

# A CONTRACTING BUSINESS ANALYSIS and ACTION

by  
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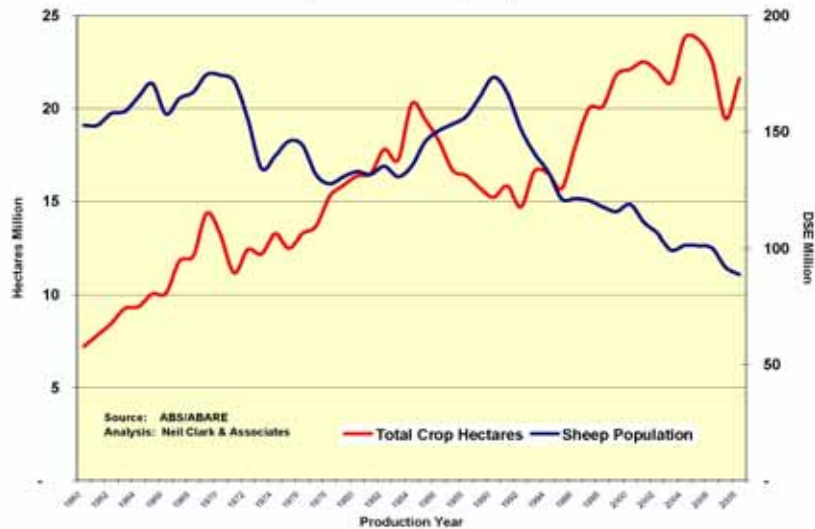


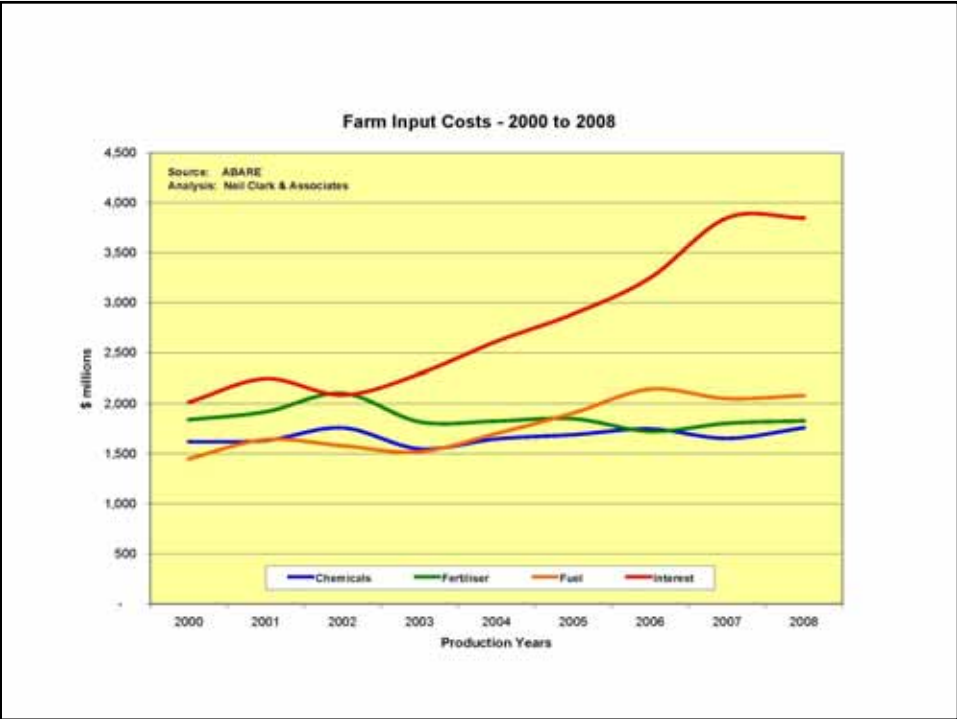
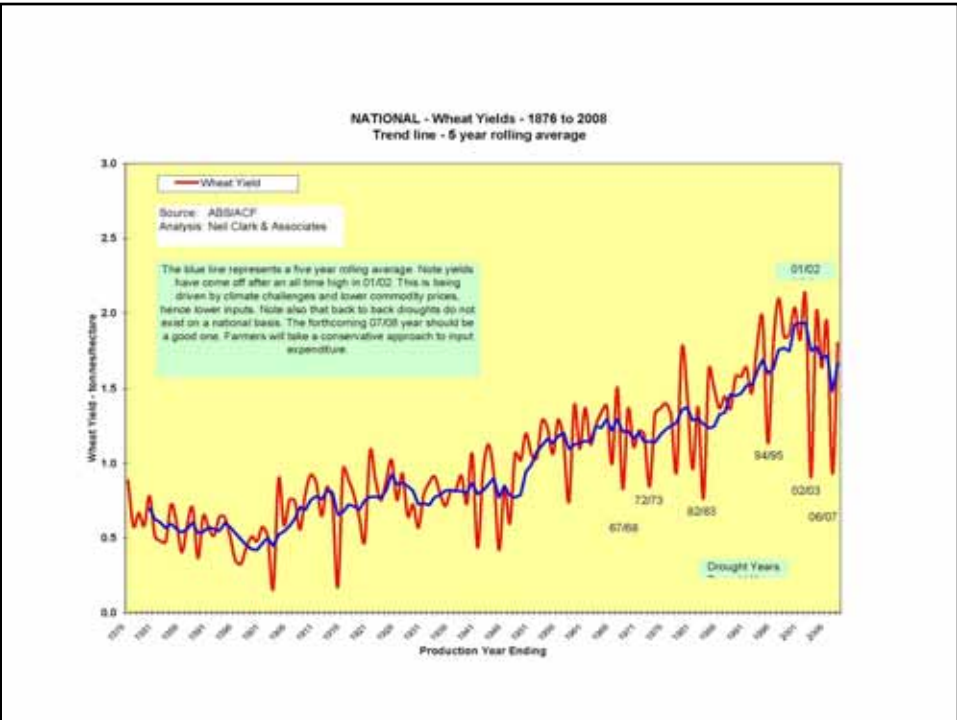
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## TRENDS IN AUSTRALIAN AGRICULTURE

