

# GROSS MARGINS IN COTTON



BOYCE CHARTERED  
ACCOUNTANTS  
08 SEPTEMBER 2006  
David Newnham

# GROSS MARGINS IN COTTON



## Today's Agenda

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- ⌘ How do we arrive at the figures
- ⌘ Cotton Comparative Analysis
- ⌘ Summary

# GROSS MARGINS IN COTTON

Boyce Chartered Accountants



We wanted to know why two farms of relatively the same size, with the same soil type and rainfall could obtain such different profit results.

So a comparative analysis of farms was established.

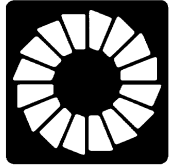
# GROSS MARGINS IN COTTON



How do we arrive at the figures?

- ⌘ Our clients make up the majority of the farmers who participate in the CCA
- ⌘ Non-client data is scrutinised carefully
- ⌘ Matching income with expenses
- ⌘ Reliability of data
- ⌘ Comparing correct income and expense items
- ⌘ Cross section of clients
- ⌘ Prior year participants who grew no cotton are not included in the analysis

# COTTON COMPARATIVE ANALYSIS



What are the trends of the analysis?

## ⌘ Income

☑ Yield

☑ Price

☑ Total income

## ☑ Expenses

☑ Total operating expenses

☑ Analysis of individual expenses

☑ Interest Expense

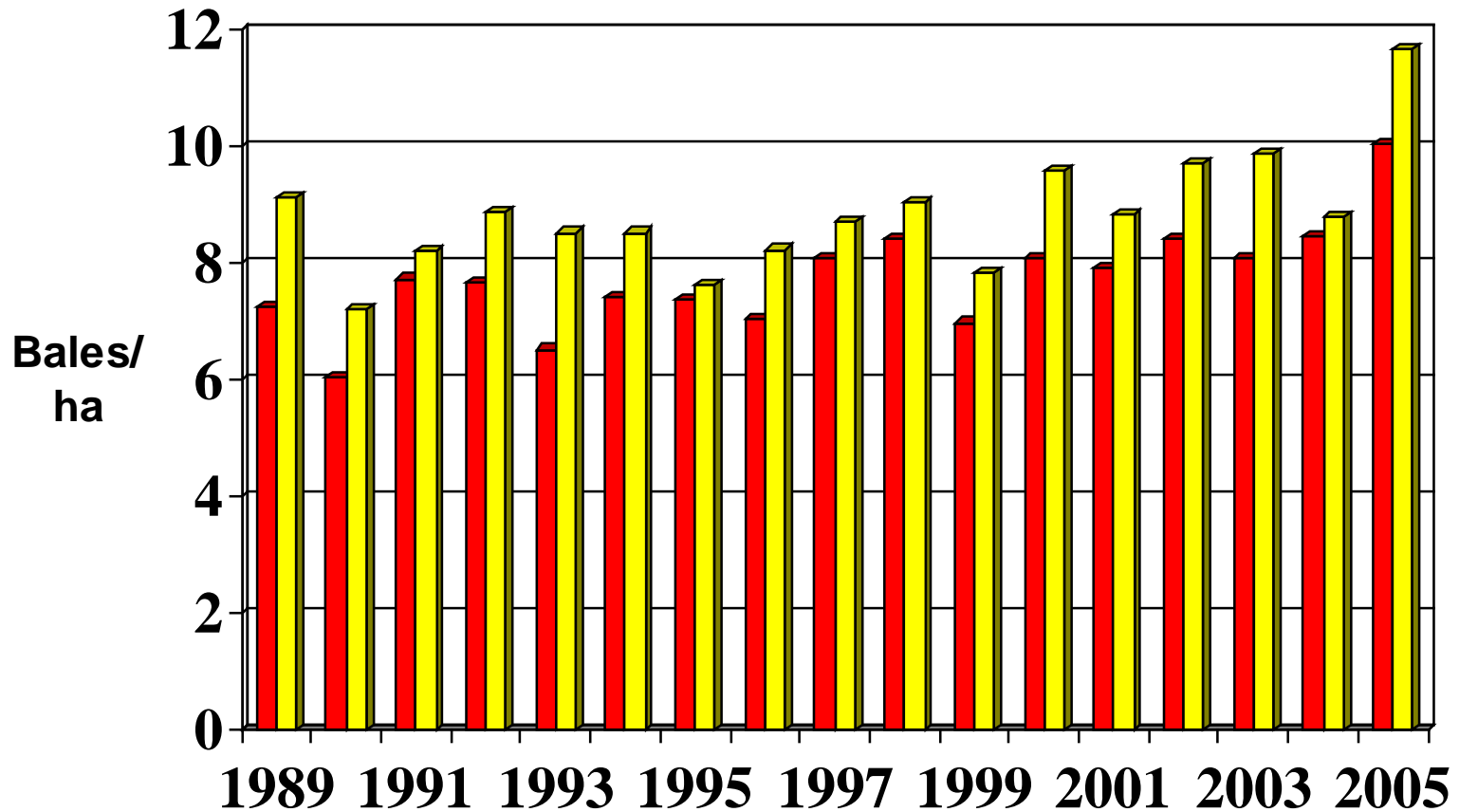
☑ Net Income

# COTTON COMPARATIVE ANALYSIS

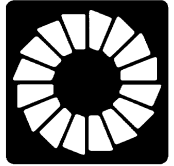


## Yield per hectare

■ Yield per ha - Ave for all Growers    ■ - Top 20%

