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Client Newsletter

September 2011

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Prime Lamb Gross Margins Hit New High

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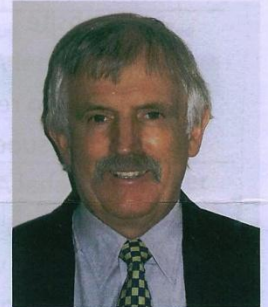
Lambing percentage. What is possible?

Where is the industry heading?

Alan Blackburn and Associates Consulting Farm Management and Agribusiness Consultants

Dear Clients,

Managers of farms face many challenges. But it is frustrating when these challenges are worsened by government inaction and bungling. Right now governments in Australia, US and Europe are performing poorly with political grid lock and infighting the norm. What we need is strong governance and concerted action.



So what has all this got to do with farming? Quite a lot actually, because **it affects world commodity markets**, including agricultural commodities, and if a full blown banking crisis develops then **the flow of money needed to support trade will be disrupted**. It also affects the many farming families who have invested **money in superannuation** and other off farm investments to **fund farm succession and their retirement**. This important capital base has collapsed (again), at a time when many farm families need to rely on it. **For some clients this is probably an important time to review succession and retirement plans in light of a reduction in your superannuation capital base.**

So where is it all heading? No one knows. That is why the share market is so volatile. Hope one day: Fear of the worst the next. However, I think the Greek situation will resolve this year, probably with Greece staying in the EU after enacting unpopular reforms. **But the high level of debt held by the US and EU governments will take years to resolve, and probably not without periods of financial anxiety that negatively affect world markets for agriculture produce. So if or when opportunities present to forward sell at good prices, consider taking them.**

On the home front, interest rates remain high and have the potential to remain so or go higher if world economic conditions improve. If a full blown world financial crisis develops (I expect this won't happen), then interest rates will fall as with the 2008-09 crisis, **good opportunities will emerge for locking in low interest rates**. Thanks to the carbon tax, electricity and energy costs will increase and be felt especially by dairy farmers and irrigators.

As I write, a pleasing side effect of current turmoil is a fall in the \$A. If commodity prices continue to fall then the \$A will continue to slide as well.

Client Services Provided

- Farm Business Planning
- Preparation of Loan applications
- Farm expansion & Leasing
- Evaluation of Management Options
- Negotiations with Lenders
- Facilitation of Farm Family Negotiations

We supply FREE Farm Business Planning software to Clients (Requires Microsoft Excel)



OUR NEW ON FARM SERVICE FOR CLIENTS

Quite a few clients have asked about fees and the form of service I provide as a follow up to the work we did using the Professional Advice and Planning Grants. I have included full details on the insert sheet. Check out the cost effective packages available.

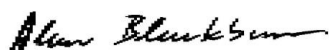
TWO GRANTS ARE CURRENTLY AVAILABLE TO ASSIST WITH BUSINESS PLANNING

Although the Professional Advice and Planning Grant's are no longer available there are two grants that many of you would qualify for viz.

- **First Farm Grant** This grant provides \$3,000 for the preparation of a Farm Business Plan. To receive the grant you need to be under 35 as at 30th June 2011. Full details are supplied on the insert page and on my website
- **Professional Advice and Training Grants** This grant provides \$5,500 for professional advice and training. To receive this grant your net assets (i.e.: assets less liabilities) must be less than \$1.5m (not including superannuation). Full details are supplied on the insert page. This is different to the Professional Advice and Planning Grant.

In this newsletter we also look at just how profitable a well run prime lamb enterprise can be (page 4), and what the Bureau of Meteorology is predicting.

Best wishes to everyone and I share your hopes that we receive the spring rains we need.



Alan Blackburn



Janine McGuane – Office Manager

SUCCESSION AND RETIREMENT PLANNING

Earlier this year Richard Dwyer and I spoke at a packed seminar on Succession Planning run by the Wedderburn Community House. Feedback for the seminar was excellent and a lot of clients followed through by preparing farm business and succession plans. I assisted with farm business planning and associated family meetings. Richard assisted clients to review the legal structures of their business, to ensure they were supportive and tax effective, and provided appropriate asset protection.

Succession Planning is frequently a struggle for farm families. The retirement needs of the older generation are often in conflict with the farming aims of the younger generation.

Also deciding how to pass on the farm is often difficult, especially when one child (usually a son) wants to inherit a viable farm, while other children want to inherit a share of the farm.

If you need to work through these issues, phone Alan (03 5229 6196) to discuss and to make an appointment.

Whilst this seminar focussed on succession planning it included little information about retirement planning.

Early in 2012 we will be running another seminar with a retirement planning theme. It will contain an overview of succession and retirement planning, together with details about superannuation, self managed super funds and where and how to invest.

More information and booking details will be in the next newsletter.

PRIME LAMB GROSS MARGINS HIT NEW HIGH

From January – June 2011 lamb prices were very high (see graph) and many producers sold lambs for \$120 to \$200/hd. Well run prime lamb flocks producing 140% lambs and averaging \$135/lamb generate extremely good gross margins close to \$60/dse.

