

**REPORT ON THE OUTCOMES AND HIGHLIGHTS OF THE**

**GASCOYNE MURCHISON STRATEGY**

**BENCHMARKING, FINANCIAL ADVICE and BUSINESS REVIEW PROJECT**

**CONDUCTED BY**

**RESOURCE CONSULTING SERVICES**

**1999/2000, 2000/2001 and 2001/2002**



## **FINAL REPORT**

### **GASCOYNE MURCHISON STRATEGY BENCHMARKING, FINANCIAL ADVICE & BUSINESS REVIEW PROJECT.**

#### **Background:**

The business planning process, undertaken through the grants phase of the Gascoyne Murchison Strategy (GMS), was a successful beginning to pastoralists reviewing their business. However in many cases the GMS Board felt the planning undertaken did not result in a sufficient analysis of the business and pastoralists did not have the opportunity to reach conclusive decisions about the future of their enterprises.

The Benchmarking, Financial Advice & Business Review contract was designed to use benchmark information to assist individual or groups of pastoral families to restructure their businesses in a way that ensured they achieve the best possible outcomes in business improvement. It was also designed to enable the issues that are holding back the profitability of stations in the GMS region, to be identified and tackled.

#### **Methodology:**

Involvement in the benchmarking and business review component of the project was open to all eligible businesses in the GMS region, and for the financial advice component to any business, identified through the benchmarking, which required additional financial planning assistance. All participation was voluntary, and completely funded through the GMS. The service ran for two from 2<sup>nd</sup> September 2001 to 31<sup>st</sup> October 2003.

Prior to the commencement of the project approximately 75 businesses had been identified as interested in participating.

A series of nine introductory workshops were held across the region to explain the process for collecting, analysing and disseminating the benchmark data as well as outlining and explaining the likely benefits of being involved. All groups that were involved in these initial workshops proceeded with the project, although not all members of the groups continued to take part.

Following the initial workshop, each participating station was visited and the benchmarking data collected for the 1999-00 and 2000-01 financial years. During this visit, figures were analysed and thoroughly explained to the pastoralists so that they understood the strengths and weaknesses of their businesses. The **Profit Probe™** Business Analysis tool was used for the collation and analysis of data.

Once the data was collected and analysed for all individual participating businesses, an analysis of each group was completed. Reports were prepared for each of the groups and for each individual business.

Review workshops for each were conducted. These workshops covered the process of business analysis, the meaning of the Key Performance Indicators used, examined the differences between the "Top 20%" and the "Average" of the group, and assisted people to analyse their own business performance, identify and set priorities for areas of improvement together with actions required.

This process of data collection, analysis and business review workshops was then repeated for the 2001-02 financial year data.

During the property visits, businesses which required additional assistance with financial planning due to high debt levels or a need for further training, were identified. Up to four days per business was spent providing assistance in these areas.

**Participation:**

Participation in the project is shown in the Table below:

Table 1: Participation in the Benchmarking, Financial Analysis and Business Review Project

Group	Number of businesses participating in Benchmarking		
	1999-00	2000-01	2001-02
Lower Murchison BestPrac	4	4	4
Yalgoo BestPrac	4	4	4
Paynes Find	3	3	3
Rangeland Fibre & Produce	8	8	8
Cue BestPrac	4	4	4
Gascoyne-Wooramel LCD	9	9	9
Upper Gascoyne LCD	7	7	6
Lyndon LCD	4	4	4
WMC Stations	8	8	0
Not part of a group	7	7	5
<b>Total</b>	<b>58</b>	<b>58</b>	<b>47</b>

Over the two years, nine businesses received assistance under the financial advice component of the project, with additional businesses receiving assistance on a fee-for-service basis.

**What is Benchmarking?**

***Benchmarking is all about reviewing and improving business performance.*** Benchmarking can be used for individual businesses, or it can be used for groups of businesses; and each situation provides different benefits.