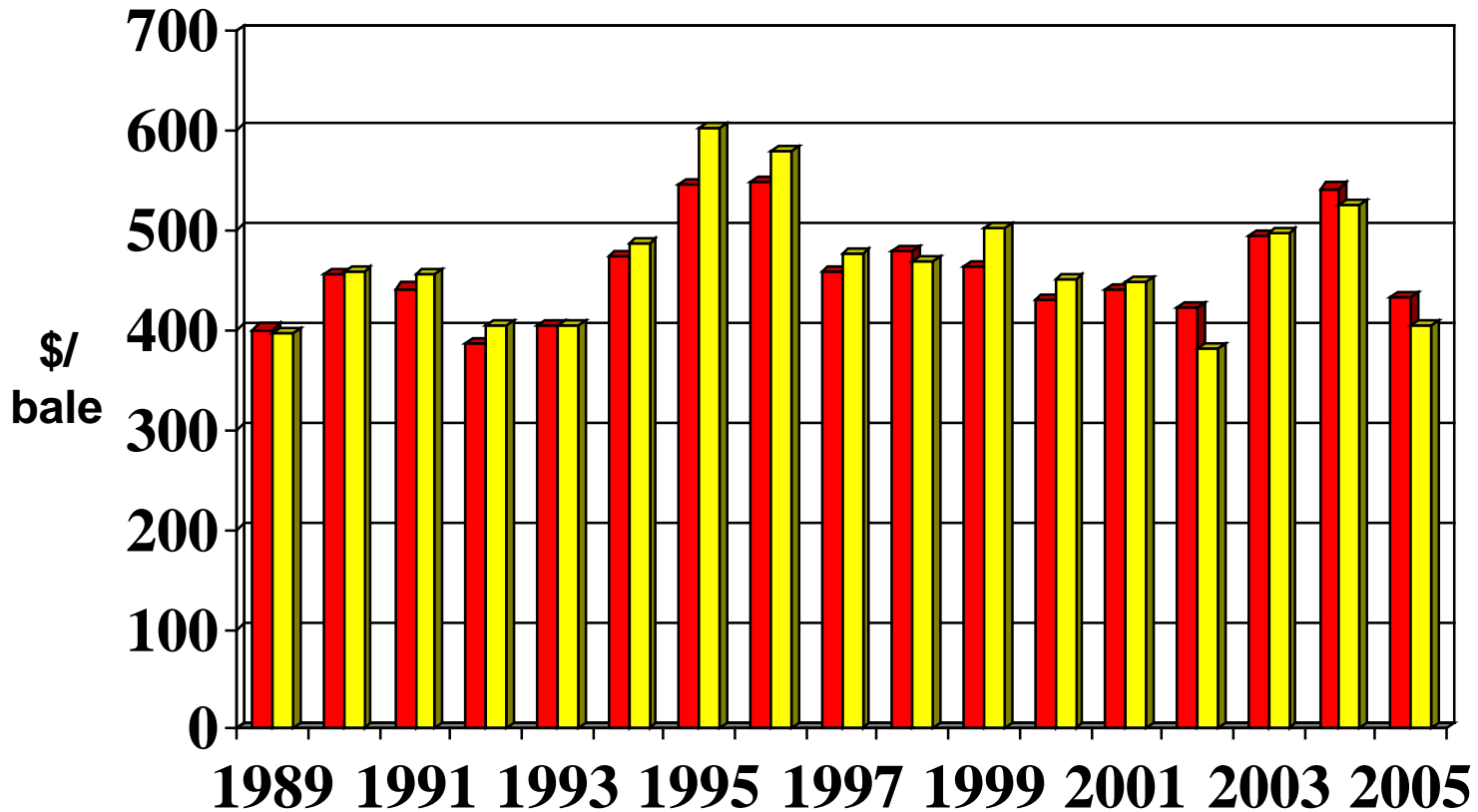


# COTTON COMPARATIVE ANALYSIS



## Price per bale

■ Price per bale - Ave for all Growers    ■ - Top 20%

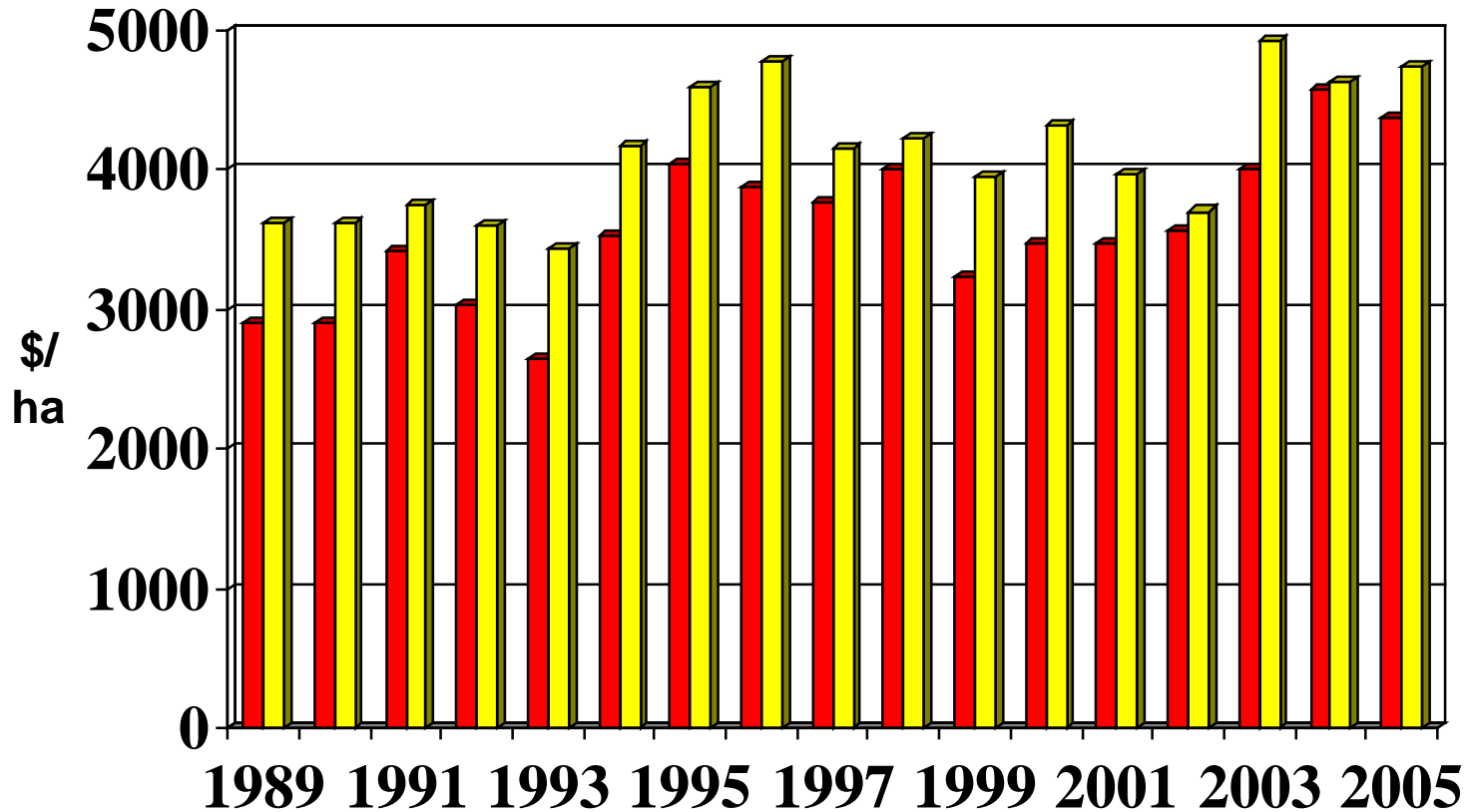


# COTTON COMPARATIVE ANALYSIS

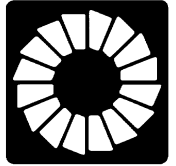


## Total Income

■ Total income - Ave for all Growers    ■ - Top 20%

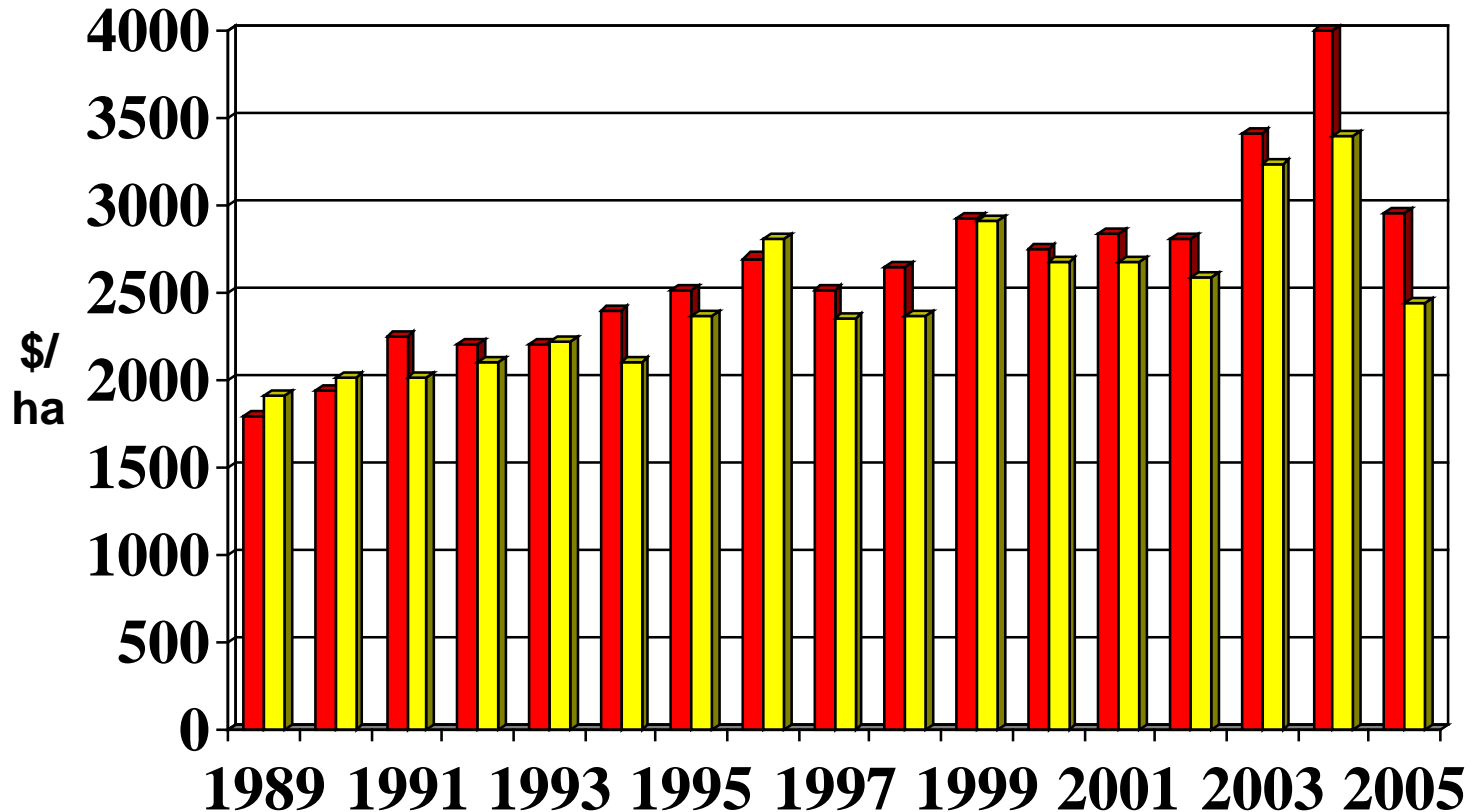


# COTTON COMPARATIVE ANALYSIS



## Operating expenses

■ Operating expenses - Ave for all Growers ■ - Top 20%

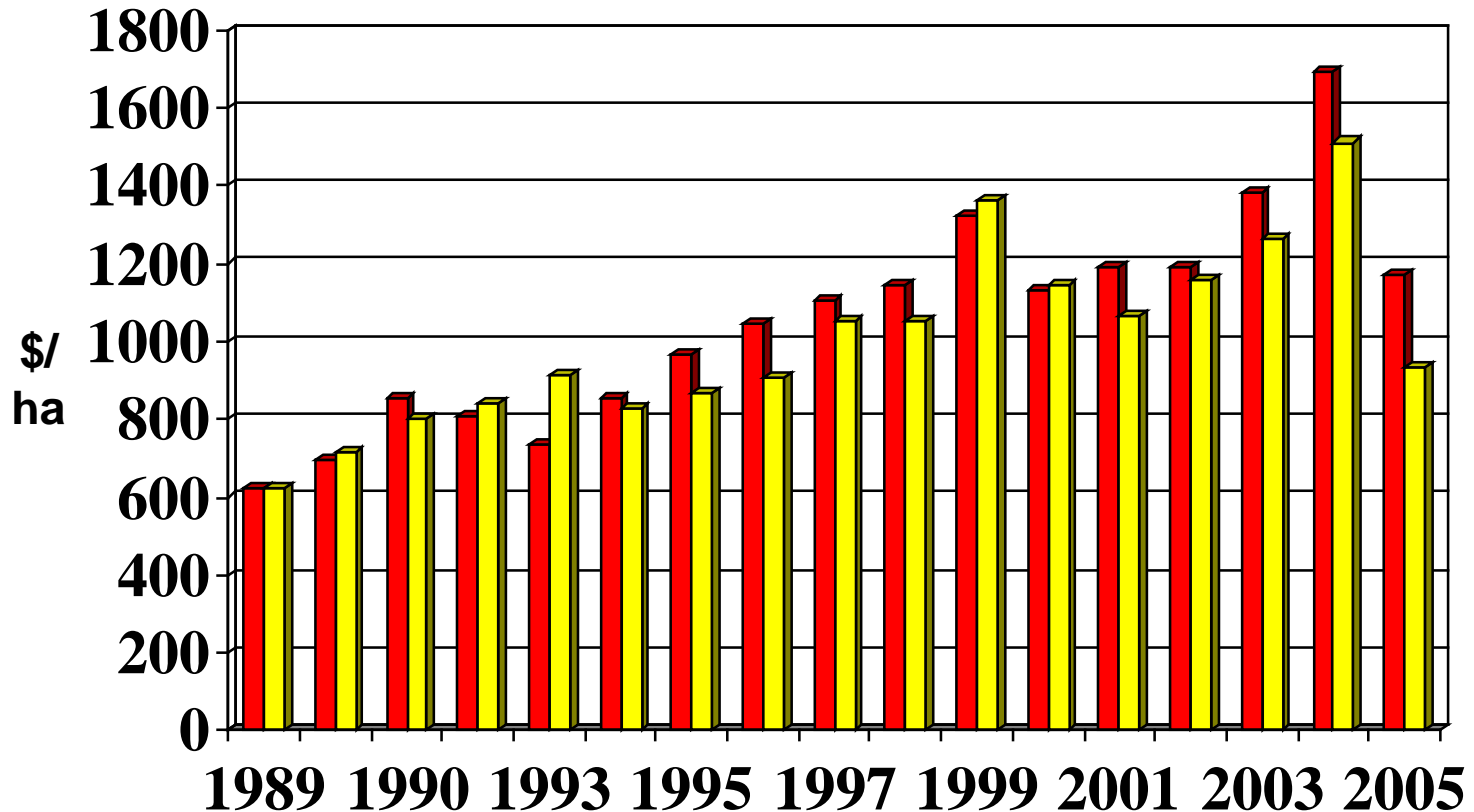


# COTTON COMPARATIVE ANALYSIS



## Direct expenses

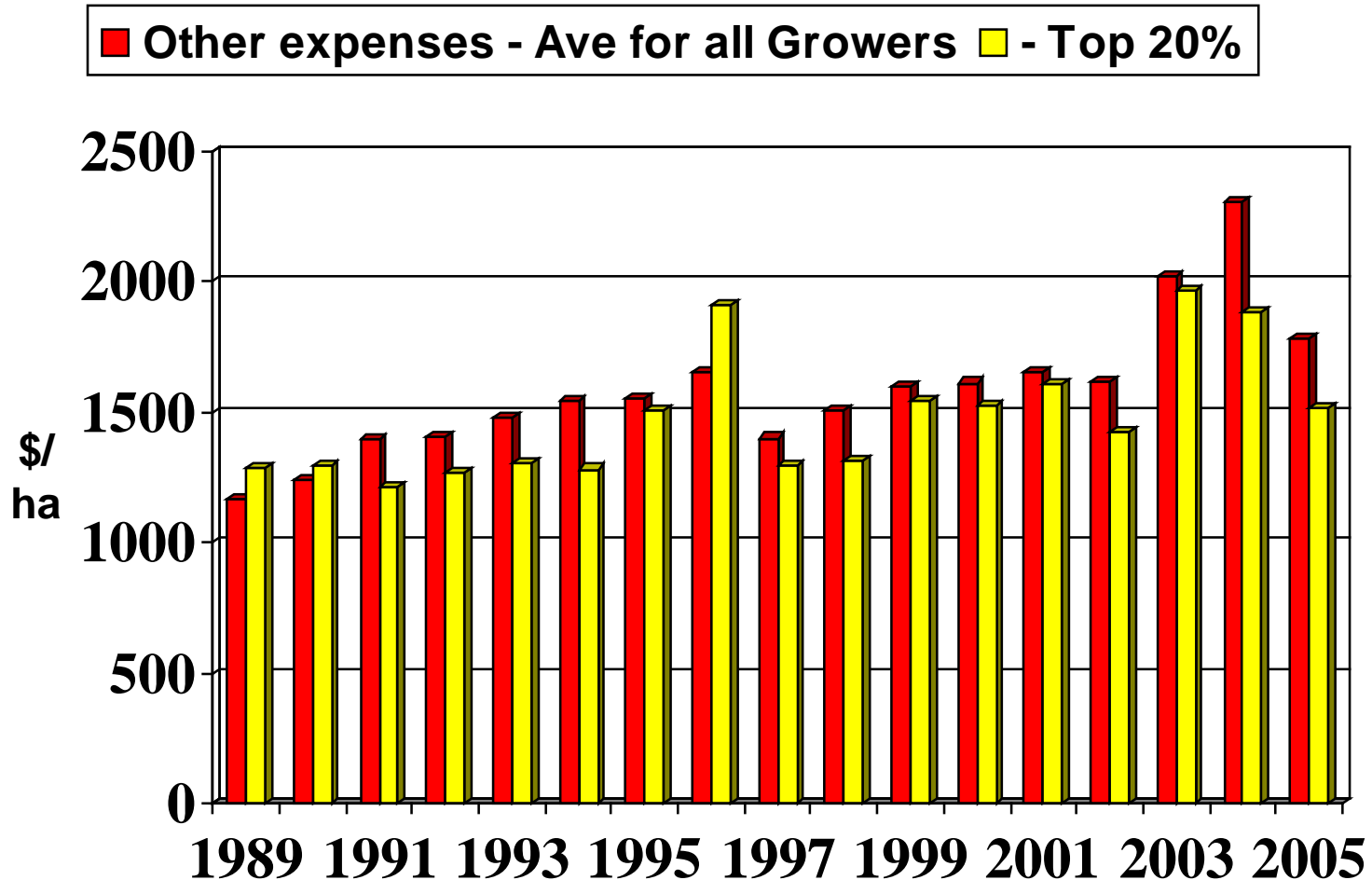
■ Direct expenses - Ave for all Growers    ■ - Top 20%



