I've seen on neighbouring properties, an average branding % of 80% should be quite achievable in this district. ■ I want to see the condition of our country improve, particularly in drier seasons.
What are my options?	**What is the highest priority?**
■ Implement and early weaning program (yard and/or paddock); aim to get calves off of their mothers by 10 months of age. ■ Pregnancy test breeders, to identify cows not in calf as early as possible. ■ Check fertility and serving ability of bulls. ■ Manipulate stocking rates and allocation of stock across the property, so that the breeding herd has access to better nutrition.	■ Labour and time limitations and lack of ready access to a suitable vet mean that it would be very difficult to conduct a full pregnancy testing program. ■ I have some ability to change allocation of stock across the property, but limited ability to alter total breeder numbers at this stage. ■ Early weaning appears to be the best option, it has produced good results on a neighbouring property (cow condition and overall fertility rates) and it is a practice that I can implement for a moderate additional cost and effort.
Step 2 - Planning the change	
Possible Impacts on property:	**Possible impacts off the property:**
■ Will need to make improvements to the main homestead trucking yards to allow yard weaning. ■ Setting aside a decent paddock for the weaners to go into will limit paddock options for other cattle. ■ Will need to upgrade fencing in likely weaner paddock.	■ Additional young cattle for sale likely to please our regular buyers? ■ Broader market options; change in the type of cattle we are selling?

■ Will need to access a source of high quality hay for hand feeding in yard and/or paddock weaning. ■ Earlier removal of weaners from cow will reduce grazing pressure on breeder paddocks and improve land condition. ■ Need to fed, handle and supervise weaners will place an additional strain on labour resources at mustering time.	
Likely impact on profitability:	**Overall assessment:**
■ Will need to spend in order of $ 15,000 up front to upgrade fences and yards. ■ Presuming average breeder numbers of 2, 000, a conservative 7% increase in branding %'s should see at least an additional 100 weaners sold at $ 350/head = $ 35, 000 additional income. Less additional annual costs (mainly purchased hay, additional labour) of $ 7, 000, should have additional profit of $ 28, 000 each year. ■ Quieter cattle should open up other market options such as feed lots etc.	■ Early weaning should have a significant positive impact on our profitability. ■ This is a practice that we have the skills and labour resources to implement ourselves. ■ Our country should improve in condition overall; particularly in drier years. ■ Some extra work will be required initially to bring our yards and likely weaner paddock up to scratch and a bit of extra effort at each muster. ■ Will need to inform our regular buyers of the practice change and possible implications for the number and type of cattle we are selling.

Setting directions

Below is 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 are in current dollar terms and annual cost, where applicable.

Current situation	Example for current situation $	Change scenario 1	Example for change scenario 1 $	Change scenario 2 etc. $
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.		Repeat for additional changes in scenarios.
A Gross income	284,400	A1 Extra gross income	137,500	
B Variable costs	165,500	B1 Extra variable costs	105,500	
C Total gross margin (A minus B)	118,900	C1 Extra total gross margin (A1 minus B1)	32,000	
D Total overhead costs	105,000	D1 Extra overhead costs	24,000	
E Operating profit before interest and tax (C minus D)	13,900	E1 Extra operating profit before tax (C1 minus D1)	8,000	
		F Extra interest and tax (at marginal tax rate)	1,200	
		G Extra operating profit after tax (E1 minus F)	6,800	
H Total capital invested	994,000	H1 Extra capital invested	165,000	
		I % Return on extra capital invested after extra interest and tax (G ÷ H1) x 100**	4.12%**	
		J Whole enterprise total capital (H + H1)	1,159,000	
		K Changed whole enterprise operating profit before extra interest and tax (E + E1)	21,900	
% Return on capital before interest and tax (E÷H) x 100	1.4%	New enterprise return on total capital before interest and tax (K ÷ J) x 100	1.9%	

** 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'. Use this 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 station go into the area of next highest return on marginal capital invested, and
- 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 agistment.

- **Variable costs**

Costs associated with cattle health, transport, 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**

Value of lease and improvements, cattle value, plant and equipment.

Setting directions

While the specific formats 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 types, average rainfall etc.), personnel, business structure.
- **Mission, business goals and objectives**
  Refer to Procedure 2.
- **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 what the early warning indicators are that will give you advance warning if you are drifting off course.

Setting directions

The most important driver of business profitability is livestock productivity (namely growth rates of meat, reproductive performance and mortality rates); the most important driver of livestock productivity is nutrition; and in a pastoral situation, the greatest driver of nutrition is the balance between carrying capacity and stocking rates.

By instigating a system that provides information that is relevant to all aspects of the business, monitoring becomes an integral part of management activities, not a chore that needs to be carried out to satisfy regulatory demands.

Components of the overall business management system

- Decide which part of the physical property is to be monitored. Most participants have started with monitoring an area where breeders are grazed
- Determine what the goals are for this area:
  - natural resource goals eg aiming to increase ground cover, pasture species, reduction in soil loss and water movement, food on offer at various times of the year etc.
  - livestock productivity goals eg BCS profile across the year, reproduction rates, growth rates, mortality rates
  - business goals eg gross margins, return on capital for the whole business
- Determine the management strategies which will be put in place to work towards achieving these goals
- The goals and strategies then determine what needs to be monitored during the year, how often monitoring needs to be conducted.

Generally, monitoring of land and livestock is conducted at the critical points in the production calendar - oining, lambing or calving, weaning and the end of the growing season. Rainfall and stocking rate is monitored on a monthly basis, and the overall business monitoring (gross margins and return on capital) is conducted on an annual basis.

- At the start of the year, goals and strategies for the management unit are discussed and recorded.
- These goals and strategies determine what has to be monitored and how often the monitoring needs to be done. A monitoring schedule is drawn up.
- During the year, monitoring is done and an economic analysis of the business is completed.
- All the information is collated and displayed.
- The results are then discussed and analysed - were the goals achieved, if not why not, what corrective action is required, do strategies need to change, what goals are we setting for the next year, etc.