For an individual business, benchmarking is best used to monitor the performance of a business from year to year, to see the impact of management changes and marketing decisions, and assess the effectiveness of these decisions. Effectively a business “competes” against itself from year to year, and challenges itself to improve performance. Benchmarking is also an excellent tool to assist people in setting goals and targets and measuring progress towards achieving these. While most benchmarking is done on historical data, another very effective use is to analyse budgets for the coming years. If the indicators aren’t moving in the direction of pre-determined goals, then there is a chance to change management plans before it is too late.

When benchmarking is conducted in a group forum, the performance of the individual businesses is still measured and tracked, but in addition, the group members are compared to each other. Comparisons outside the individual business give a measure against industry or regional performance and help to identify other management practices that can be implemented. It enables “best practice” to be identified and measured. The results from the group can be used to provide direction for that particular group. For example, the indicators may highlight the need to conduct some research on a specific issue, or to obtain expert advice on management issues.

Benchmarking is not an end in itself. While it enables people to determine where their business is really situated at present, the exercise will have largely been a waste of time, if that is as far as it goes. Actually doing the Benchmarking is only about 10% of the challenge. The other 90% of the challenge involves taking notice of the information collated and making the necessary changes to improve business performance.

All aspects of a business are benchmarked, covering the categories of:

- Productivity
- Finance
- Profitability
- People
- Property

A whole range of Key Performance Indicators are calculated within each of these five categories, giving the participant a thorough understanding of business performance, where the areas for improvement are, and what the priorities for attention are.

#### **What the figures have told us over the past 3 years?:**

It was most unfortunate that the project coincided with a severe drought. The overall findings and outcomes have not been significantly affected by the drought. However, attitudes would have been more favourable to continuing the process beyond the life of the project had the figures been more palatable to the pastoralists involved.

From the regional perspective, the main question we wanted to answer was ***“what are the major drivers of profit?”***

Economic theory tells us that the three main drivers of profit are Overhead Costs, Gross Margins and Turnover.

Combining and analysing the three years of data collected (1999-00, 2000-01 and 2001-02) shows that in the GMS region, the major driver of profit is Overhead Costs, closely followed by Gross Margins (see Figure 1). This result comes as no surprise, and validates the recently held belief that one of the main problems facing the pastoral industry is the size of stations relative to the number of animals carried. (Historically, pastoral stations were viewed as low-cost operations). These large areas with relatively low carrying capacities put the pastoralist at a disadvantage with overhead costs. Vast areas with few livestock mean many miles covered to maintain waters and fencing, and to muster for husbandry operations. This then translates into high labour costs, and high vehicle, plant and infrastructure costs, as shown in Figure 2.

Figure 1: Correlation between Profit (Return on Assets Managed) and Overhead Ratio, Asset Turnover Ratio and Gross Margin Ratio for 2001-02

