

# SNAPSHOT PROFIT DRIVERS

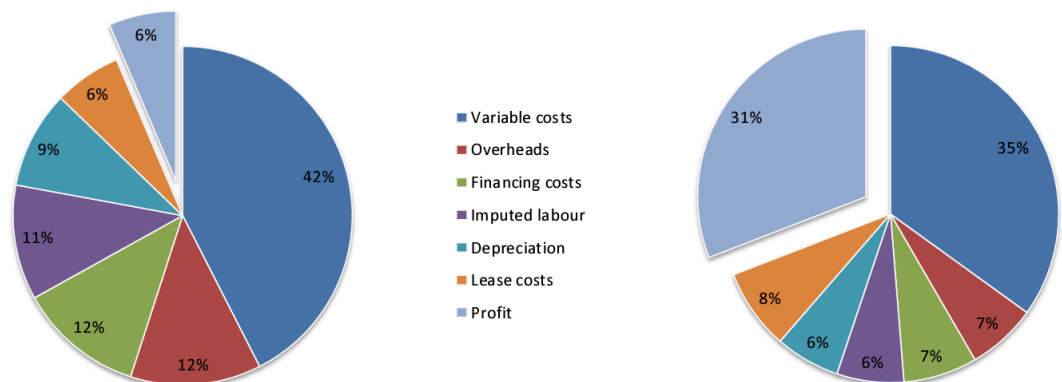
## WHAT ARE THE KEY PROFIT DRIVERS FOR YOUR AGRICULTURAL BUSINESS AND HOW CAN YOU DRIVE THEM HARDER?

### KEY MESSAGES

- Retaining 30% of turnover as net profit is achievable
- There are three things that can drive additional profit. These are increasing income, reducing or optimising variable costs and reducing overheads
- Enterprise simplicity, rather than diversity, can be a significant profit driver
- Don't underestimate the impact of having a low overhead cost business model
- Business model redesign provides enormous scope to enhance profitability

### WHAT ARE PROFIT DRIVERS?

Profit drivers are the areas of your business you can influence to increase profit. Benchmarking your business can help you to identify the areas you can focus on for improving your profits. Profit is a choice in your business. Will you choose to make a profit this year? Compare the two charts below.



The difference between a large 'Profit Zone' and a small 'Profit Zone' is based on the longterm choices you make and how well you implement these choices. The first chart has higher overhead and variable costs and generally greater expenditure. The second one has structured the business to have lower costs, therefore greater profits.

### WHY IS PROFIT IMPORTANT?

All businesses should aim to make a profit. Profit gives your business options which may include making capital improvements, such as new machinery or sheds, allows for rewards for the business owners, and helps facilitate succession and retirement planning. Developing a profitable business also provides opportunity to fund business growth.

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## WHAT CAN YOU FOCUS ON IN YOUR BUSINESS TO DRIVE PROFIT?

The three levers that influence profit are:

### 1. Income

An obvious one is that if you can increase your income, there will be an increase in your potential for profit.

Some of the areas you should focus on include:

- Optimising income per hectare (Production)
- Gross farm income (Scale & Enterprise choice)
- Target farm turnover to be >30% of the total asset value of your farm

### 2. Variable cost optimisation

An opportunity for your business is to optimise the investment into your variable expenses. Variable cost optimisation is about understanding which variable costs can be rationalised without compromising production and gross margin. High variable costs per hectare can force some high production businesses out of the 'profit zone'.

Focus on achieving the following benchmarks:

- Variable costs < 40% of turnover
- Overhead costs (including financing, depreciation and imputed labour costs) < 30% of turnover
- Profit = 30% turnover

### 3. Reducing overhead costs

The main factor for reducing overheads is all about smart business model design. Often this is driven by scale or critical mass where overhead costs can be leveraged across a larger area. However, while these factors can assist, it isn't the complete answer.

The following can also have a major impact on reducing your overheads:

- Machinery utilisation
  - A machinery investment to income ratio of 0.6 : 1.00 is achievable
  - A smart machinery strategy can shift 5% more gross turnover across to net profit
- Debt structure
  - Match debt to business model and production environment • Financing costs less than 15% of income (including land lease costs)
  - Debt to Income ratio of 1 : 1 or better
- Labour productivity targets
  - \$700,000 turnover per full time equivalent
- General overheads
  - Electricity, insurance, repairs and maintenance

## AREAS TO IMMEDIATELY TARGET AND CONSIDER FOR GREATER PROFIT IN THE FUTURE

It might be your business model that needs to be reviewed, or re-designed in order to increase your businesses profitability. Often these changes require a shift in thinking, and support through sound and practical business management processes to allow them to be made confidently and competently.

### So what should you look for in a re-design?

Some of the targets you should aim for in a business model include:

- Low risk, high return business model
- Retaining 30% of turnover as net profit before tax
- Turnover > 30% of total asset value

Think carefully about the following when you are redesigning your business:

- Enterprise choice
- Enterprise and systems simplicity
- Integration between enterprises
- Efficient allocation of capital
- Achieving labour productivity targets
- Work/life balance

### What about enterprise simplicity?

Enterprise diversification can be a great way to spread your risk across enterprises. However, there are some factors that also suggest otherwise. Often simple, scalable systems provide greater scope to increase profitability as they can:

- Achieve labour productivity targets with simple systems
- Allow efficient use of capital
- Encourage management focus and attention, rather than enterprise conflict, diversions and clashing timelines
- Promote operation timeliness

## HOW PINION ADVISORY CAN HELP

Pinion Advisory offers practical steps to implement into your business, to drive your profit, and provide ongoing support to overcome any bumps you hit along the way. Often the difficult part is knowing where to begin.

Here are a few of the suggestions and areas Pinion Advisory can provide assistance with:

### Benchmarking your Business

- By retrospectively looking at your previous years' business benchmarks you can identify areas that you can focus on for improvement, or areas you can continue to strengthen.

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## Advisory Boards

Would your business benefit from working with an experienced consultant to help you improve your business, and develop and implement a plan that focuses on profit? Setting up an Advisory board with Pinion Advisory allows you to direct the agenda in order to set and achieve targets and goals. These meetings are facilitated by a consultant with experienced eyes to review your business and its processes, with the support from our Annual SnapShot Benchmarking tools.

- The **Complete Advisory Board Package** is recommended for larger businesses, or those with a complex business model. The Complete Package includes 4 meetings per year (about 4-5 hours per meeting), coaching sessions in between board meetings, and the provision of responsive business management advice.
- The **Standard Advisory Board Package** is suitable for smaller to medium sized businesses. The Standard Package includes 2 meetings per year (about 4-5 hours per meeting), coaching sessions in between board meetings, and the provision of responsive business management advice.
- The **Annual Business Review Service** provides you with a half day business meeting to review the business operations, financials and strategy for the year ahead.

For more information  
contact us on **1300 746 466**  
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