

SEVENTH AUSTRALIAN COTTON CONFERENCE

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THE MICHAEL BOYCE & CO COTTON COMPARATIVE ANALYSIS

- HOW IT RELATES TO THE CONCEPT OF BEST PRACTICE
- WHAT ARE THE FEATURES OF THE TOP PERFORMERS

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THE BIG PICTURE COMPARATIVE ANALYSIS AND THE CONCEPT OF BEST PRACTICE

In my paper I would like to put the Michael Boyce & Co Cotton Comparative Analysis into perspective and sow some seeds to get everyone thinking about the concept of "best practice" in the cotton industry.

Financial analysis using comparative statistics help farmers identify relative strengths and weaknesses. Accompanying budgets and longer term business plans will then focus on ways to overcome these weaknesses and build on the strengths.

In other words, the Comparative Analysis is a management tool to implement change, and to identify where effort should be directed on a day to day basis. It is an attention directing tool for management.

Obviously the Comparative Analysis itself does not provide all the answers; it only provides a benchmark or a standard. It is then up to management to develop and implement specific action plans, based on their improved knowledge, to reach the goals set.

Many people seem to be confused by buzz words such as "best practice", total quality management (TQM) and benchmarking. Let me try to put these terms into perspective.

Best practice is a process of continuous improvement, achieved by benchmarking or comparing performance, practices and functions against the very best.

Obviously the cornerstone of developing **best practice** is to have reliable independent figures to start with, so you can review the results of the best performers, and analyse how they achieved their top results. (In other words you need to obtain accurate figures, not the "elastic" figures discussed over the bar!)

Best practice, however is more than just analysis of figures; it involves a review and comparison of day to day practices and functions , and implementation of change.

Comparisons should not necessarily be made within one industry.

For example, if you are looking at the machinery maintenance function, lessons can be learned from the aviation industry or mining industry. It is interesting to note that banks are learning about customer service from McDonalds. Wool growers are learning about marketing from the cotton industry.

In fact benchmarking, or the use of Comparative Statistics (functional and financial), is spreading like a bushfire in the business world. About 70% of Australia's top 500 companies are benchmarking, or intend to benchmark, in the 1994 year, with 65% of those companies believing that they need to benchmark to survive.

This is not to say that benchmarking or the use of comparative figures is only for big business. We have seen many farmers adopt the principals of **best practice** for several years with staggering results. For those committed to **best practice**, the results can be spectacular and satisfying.

All cotton farmers need to become internationally competitive, as our business environment is generally an unfriendly place. Adopting the principals of **international best practice** is just plain good business.

HOW COTTON FARMER SHOULD APPLY THE CONCEPT OF BEST PRACTICE AND USE THE COMPARATIVE ANALYSIS IN THEIR DAY TO DAY BUSINESS

INTERNAL

Prepare end of year accounts on an enterprise basis, allocating every cost to enterprises on a full absorption basis, as well as correctly matching income and expenses.

Analyse enterprise costs on a per acre or per hectare basis.

Compare and analyse all farm enterprises, noting reasons for good and bad results, with emphasis on proven or unique practices that have had positive results.

Develop your own list of **best practice** or golden rules for success.

EXTERNAL

Participate in a comparative analysis survey that looks at your industry, and compare your results with your fellow farmers, again noting reasons for good and bad comparative results. Always focus on the results of the top operators, rather than the average. Think laterally. (What are the good operators in other countries doing?).

Wherever possible, focus on functions rather than specific costs. By applying **best practice** to functions, you will end up with cost affective, profitable results.

Look outside your specific industry for functional benchmarks, focusing on the achievements of the best players in the field with similar functions, then set yourself realistic goals for improvement.

Participate in as many informal meetings as possible to develop **best practices** for your specific enterprises. It is important to get everybody involved. (Owners, partners, wives, family and employees).

Repeat the process on an ongoing basis.

Remember **best practice** is a race without a finishing post; it is a process of continuous improvement!

To become the best, continuous effort and action is required. It is a big commitment but a challenge with rewards. Don't be satisfied with anything but the best!

FEATURES OF THE TOP PERFORMERS IN THE COTTON COMPARATIVE ANALYSIS

Over the past nine years, we have seen many cotton farmers achieve top class results, even in years when seasonal or financial circumstances were less than favourable.

Some of the distinguishing characteristics of the best farmers have been:

1. HIGH YIELDS

The best farmers consistently achieve yields in excess of 3.0 bales per acre or 7.4 bales/per ha year after year. (Assuming adequate water availability). Total farm averages of 4.0 bales per acre or 9.8 bales per ha have been achieved, and are now a realistic goal, especially using the excellent varieties that have been recently developed.

2. CONTROLLED OPERATING COSTS

Average operating costs (before interest) for landholding farmers have remained constant at around \$875 per acre or \$2,160 per ha for the past three years. With fine tuning, the best farmers have been able to reduce their operating costs marginally, without sacrificing yield, while still adequately maintaining all assets. The performance of the best "low cost" farmers over the past three years proves that a target for operating costs of \$800 per acre or \$1,975 per ha is achievable.

3. CONSISTENT MARKETING STRATEGIES

Over the past nine years, we have seen an explosion in the number, variety and complexity of marketing alternatives available to cotton farmers. The strategies adopted by individual farmers depend on:

- i. Individual outlook on risk
- ii. World wide economic outlook
- iii. Taxation implications
- iv. Cashflow implications
- v. Water availability
- vi. Level of knowledge on how to use the complex alternatives.