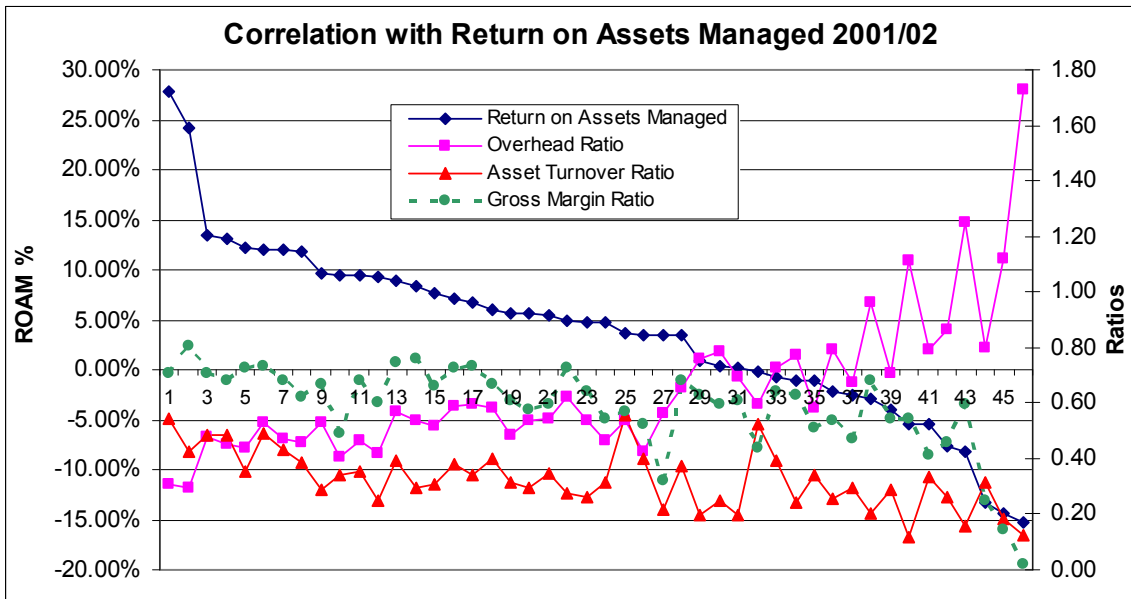
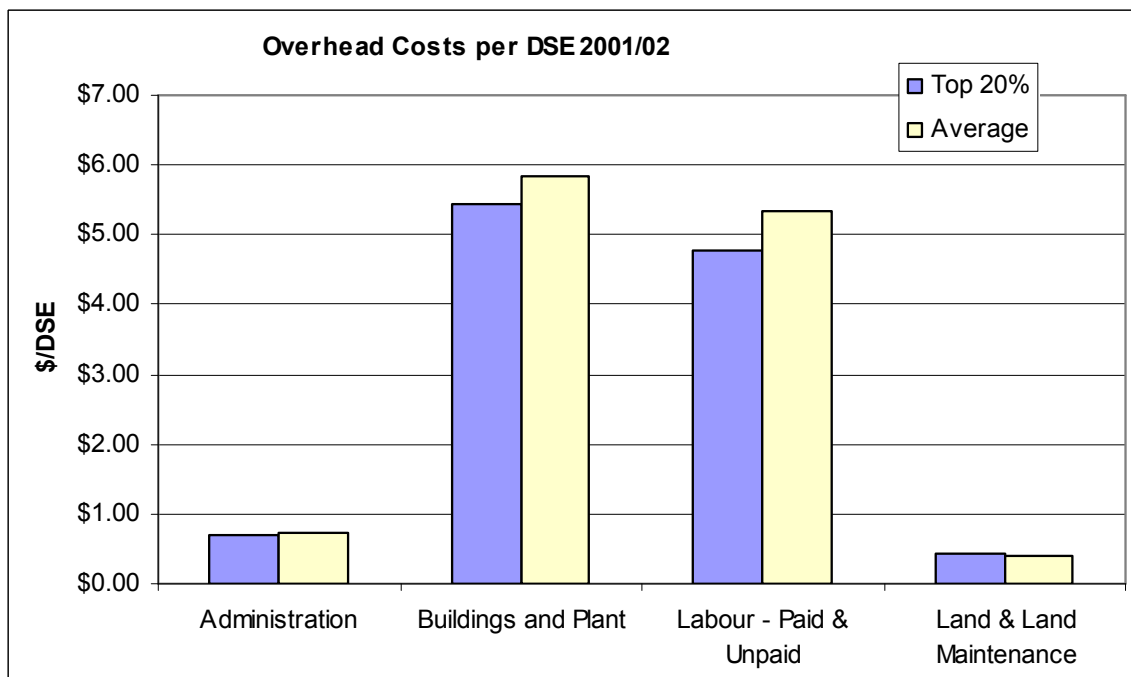


