

Profit Check Analysis

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Over the past five to seven years the net wealth of many farmer's businesses has doubled or even tripled. This has largely been due to increased land values, bought on by a low exchange rate and strong commodity prices.

In addition, there has been a marked rise in the productivity levels achieved on farms. Lambing performance alone, has gone from a national average of 107% in 1994-95 to 123% in 2004-05 (reference Meat & Wool New Zealand statistics).

Improved monitoring of livestock health and body condition are the prime reasons for the lift. Credit must also go to ram breeders and to the introduction of the highly fertile Finnish Landrace sheep.

To continue to lift performance, both physical and financial, a more in-depth analysis of the business is now required. To assist, new performance indicators have been identified as our understanding of the key drivers to profitability have improved. These indicators offer a much better measure of a farm's performance and profitability.

Why do we need to analyse the business more intensively now?

The simple reason is that it is getting harder to make a sustainable profit. From 2002-2005, it was relatively easy to make a profit and sizeable cash surplus. Since then we have seen the average Return on Capital drop from 5-8% to 1-2%.

Profit Check - what is it?

Annual accounts provide significantly more information to us, than just what our tax liability is for the year.

We need to look back to see where we are coming from in order to move forward.

Sheppard Agriculture provides a complete management analysis of sheep and beef farm businesses, from the annual accounts. Using a service known as 'Profit Check', Sheppard Agriculture reviews your accounts and prepares reports outlining the physical production and financial performance being achieved by the farm.

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A computer database captures the complete physical data of the property and relates it back to the financial performance, showing the efficiency of production and profit generation for the farm. In addition, it highlights trends emerging in the business (eg. rising animal health costs) and compares performance against the average and top 10% of farmers in the specified farm class.

Benefit to Farmers

Better understanding of the key drivers of farm business profitability:

- Level of production
- Efficiency of production
- Optimal use of resources

Review of business performance:

- Comparative analysis
- Historical trends

Benchmark for future performances:

- Identifying the key targets for your business
- Identifying the opportunity cost of failing to meet your expectations

Being able to identify which performance efficiencies need to be improved:

- Breeding efficiency
- Conversion of DM to kg Meat & Fibre
- Conversion of DM and Meat & Fibre to profit.

Well qualified professionals analysing your business to:

- Identify opportunities to improve production
- Provide direction to the business
- Help you grow your business
- Help you to realise the lifestyle you want

Ultimately we want to help you:

- Make more profit
- Grow your equity
- Have the lifestyle you want