To date, the perfect marketing strategy has proved to be illusive. Farmers need to make marketing decisions with the aim of maximising their crop income, and remember that historically a net return in excess of \$420 per bale should produce a sizeable profit.

4. PRODUCTIVE LABOUR

Top class results cannot be produced without having a top class team of employees, who are efficient, focused, motivated and stable. The best farms ensure that employees are kept informed with weekly team meetings, are trained to do their job properly, are given responsibility and an opportunity to participate in on-farm decision making, and are properly remunerated. Efficient farms are operating with one permanent man for every 500 to 550 acres (200 to 225 ha).

5. RELIABLE MACHINERY

All good farmers appreciate the importance of timing, so they ensure that they own or have access to sufficient reliable machinery to carry out all operations efficiently and on time. For farmers who decide to own tractors to carry out all field operations, capacity of 450 engine horse power per 1000 acres is generally required. The ideal picking capacity for farms is subject to a great deal of debate, with many efficient operators concluding that the whole picking operation should be carried out by contractors. The best farmers aim to complete their picking operation within 21 days.

It is interesting to note that in a recent article in the Australian Farm Journal, Phil Ruthven, chairman of IBIS Business Information, commented that Australian agriculture is wildly overcapitalised with "underutilised equipment" and is "one of the poorest practitioners of modern outsourcing techniques" (ie the use of contractors).

6. SUSTAINABLE FARMING TECHNIQUES (ROTATION)

Many of the benefits of a stringent rotation programme are not quantifiable in the short term and even if the benefits are quantifiable, they are often disguised by other variables that can effect yield in any season. Our cotton industry is relatively young. The fertility of soils in some areas has not been depleted sufficiently to create a sense of urgency amongst farmers to address the real issues.

If farmers are going to maintain a sustainable cotton production system, maintain high yields, and achieve acceptable levels of profitability in the long term, the issue of rotation needs to be addressed urgently.

Obviously the idea is to aim for a 1: 1 rotation in the long term, with new fields initially being farmed for three to four years, before going into a 3:1 rotation, 2:1 rotation, then a year in-year out, 1:1 programme.

7. CONSERVATIVE LEVELS OF DEBT

With the cotton industry still in its infancy, many farmers are carrying an excessive amount of debt, with equity levels of 60% to 70% being common. By adopting sound, sustainable practices, the best farmers have been able to generate significant cash surpluses to repay significant borrowings. The best farmers are in an enviable position of being able to survive in tough times, and in some circumstances expand the scale of their operations. Expansion is only sensible if the "home base" is close to being debt free. It must be remembered that debt can only be repaid out of cash surpluses after allowing for taxation, drawings and capital purchases, or from surplus from the sale of other assets.

Growers are considered to be in a solid financial position if their debts are covered by the value of equity in cotton pools at balance date.

8. EFFICIENT FINANCIAL MANAGEMENT

Good farmers run a tidy farm as well as a tidy office, with all financial affairs being up to date and under control.

Annual budgets are prepared by the top performers on a conservative basis, with realistic, yet challenging targets. Performance is then monitored monthly, comparing actual results with the previously prepared budget. With up to date management reports, top performers are able to analyse performance and fine tune operations on a regular basis if circumstances change.

9. PLANNING AND LONG TERM VISION

At the heart of every good operation is a person with vision; vision of where that business is going on a day to day basis, on an annual basis, and on a long term basis (10 years plus). The best farmers always seem to have time on their hands because they have clearly defined goals. They have communicated those goals to their team members, then taken on the role of a coach, guiding and encouraging their team who carry out the day to day activities.

10. POSITIVE ATTITUDE

Cotton farming is a complex business and there is no single "right way" to operate. Obviously, there are enormous differences in the management style of good farmers.

There are, however some common characteristics that do not reflect the style of management, but rather the attitude of successful farmers.

They are:

- i. The will to succeed, and be the best.
- ii. The capacity to work hard (not necessarily physically).
- iii. The diligence to always analyse the numbers before making major decisions.

CONCLUSION

Cotton farming depends on luck to a certain extent. However farmers who have a clear vision, a clearly defined plan, who are reactive to changing circumstances, who learn from the experiences of others, and who are positive, are going to be the industry leaders in the 1990's. The reward for getting it all right is a healthy sustainable profit.

There are no rewards for getting it wrong!!

ATTENTION ALL COTTON FARMERS HOW DO YOU COMPARE WITH THE TOP 20%?

The cotton industry Benchmark, the Michael Boyce & Co. Comparative Analysis, is available to all farmers, merchants, consultants, banks and other interested parties for just \$50.

The report this year answers the following questions for you:

- How did landholding farmers results compare to sharefarmers?
- What were the performance results of the top 20%?
- What were the costs of water shortages to farmers in drought affected valleys?
- How do your labour inputs compare?
- How did your tractor horsepower usage compare?
- What are the benchmark averages over the last five years to help with your budgeting?
- What are the most important management principles in achieving a good bottom line?

The comprehensive results are too important to ignore!

GUARANTEE

If the Comparative Analysis is not exceptional value to you, please return it for a full money back guarantee - no questions asked.



For your copy of the Michael Boyce & Co. Comparative Analysis please send this coupon together with your cheque for \$50.00 to: Michael Boyce & Co., PO Box 614, Moree, NSW, 2400.

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