Figure 2: Overhead Costs per DSE, by category for GMS businesses 2001-02

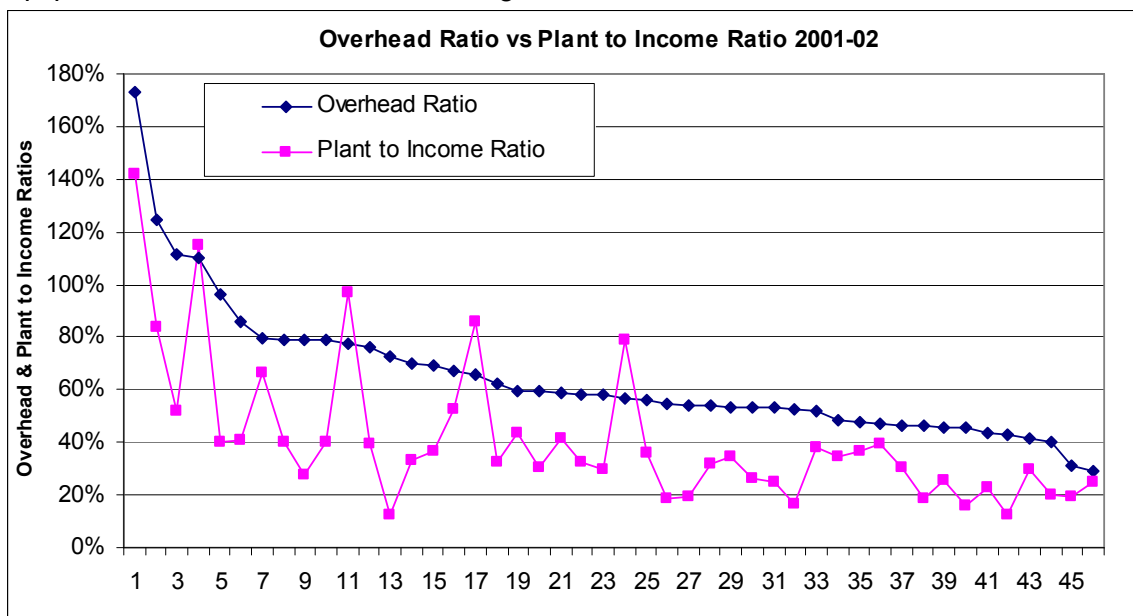


So by delving further into Overhead Costs, we can see that infrastructure and vehicle costs, and labour costs are the main culprits. These should be the first categories to examine when a business is identified as having a problem with Overhead Costs.

Investment in plant and equipment is a significant driver of Overhead Costs as shown in Figure 3. Owning unnecessary amounts of plant and equipment increases costs in a number of ways:

- Running costs such as repairs and maintenance, registration and insurance, fuel
- Depreciation – metal is usually a depreciating asset
- The opportunity cost of the capital invested in the equipment

Figure 3. Relationship between Overhead Ratio and the investment in plant & equipment relative to income. GMS region 2001-02



Over the three years of the project, overhead costs have been steadily increasing in absolute dollar terms and also in terms of costs per dry sheep equivalent (dse) or large stock unit (lsu). This appears to be a result of three main reasons:

- Coming out of a period of depressed wool prices (in particular) when belts have been tightened, there has been a tendency to play catch-up on repairs and maintenance;
- With the large rise in commodity prices, particularly wool and sheep, people feel as if they are better off, and so spend more; the old rule of “expenditure will always expand to meet the income”;
- Droughts will always cost money, irrespective of how good management is.

This trend can ill-afford to continue together with the parallel decline in productivity.

Gross Margins are the second most important driver of profitability. A gross margin (income less direct costs) measures the profitability of an individual enterprise, and is the contribution that an enterprise makes towards paying the overhead costs of the business.

A gross margin is made up of the following components:

- Price received for a commodity
- Direct costs
- Growth rates of meat and/or wool
- Reproductive performance
- Mortalities

We need to know which components are the major drivers of gross margin, and hence which are most important in improving profitability.

Figures 4 and 5 below illustrate the correlations between wool gross margins and its components.