# COTTON COMPARATIVE ANALYSIS



## Other expenses

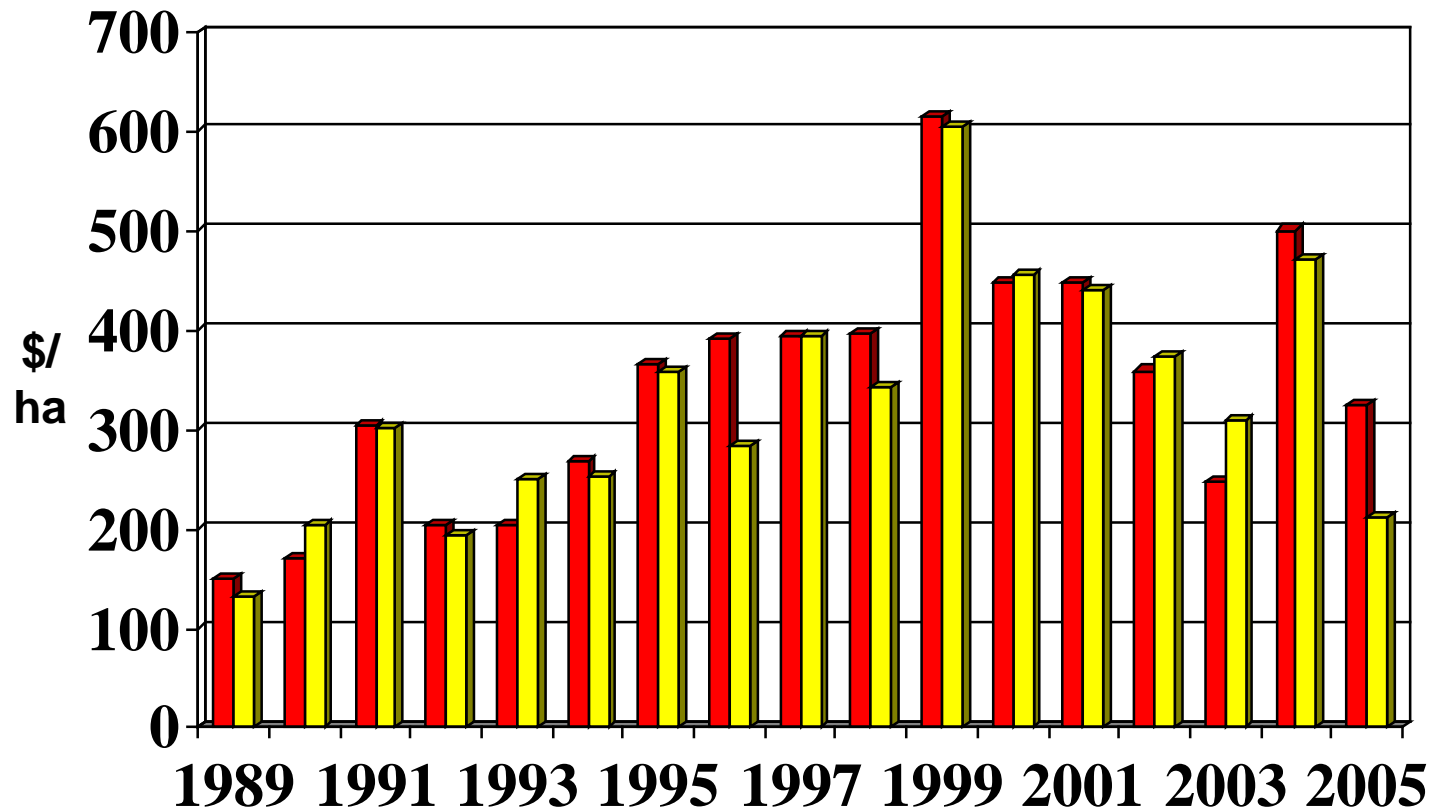


# COTTON COMPARATIVE ANALYSIS



## Insecticide costs

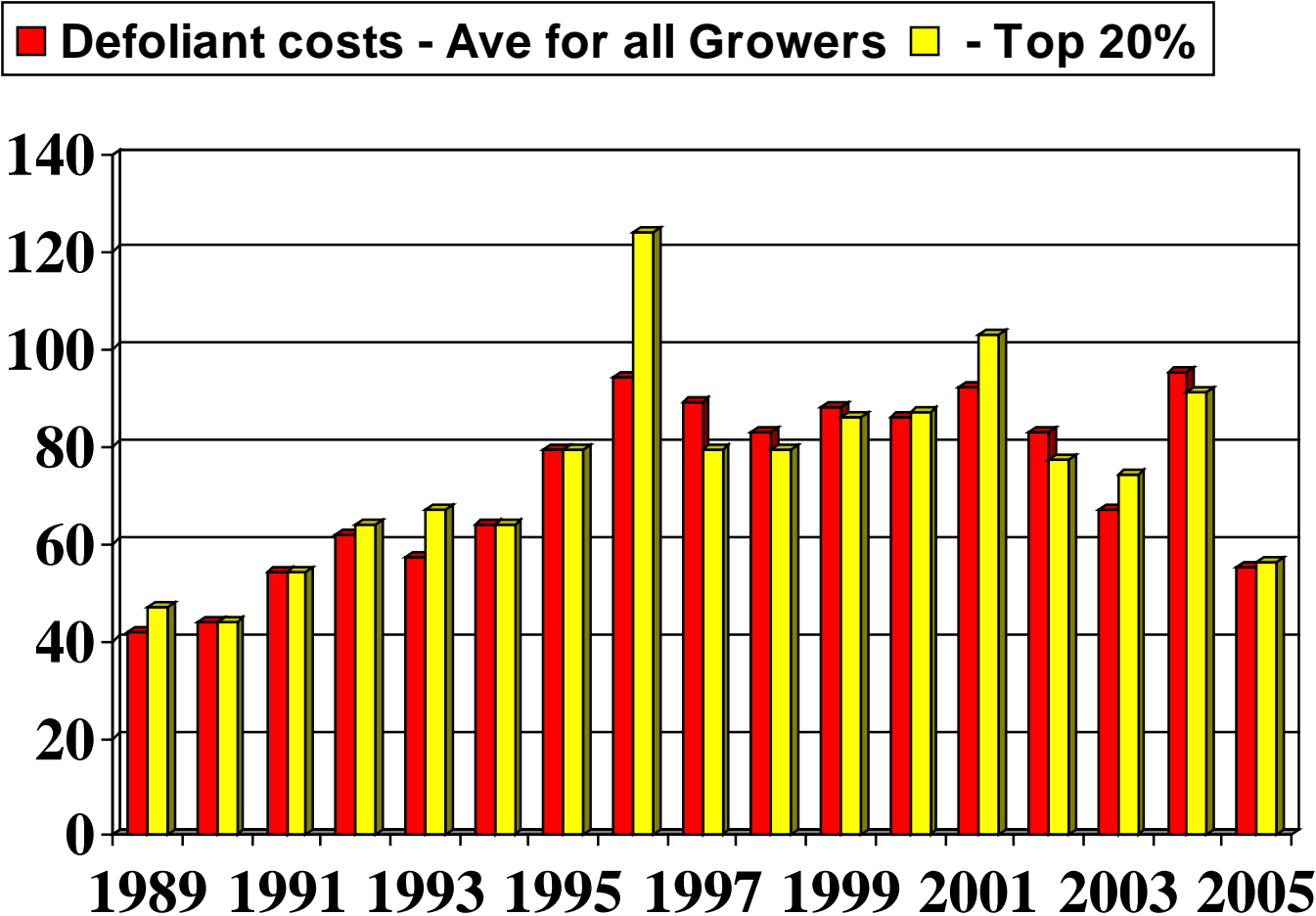
■ Insecticide costs- Ave for all Growers ■ - Top 20%