Land Use - Crop Hectares v Sheep Population - 1960 to 2008





## **TRENDS IN AUSTRALIAN AGRICULTURE**

### **Modern business has:**

- Greater volatility of income
- Rising costs
- Larger scale
- Tighter margins

### **Successful modern businesses have:**

- High quality delivery and customer relations
- Repeatability of systems and products
- Good cost control
- Efficient Resource Use



***“Success is like Luck – we can make our own”***

***Financial Key Performance Indicators (KPI'S) provide the measure of business performance***

### Three KPI's (Whole of Business)

Business Type	Return on Capital (%)	Asset Value (\$)	Profit (EBIT) (\$)
Farming (Crop Broadacre)	3	3 million	90,000
Fertilizer Business	14	1.2 million	170,000
Agri Consulting	20	< 200,000	50,000



**Return on Capital and Profit provide different measures of success**

### KPI'S for the Fertilizer Service Providers

**Note:** Data is for 7 years to 2005  
 Net Income = Gross Sales + Commissions + services - cost of goods sold

### Resource Efficiency

Net Income / Business Asset Value	70%
Machinery Value / Business Asset Value	60%
Machinery Value / Net Income	50%
Machinery Value / Labour Unit	\$60,000
Net Income / Labour Unit	\$115,000



## KPI'S for the Fertilizer Service Providers

**Note:** Data is for 7 years to 2005

Net Income = Gross Sales + Commissions + services - cost of goods sold

### Cost Control

Profit / Net Income 19%

- Business Costs / Net Income 10%
- Machinery Costs / Net Income 40%
- Labour Costs / Net Income 25%
- Financing Costs / Net Income 6%



## Machinery & Labour

*Machinery + Labour when combined absorb about 2/3rd (65%) of Net Income, hence are the key drivers of profit.*

### 1<sup>st</sup> Level KPI

Machinery Cost / Net Income 40%

### 2<sup>nd</sup> Level KPI

Fuel / Net Income 12%  
Repairs / Net Income 10%  
Capital / Depreciation 12%  
Contractors & Freight & Plant Hire 6%



## Enterprise Analysis

Separate income and costs into each enterprise then the KPI's can be applied at an enterprise level

	Unit	Total	Fertilizer	Spreading	Transport	Agronomy
Net Income (NI)	\$	<b>1.25 mil</b>	200,000	190,000	880,000	80,000
Profit / NI	%	<b>19</b>	21	-2	0	-6
Business Costs / NI	%	<b>10</b>	50	10	10	10
Machinery Costs / NI	%	<b>40</b>	11	43	48	15
Labour Costs / NI	%	<b>25</b>	15	45	30	70
Finance Costs / NI	%	<b>6</b>	3	8	12	5
Asset Value	\$	<b>1.2 mil</b>	300,000	425,000	450,000	50,000
<b>Return on Capital</b>	%	<b>16</b>	<b>14</b>	<b>4</b>	<b>22</b>	<b>-10</b>

## Enterprise Analysis

### Further Investigation:

- Machinery Cost in Transport is high
- Labour cost in Spreading is high
- Agronomy service is not profitable
- Fertilizer sales are matched to costs and are OK.  
This provides the 'base' to the overall business profit.



## Converting Profit into Wealth

- *Wealth can be achieved through passive growth in the business assets ie Land and Buildings,*
- OR
- *from active investment of the Profits*

### The Business Life Cycle

Stage	Net Worth	Likely Profit Allocation
Emerging / Growing	Low	Business
Consolidating	Low / Medium	Business
Established	Medium / High	Non-Business
Reinventing	High	Older Generation: Non-Business New Generation: Business



## Converting Profit into Wealth

Understanding your Balance Sheet helps with decisions regarding profit allocation

<b>Asset Class</b>	<b>% of Total Asset</b>	<b>Asset (\$)</b>	<b>Liability (\$)</b>	<b>Equity (\$)</b>
<u>Business</u> - Buildings & Land - Machinery - Inventory	60%	1.0 million	400,000	600,000
<u>Non-Business</u> - Shares - Real Estate - Business	25%	420,000	100,000	320,000
Superannuation	15%	250,000	-	250,000
<b>Total</b>	<b>100%</b>	<b>1.67 million</b>	<b>500,000</b>	<b>1.17 million</b>

### Characteristics of a Successful Business:

- Detailed record-keeping and financial reporting
- Reliable profits relative to Income
- Diversification within the business, i.e. mix of enterprises
- Growing asset wealth in both business and non-business
- Financial Buffers to cover Income volatility
- Professional attitude
- A recognised need for external advisors in areas where skills are limited

THEY ENJOY WHAT THEY DO



## Summary

***“Success is about efficient production with appropriate cost control so that profits are available to achieve the desired outcomes for the business owners”***



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