Figure 4. Correlation between wool gross margins and wool price, sheep price and wool cut. GMS region 2001-02

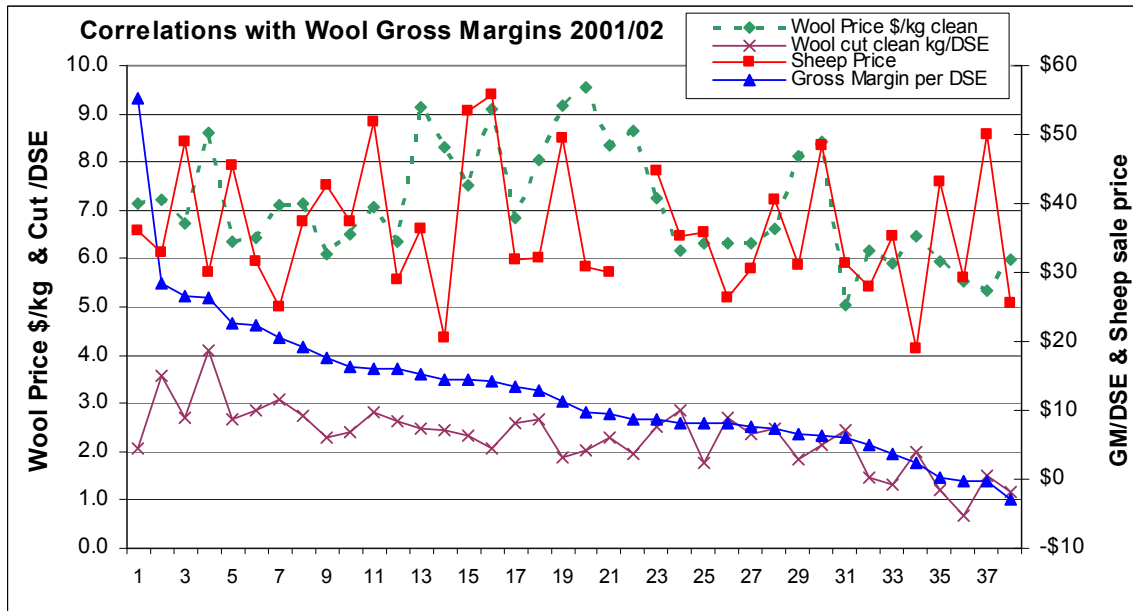
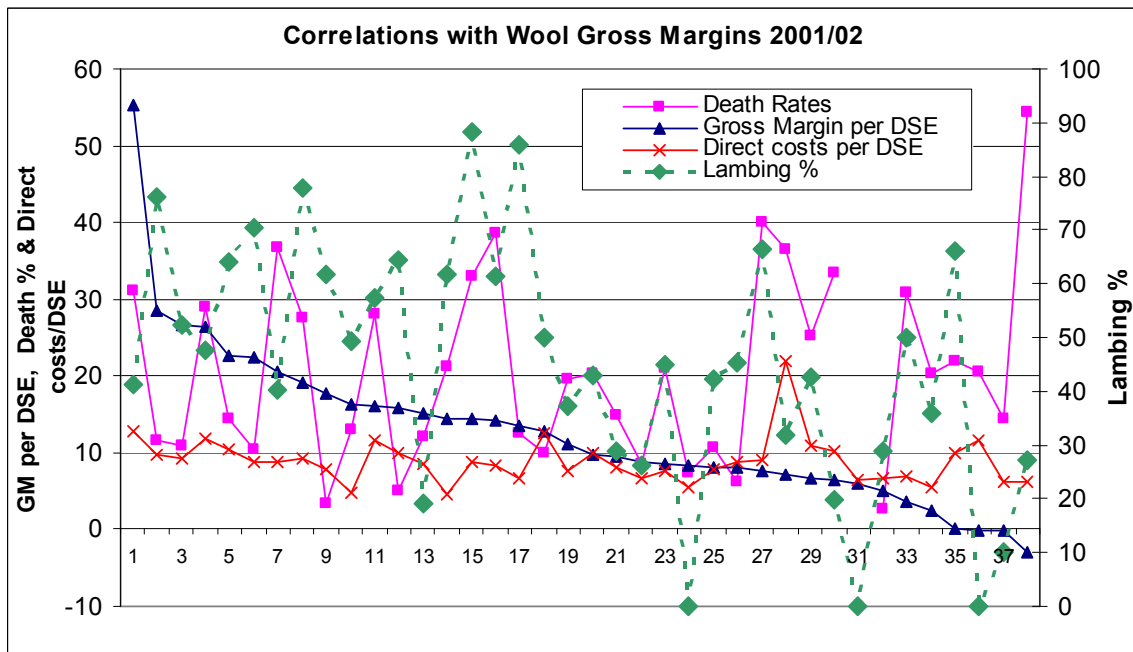