In the accompanying case study example we assume a traditional BL-Mer ewe flock joined to white Suffolk rams. Replacement ewes cost \$220, cull ewes sell for \$100, lambs average \$135/hd. The Gross Margin/dse is summarised below:

Case	Lambing %	Av lamb price \$/hd	Rep Ewe price \$/hd	GM/DSE before livestock capital	GM/DSE after livestock capital
Example	140	135	220	56.60	49.84
Case 2	140	120	220	48.51	41.75
Case 3	120	135	220	46.79	40.04
Case 4	120	120	220	39.86	33.10

The Farm Monitor Survey produced by DPI shows that the average prime lamb gross margin in 2009-10 was \$30.20. In the case example assuming 140% lambs it was \$56.60 which is 87.4% higher. **Note that a 20% increase in lambing percentage results in a massive \$10/DSE increase in gross margin.**

Eastern states trade lamb indicator



Making it happen on the Farm

Key factors affecting gross margin:
Lambing percentage and average lamb price.

Keys to improving lambing percentages

- Select a breed with high twinning capacity
- Aim for high body weight and condition at joining. A 5kg increase in body weight generally results in a 6-10% increase in lambs born
- Lamb in sheltered paddocks to reduce losses
- To prevent mismothering minimise flock interference

Keys to lamb weight gain

- Good pastures
- Good husbandry and flock health
- Lucerne/fodder crops/summer pastures to finish lambs post spring

Lambing percentage: What is possible? Where is the industry heading?

When I was a young agriculturalist I worked for the (then) Sheep Branch of (then) Department of Agriculture. Part of my job involved running trials on a farm at Romsey. The farmer wanted to emulate the high lambing percentages common in the UK. He sought advice from Melbourne University Vet School and Department of Agriculture and he applied best practise at that time, including setting up a pen lambing system. This was done to reduce lamb losses. The end result was **for two years in a row he sold over 160% lambs.**

That was forty years ago. The future of the prime lamb industry lies in achieving high lambing percentages. I applaud current efforts to achieve this which include:

- Incorporating the Booroola gene into Multimeat sheep
- Lambing three times in two years (Dorpers)
- Producing composite flocks with a high lambing percentage (Prime line)
- Selecting for higher lambing and growth rates

What is the lambing percentage you are aiming at and what is your plan for achieving this?

For details of the example prime lamb gross margin, refer to page 4.

GROSS MARGIN CALCULATION FOR PRIME LAMBS

CLIENT	Example	ASSUMPTIONS	
		Replacement rate ewes	= 15.00%
		Lambing percentage	= 140%
		Death rates ewes	= 4.00%
		Other	= 2.00%
		Interest rate	= 8.00%
		Stocking rate	= 14.00%
		Budgeted Gross Greasy	=
		Wool Price \$/kg	= \$4.50
		Buying price ewes	= \$220
		Selling price cull ewes	= \$100
		Average lamb price	= \$135
		Buying price rams	= \$600
		Selling price rams	= \$100
		Feed Cost per Ewe	= \$15
GM/dse before livestk capital	56.60		
GM/dse after livestk capital	49.84		
GM/ha before livestk Capital	792.35		
GM/ha before livestk Capital	697.80		
Number Ewes	1000		
Wool marketing costs:			
Market support	0.00%		
Industry Levy	2.00%		
Commission	1.50%		
Testing & insur. 0.9%	0.90%		
Total	4.40%		

STOCK SCHEDULE

(S) = Stock at Start of Year (C) = Closing balance (E) = Stock at end of year after transfers

Class	(S) no's	Purchases		Births no's	Death no's	Sales			(C) no's	(E) no's	
		no's	/hd			Total	no's	/hd			Total
Ewes	1000	150	\$220	\$33,000		40	110	\$100	\$10,990	1000	1000
Rams	20	5	\$600	\$3,000		1	4	\$100	\$400	21	20
Lambs	0	0	\$0	\$0	1400	0	1400	\$135	\$189,000	0	0
Total	1020	155		36000	1400	41	1514		200390	1020	1020

Class	VALUATION			DSE		SHEARING			Total
	(S) no's	Unit Value	Total Value	Rate	Total	No Shorn	Cut/ Head	Price/kg	
Ewes	1000	200	200000	2.40	2400	960	3.5	4.50	15118
Rams	20	300	6000	2.00	40	19	4.0	4.50	342
Lambs	0	0	0	0.00	0	600	1.0	4.50	2700
Total	1020		206000		2440	1579			18160

RETURNS

Stock Sales (See Stock Schedule)	\$	200390
Wool Sales (See Shearing Schedule)		18160
TOTAL RETURNS		218550

VARIABLE COSTS

	Number			
Shearing	1579	@	\$5.00 /hd.net	7895
Crutching	1000	@	\$1.00 /hd.net	1000
Drenching	2420	@	\$1.50 /hd.net	3630
Dipping	1020	@	\$0.40 /hd.net	408
Jetting	1020	@	\$0.00 /hd.net	0
Vaccination	2400	@	\$1.00 /hd.net	2400
Marking & Eartag	1400	@	\$1.30 /hd.net	1820
Hand Feeding	1000	@	\$15.00 /hd.net	15000
Wool packs	104	@	\$10.00 /bale	1038
WoolCartage	104	@	\$10.00 /bale	1038
Wool selling costs				799
Purchases (See Stock Schedule)				36000
Livestock selling costs at		6.00 percent		12023
Livestock cartage and yard dues		1514 @	\$3.50 per head	5299
TOTAL VARIABLE COSTS				80455

GROSS MARGIN BEFORE CAPITAL COSTS 138096

GROSS MARGIN / D.S.E. BEFORE CAPITAL COSTS \$56.60

GROSS MARGIN / DSE AFTER CAPITAL COSTS \$49.84