# COTTON COMPARATIVE ANALYSIS



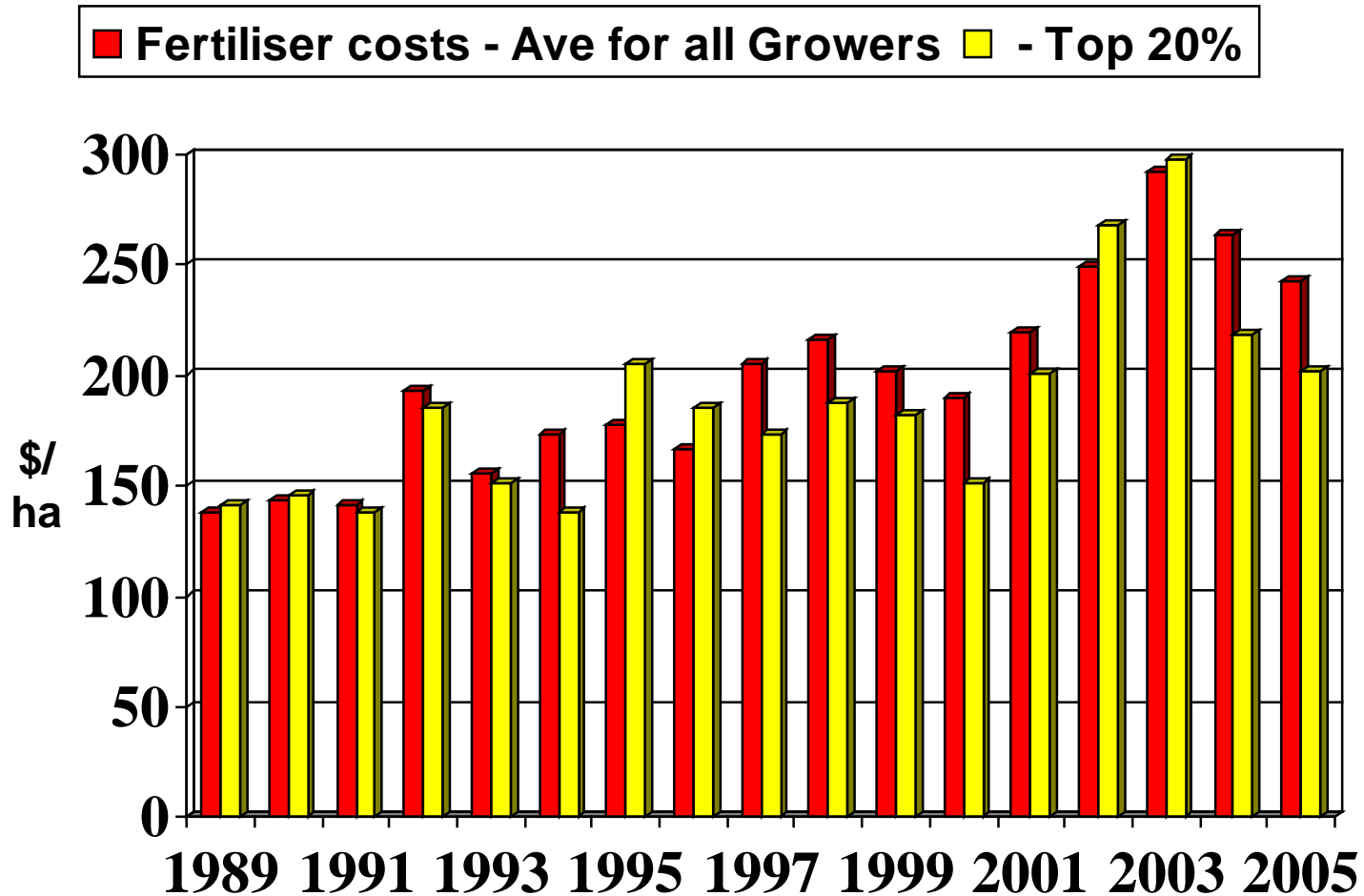
## Defoliant costs



# COTTON COMPARATIVE ANALYSIS



## Fertiliser costs

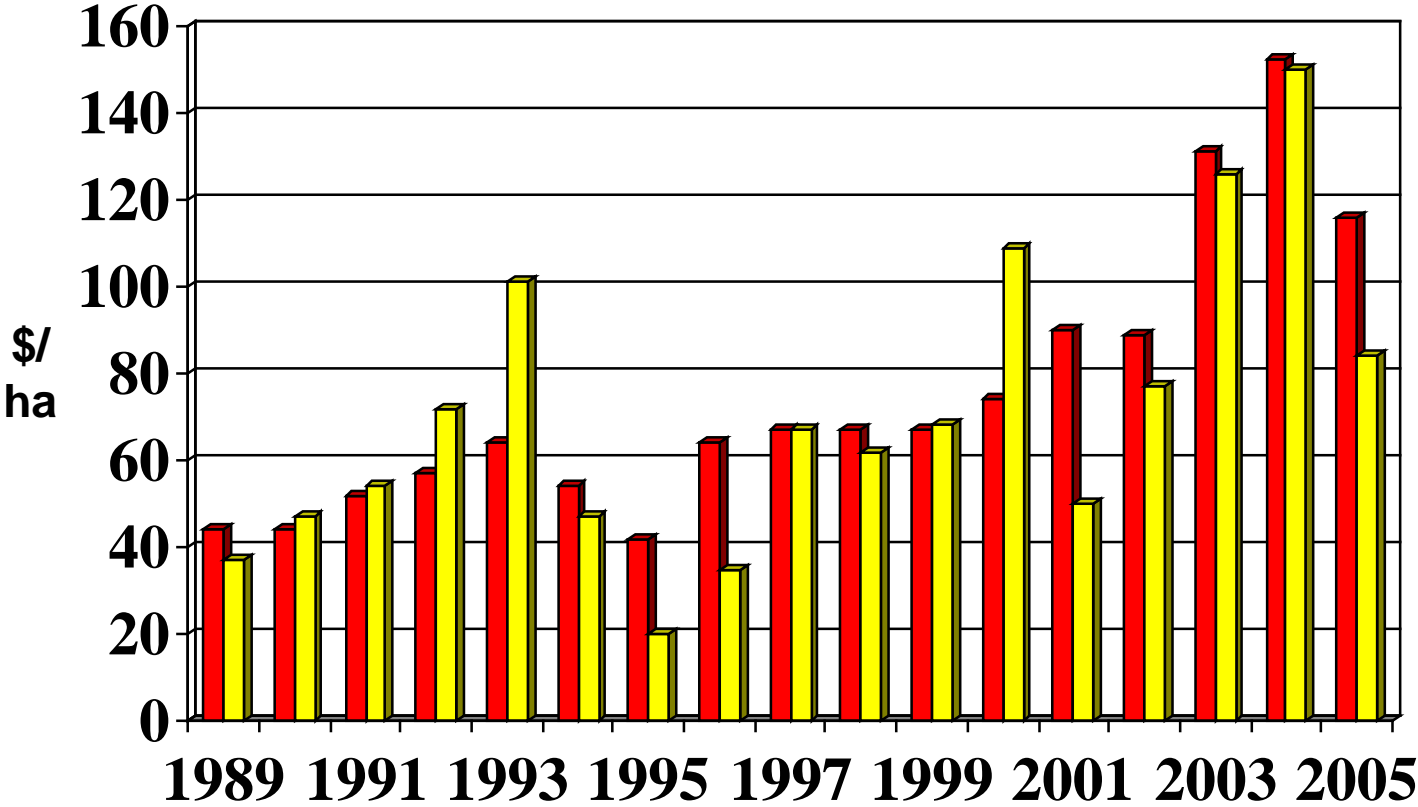


# COTTON COMPARATIVE ANALYSIS



## Insurance costs

■ Insurance costs - Ave for all Growers    ■ - Top 20%

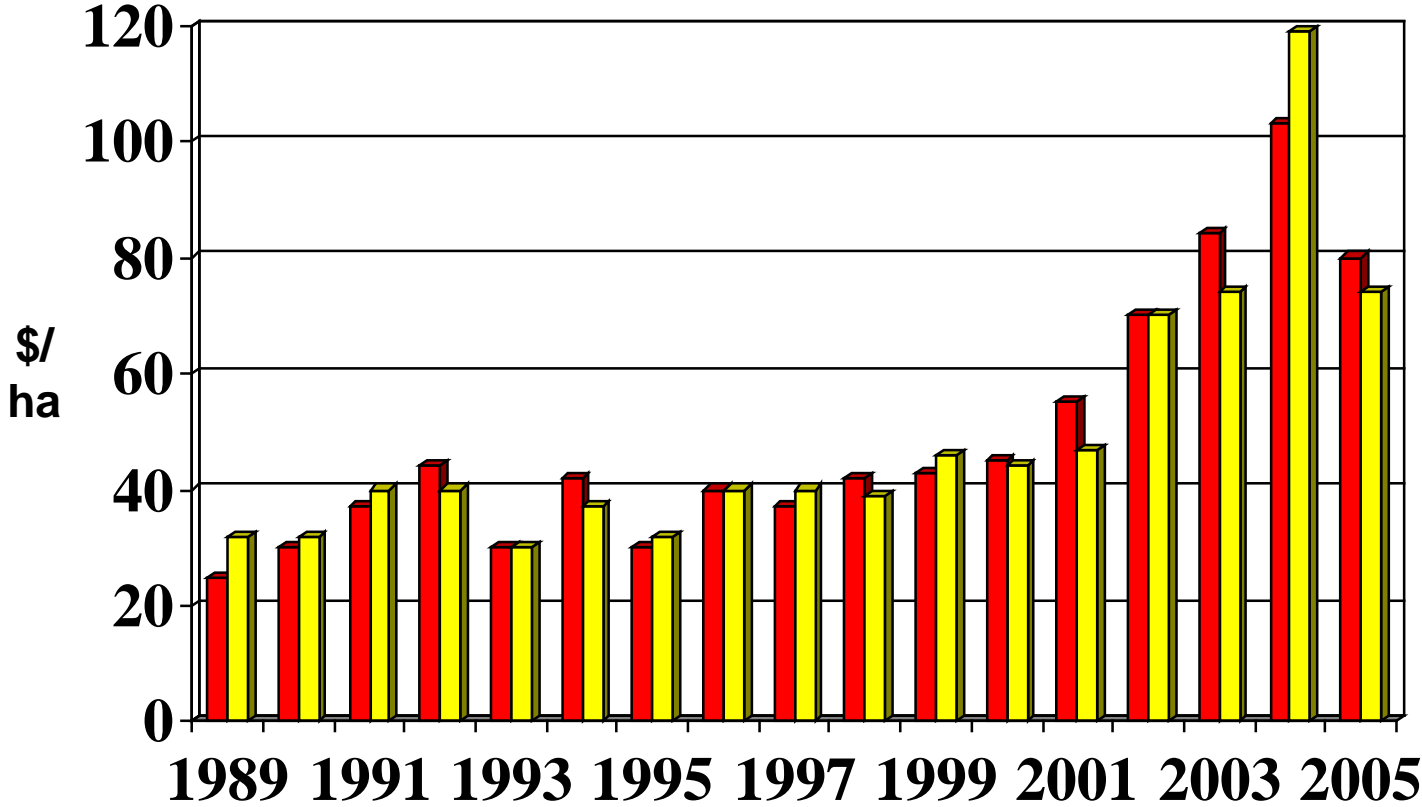


# COTTON COMPARATIVE ANALYSIS



## Seed costs

■ Seed costs - Ave for all Growers    ■ - Top 20%

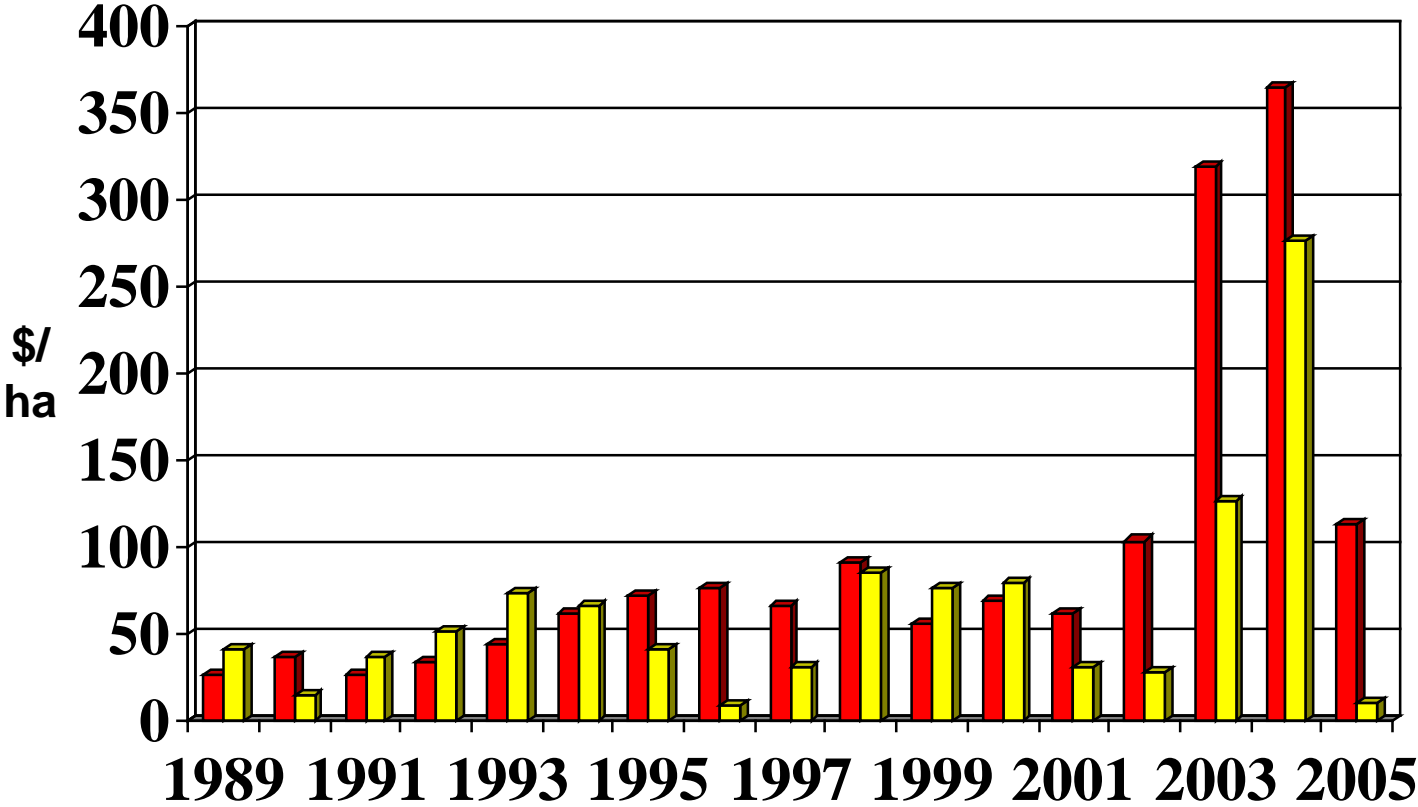


# COTTON COMPARATIVE ANALYSIS



## Water charges and purchase costs

■ Water costs - Ave for all Growers    ■ - Top 20%

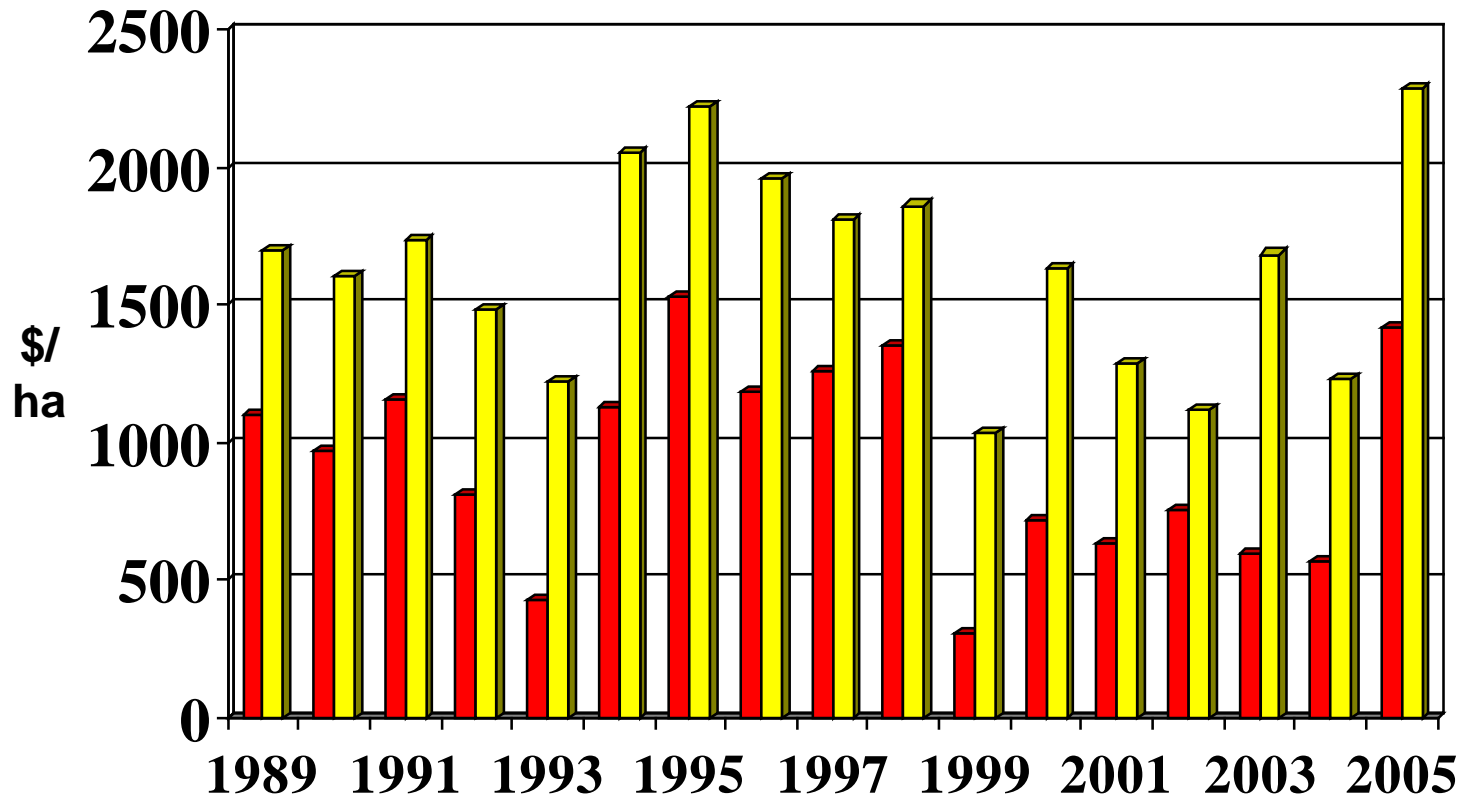