Figure 5: Correlation between wool gross margins and death rates, lambing percentages and direct costs. GMS region 2001-02



Analysis shows that for wool gross margins, the largest driving influences, in order of importance are:

- Wool cuts
- Lambing percentages
- Death rates

Analysis of cattle gross margins show the same results. The components of gross margin that are having the most impact on profit are:

- Liveweight gain
- Calving percentages
- Death rates

It is interesting to note that commodity prices do not rate a mention as important drivers of profit. While higher rather than lower prices for an individual business will result in more profit, those stations with the best profits have the best profits for reasons of low overhead costs and high productivity. In other words, it is important for managers to put their efforts into maximizing the productivity of their livestock and reducing investment in plant and equipment, before they worry about what price they receive.

These findings have great significance to the research and extension agencies. It indicates that our extension expertise should still be applied in the areas of identifying alternative management systems that increase production and reduce costs. Spending time promoting fancy marketing techniques in a commodity market is not going to maximize the profitability of the pastoralists. The message is: "back to basics".

Levels of productivity over the three analysed years of the project have been relatively low, partly driven by drought, but more importantly driven lack of effective management of the drought.

Productivity in a pastoral region is driven by nutrition, and the major driver of nutrition is matching stocking rate to carrying capacity.

As part of the Benchmarking process we have tracked stocking rate relative to rainfall (DSE or LSU days per ha per 100mm of rainfall), and it paints a very revealing and disturbing picture.

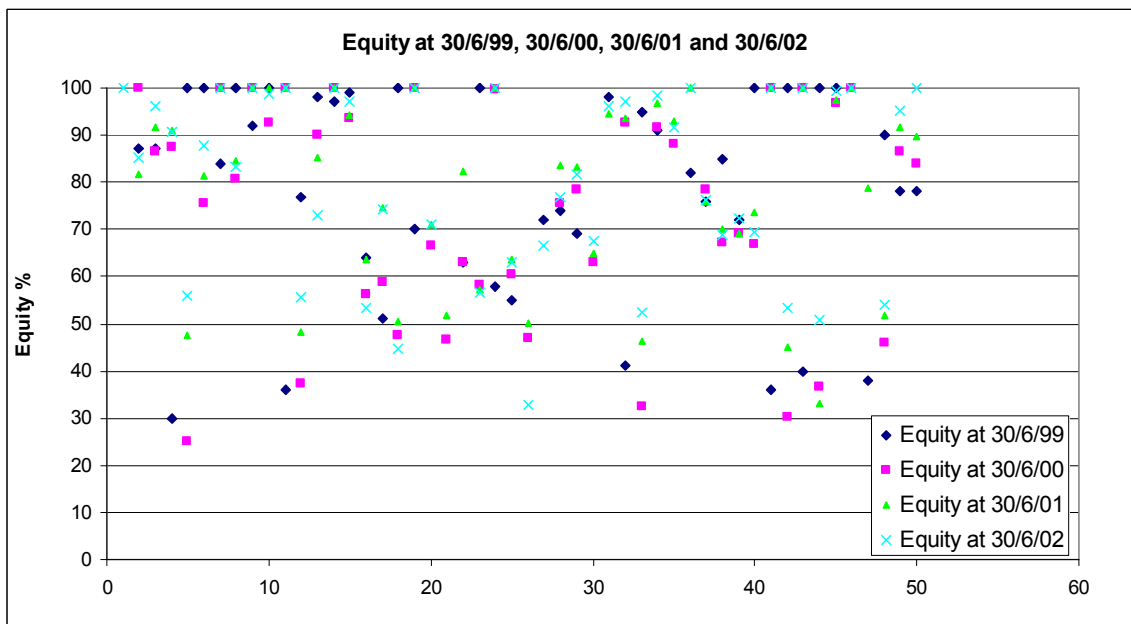
In the 1999-00 year, the average stocking rate across the region was 14 DSE days per ha per 100mm of rainfall. In 2000-01 the average jumped to 21 and in 2001-02 to 28 DSE days per ha per 100mm of rainfall. Some individual stations have risen from 14 to 50 DSE days per ha per 100mm of rainfall over the 3 years. This shows that producers in the region are not matching stocking rates to carrying capacities, with devastating consequences on the country and their hip pockets. These figures tell us that relative to the rainfall we have had, stocking rates are about double what they should be. The cry is usually "But we have sold extra stock!" The reply is "You have sold too few too late." The consequences are seen immediately in low wool cuts, very low lambing percentages and very high death rates. Unfortunately, many producers accept this as a normal result of drought. We must work to change this attitude, and educate producers about managing drought situations and, indeed, seasonal variability in general.

