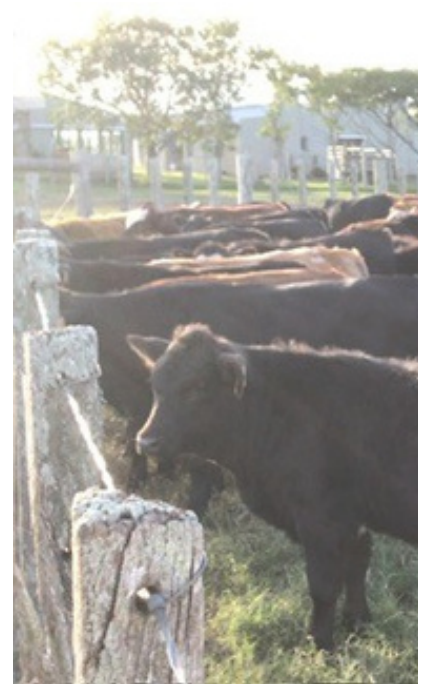


# Comparison of Economic Performance in Commercial Breeding Enterprises in the Medium Term



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Differences in financial performance between livestock enterprises are a common subject of discussion within the industry. These differences are typical when observing data within individual years. These disparities are often attributed to specific market or weather conditions that may favour some enterprises over others on those years.

The discrepancies between enterprises usually decline when a broader analysis period is assessed. Variation within the same enterprise is greater than variation between enterprises over time.

This suggests that there is more to be gained by enhancing the performance of existing enterprises where the manager possesses the skills and the resources are suited, rather than pursuing an enterprise change based on circumstantial factors.

## Methodology

Data from the Agrista benchmarking database between 2019 and 2023 has been assessed to examine variability in economic performance of four commercial breeding enterprises (beef herds, dual-purpose flocks, prime lamb flocks, and wool flocks). By considering a five-year period, market, and meteorological effects, which could benefit or hinder different enterprises in specific years, are minimised.

A five-year period is regarded as a medium-term analysis. During this period significant seasonal variations (including "El Niño" and "La Niña" events) and extreme market fluctuations (changes in agricultural outputs and inputs prices), were observed reinforcing the need for the longer-term analysis.

Operating profit (\$/DSE) has been used as a measure to compare financial performance across enterprises. This indicator is calculated by subtracting operating costs (enterprise and overhead costs) from the gross profit (sales - purchases + inventory change).

Enterprise comparison is possible as the results are expressed per dry sheep equivalent (DSE). The dry sheep equivalent relates to the amount of energy required to maintain a male castrated merino sheep. The energy requirements of livestock are dependent on the class, stage of reproduction and rate of weight gain among other factors. These factors are used to apply differential DSE ratings. Operating profit per DSE is therefore a measurement of profit per unit of pasture energy consumed.

## Results

Figure 1 shows performance by enterprise by year. The variation in performance for each enterprise has been significant during the five-year period. Each of the enterprises ranked first in at least one of the years (beef herds: 21-22 and 22-23, dual-purpose flocks: 18-19, prime lamb flocks: 19-20, wool flocks: 20-21), while three out of four enterprises also ranked last in at least one of the assessed years (beef herds: 18-19 and 19-20, dual-purpose flocks: 21-22 and 22-23, prime lamb flocks: 20-21, wool flocks: second worst in 19-20).

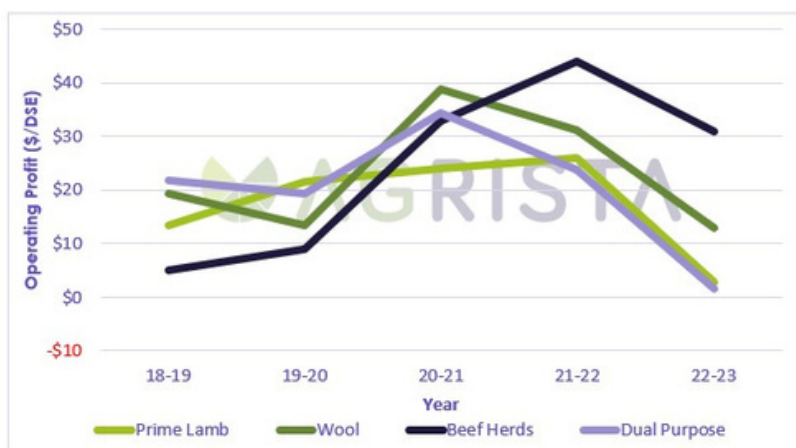


Figure 1: All enterprises have good and bad performance over time.

Figure 2 shows the average of all and the average of the top 20% ranked on profit per DSE. Comparing the five-year average values (dark green bar) shows less than a \$6 per DSE difference between enterprises, far lower than the individual \$30 per DSE difference shown in the 22-23 year in Figure 1. Thus, the annual variations between enterprises observed in Figure 1 disappear when considering a five-year analysis.



Figure 2: There is usually more to be gained by getting better at your existing enterprise – than moving enterprises.

However, the difference between the top 20% and the average in the five-year data is approximately \$20 per DSE. This variability exceeds the variability between enterprises. Any value from the top 20% is higher than the average of any enterprise.

Where the aim is to improve financial performance over the medium or long term, the primary focus should be on enhancing the results of the existing enterprise rather than moving between enterprises.



### **What this means to you**

Differences in the performance between the enterprises over 5 years are typically small. The choice of the enterprise(s) to develop or further develop should be more closely related to other, more important factors, such as skills, preference for the enterprise(s), or necessary infrastructure.

The variability within each enterprise outweighs the differences between enterprises. This underscores the importance of focusing on developing a robust enterprise and understanding the relationships between production and financial factors to achieve a favourable outcome, regardless of the chosen enterprise.

Benchmarking aids in identifying opportunities within different enterprises, thereby elevating the performance of individual enterprises and the business as a whole.

### **About Juan Martín Dutra da Silveira**

Juan is from Uruguay, where he grew up in the city of Tacuarembó. From a very young age, he was closely linked to agricultural production through the family business of raising commercial cattle, and commercial and seed stock merino.

From a young age, he had decided on his future studies. At the age of 18 he moved to Montevideo (capital of Uruguay) to study Agronomist Engineering at the University of the Republic. Juan enjoyed the degree, where, apart from learning, he found the theoretical explanations familiar to events that he observed on the farm. He specialized in cattle and sheep production, as well as winter and summer crops.

Juan moved to Australia to do a Master's Degree in Agricultural Sciences, at the University of Melbourne, relating to agribusiness and agricultural advisory.

Juan completed his internship with Agrista is currently employed by them as a consultant.