# COTTON COMPARATIVE ANALYSIS



## Operating profit

■ Operating profit - Ave for all Growers ■ - Top 20%

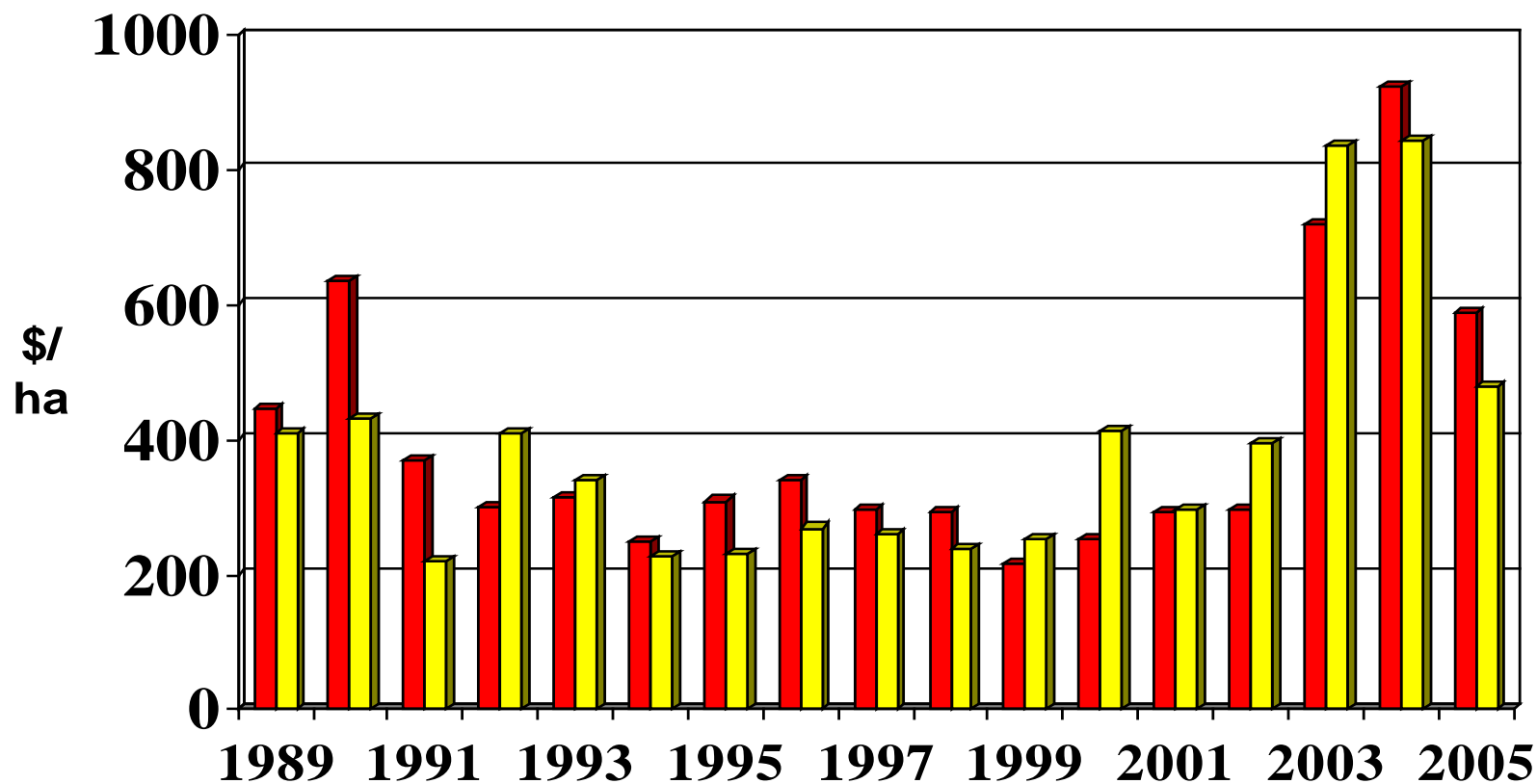


# COTTON COMPARATIVE ANALYSIS

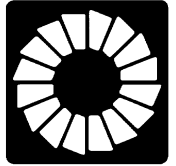


## Interest Expenses

■ Interest expenses - Ave for all Growers ■ Top 20%

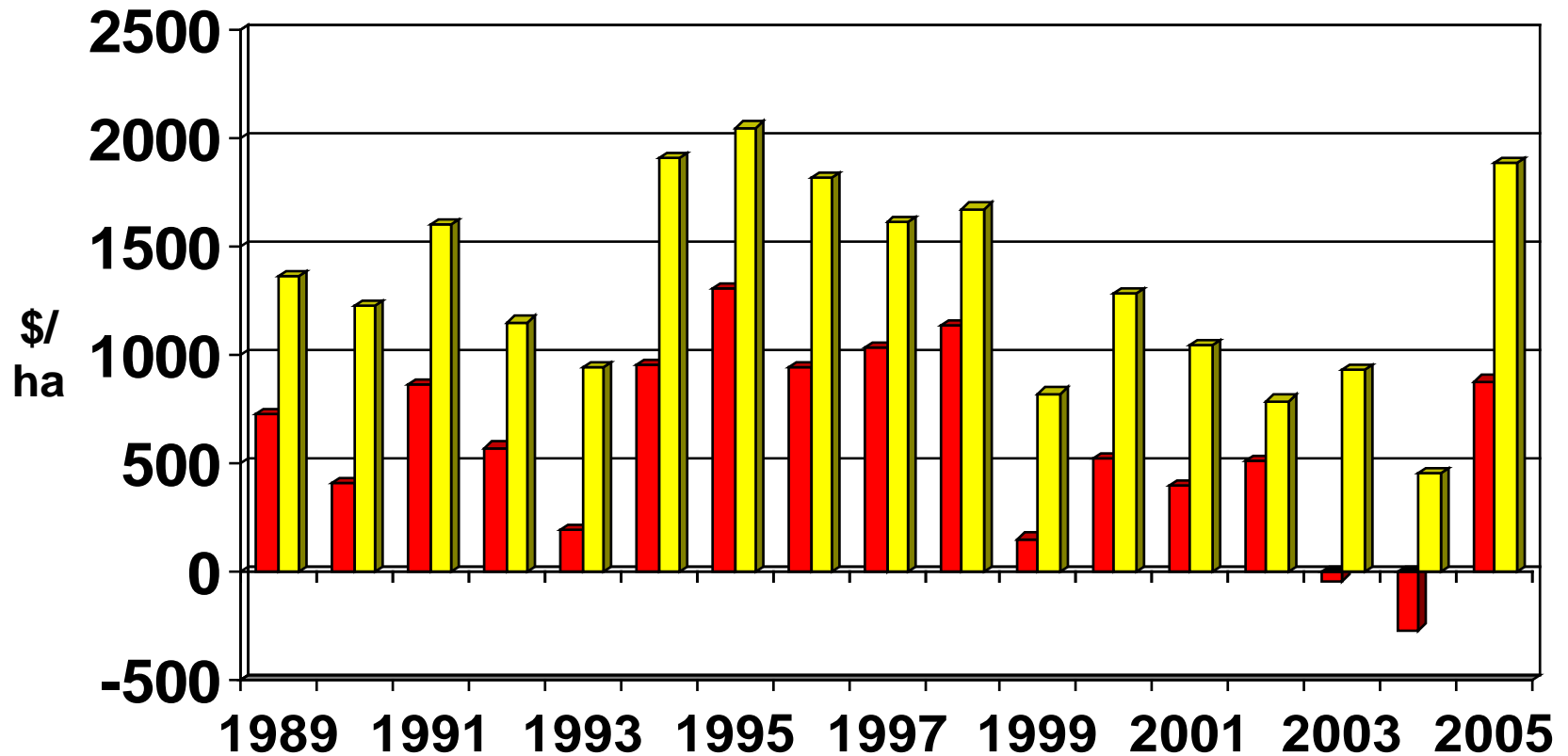


# COTTON COMPARATIVE ANALYSIS



## Net profit

■ Net profit - Ave for all Growers ■ Top 20%



# COTTON COMPARATIVE ANALYSIS



Profit Differential 2005 – Top 20% and Average

Land productivity (yield)	66%	\$702
Price (marketing)	(26%)	(\$275)
Total cost savings	50%	\$533
Interest savings	10%	\$107
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	100%	\$1,068
	=====	=====

# COTTON COMPARATIVE ANALYSIS



Profit Differential – Ave 5 years to 2005 - Top 20% and Average

Land productivity (yield)	78%	\$546
Price (marketing)	0%	(\$1)
Total cost savings	28%	\$196
Interest savings	(6%)	(\$38)
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	100%	\$703
	=====	=====

# COTTON COMPARATIVE ANALYSIS



## Features of the top performers

- ⌘ Controlled operating costs
- ⌘ Consistent marketing practices
- ⌘ Productive labour
- ⌘ Reliable machinery
- ⌘ Conservative levels of debt
- ⌘ Efficient financial management and monitoring
- ⌘ Timing
- ⌘ Planning and long term vision
- ⌘ Higher yields

# Summary - How to achieve the performance objectives for any enterprise.



- ⌘ In good water years, yield is “king”
- ⌘ In low water years, the non direct costs that have to be apportioned over the smaller area have a greater effect on profit than yield
- ⌘ Those people without water security have to make sure that they make enough profit in the good years to carry them through the dry years
- ⌘ Those without water security need to ensure that their overhead costs are kept to a minimum so that in a low water years, there is a reduce effect on profit, contractors vs ownership costs

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ACCOUNTANTS

08 September 2006

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