So ultimately, three years of data analysis has told us the following:

- Large investments in plant and equipment result in high overhead costs which in turn results in low profits, and;
- If stocking rates exceed carrying capacity, the nutrition of animals is compromised, which in turn leads to low wool cuts and weight gains, low reproductive rates and high mortalities. This then leads to low profits. In the longer term it leads to poor range condition and an ever decreasing spiral to lower and lower profits.

These are the answers to the never-ending question put to me "What are the big issues for the pastoral areas?"

Question regarding the levels of debt in the region are often asked. Figure 6 below, plots equity from 30/6/1999 to 30/6/2002 for each station. It is interesting to note that approximately 45% of the stations involved in the benchmarking have an equity of greater than 90%. While these businesses should survive the drought and the re-building phase, it is the 32% of businesses with equity of less than 70% that are of major concern.



The picture for the region is certainly not doom and gloom. There are good levels of profitability evident across the region, despite the severe and pro-longed drought. In the 2001-02 financial year, 31 of the 47 businesses returned a profit, the “Top 20%” averaging 14.6% return on assets managed, with the average for the whole group at 3.7%. This still exceeds the majority of superannuation funds and a lot of alternative investment! However the trend is down due to the drought and this downward trend is likely to continue for a further two financial years (2002-03 and 2003-04) provided the drought breaks in 2004. It is a serious issue that the extension agencies and financiers must be aware of, and be ready tackle.

**Other outcomes and issues:**

*Business management:*

On the whole, business management skills in the industry are very poor. Even the most basic of tasks, such as record keeping, is not well done. Of course, there are always exceptions, and a few do this extremely well. Very few managers plan ahead or spend time on setting the strategic direction of the business. Planning and managing, in the true sense of the word, are seen as undesirable and unnecessary work, with the result that businesses are run much the same year-in-year-out, with very little change or improvement. For those pastoralists who claim “I have 30 years experience in managing a pastoral station”, it’s often more a case of 1 year of experience 30 times over.

I can count on several fingers the pastoralists who analyse past performance, ask what went wrong, what can be improved; put measures in place to rectify the situation, set goals for future years, plan ahead and understand the importance of on-going training and personal improvement. It is an attitude that needs to change if the sustainability of these enterprises is to improve. We have already shown that waiting for good commodity prices is not going to achieve this.

Going through the planning process is a threatening exercise, and the benchmarking project has certainly revealed how threatening this can be to some people. Our self-esteem can be easily damaged if the figures show that we are not performing as well as

we thought we were. Seeing that something needs changing is to be told that you haven't been managing as well as you might, or that someone else is doing a better job. It takes an emotionally mature person to take these messages on board in an objective manner. Some do, most do not.

Making changes to the business is always a daunting task; for many reasons, some of which are mentioned above. I find in many cases, it is the women who can see the need to change, but the men who resist it. It is often the women who place value on the strategic management of the business, the men who do not. These are not intended as sexist comments – I suspect it is those not as involved in the day to day labouring who have the ability to step back and see the bigger picture. We need to work more with these women to give them the confidence and ability to take on more of the actual management work. For many, this project has given them a good understanding of the business segment of the operation, and many have enjoyed it. Even so, they feel that teaching them is reaching the wrong person.

#### *Matching stocking rate to carrying capacity:*

In the early days of the project, when we discussed the issue of matching stocking rate to carrying capacity, the reaction was very much "We know how many stock to put on, so don't preach this stuff to us". As the two years progressed I have noticed a shift in this attitude. Many pastoralists are now asking for assistance in estimating carrying capacity, and indicating that they have little idea of how to do it. I am now hearing comments along the lines "I put 300 sheep in that paddock because that's how many my father put in there." This shift in attitude has come about through a number of factors

- Large livestock losses in the drought despite the pastoralists believing they had reduced stock numbers sufficiently
- A realization that the condition of the country is not improving
- Coming to understand the measure of stocking rate relative to rainfall (DSE days per ha per 100mm rainfall).

It is important that assistance is provided in this area so that we can make improvement in condition of the rangeland, and improvements in animal productivity and hence profitability.

#### *Understanding the environment in which we operate*

There is a general lack of understanding of the rainfall patterns around which decisions (particularly stocking rates) must be made. This results in pastoralists hoping for rain, and hence managing for rain, at times of the year when there are very low probabilities of receiving it. Progress has been made towards educating pastoralists about rainfall patterns and probabilities, and how decision points fit around this.

#### **Conclusions:**

Through this GMS initiative, we now have a good understanding of the major drivers of profitability, and hence the areas in which our extension and research efforts should be directed.

Pastoralists have learned how to analyse the performance of their businesses, identify areas of strengths and weaknesses, and to attach priorities to these areas for business improvement.

We have made some progress towards educating pastoralists of the need for improved business management, and on-going training.

Many now understand the importance of managing stock numbers so that carrying capacity is matched, and are seeking assistance in this area.

### **Where to from here?**

These findings now need to be put into action at an industry and individual station level.

The intention had always been that, during the life of the project, pastoralists would be implementing action plans. For example: Station A has identified low lambing percentages as the major impediment to improving profitability; and feels that they need to improve condition of rams prior to joining is required. Action is to feed rams on lupins 8 weeks prior to joining. Measure the results of this in subsequent year of benchmarking against the targets set. In the majority of cases, this level of implementation of the findings did not occur. The reason given by many is that can't do anything until it rains.

How soon "not now", becomes never. Martin Luther

The momentum of the benchmarking is going to be largely lost as many pastoralists are not keen to continue. Reasons given are:

- Don't want to see the figures on a downward slide with the drought,
- Don't want to pay to have the analysis done, nor put the time into collating the figures themselves.

For those who have decided to continue, we can look forward to future years of setting goals, looking at alternative management, measuring progress, and gaining a sense of fulfillment as these goals are achieved and new ones set.

If we can encourage the participants in the industry to:

"Live as if you only have tomorrow.....farm as if you will live forever".....  
we will have taken a gigantic step forward.

Rosemary Bartle  
Resource Consulting Services  
PO Box 625  
CARNARVON WA 6701  
Email: [rbartle@rcs.au.com](mailto:rbartle@rcs.au.com)  
Phone: 08 9941 8913