Hybu Cig Cymru
Meat Promotion Wales

# Business Assessment – Giving your farm a financial MOT

The red meat sector in Wales faces significant changes over the next 5-10 years. The uncertainty that change brings can be daunting but there are measures and activities that can be undertaken to ensure that individual businesses are as healthy, resilient and profitable as possible.

Waiting to see what happens is a high-risk option. As the sector evolves, there is a chance to turn potential obstacles into opportunities, to achieve this however there is a need to understand current performance.

**Why undertake a business assessment?**

- Measure progress year-on-year
- Evaluate performance against other similar businesses
- Compare performances of different enterprises within a business
- Identify areas of strength and weakness
- Make informed decisions on possible investment
- Set targets for future improvement

## There are two basic types of assessment

### Physical Assessment

- Allows the comparison of physical performance data of individual livestock systems/enterprises. This can be used to highlight areas for future improvement. Some examples of this are:

| | |
|---|---|
| Ewes to Ram | 50:1 |
| Lambs reared (%) | 150% |
| Average weaning weight (kg) | 30 kg |
| Ewe stocking rate per hectare (Ha) | 10 ha |
| Weaned weight produced per Ha (kg's) | 450 kg |

### Financial Assessment

- This can allow for a comparison of the full costings and output of the enterprise against similar businesses.
- This type of assessment creates gross margins per ewe or cow but can also delve deeper and include all of the fixed costs of the business. This could also include profitability per hectare.

# How to Measure Financial Performance

### Enterprise Output

will include all sales throughout the year minus purchased/replacement animals. Output will also include a valuation change to account for an increase or a decrease in the herd/flock.

| | |
|---|---|
| + | Finished Cattle/Lambs |
| + | Breeding Sales |
| + | Cull Ewes/Cows |
| + | Wool Sales |
| +/- | Valuation Change |
| - | Replacement Costs |
| = | **Enterprise Output** |

### Variable Costs

includes all of the costs that can be attributed to the individual enterprise.

| | |
|---|---|
| + | Concentrates |
| + | Keep |
| + | Vet & Medicines |
| + | Livestock Sundries |
| + | Allocatable Contracting |
| + | Forage Costs |
| = | **Variable Costs** |

### Gross Margin

is the **Enterprise Output** minus **Variable Costs**. This will give a good indication of individual enterprise performance.

**Gross Margin = Enterprise Output - Variable Costs**

### Fixed Costs

are the overhead costs that can't be directly attributed to an enterprise. These can be difficult to split and can be proportioned by percentage of sheep/cattle livestock units on the farm.

| | |
|---|---|
| + | Labour |
| + | Power & Machinery |
| + | Property Repairs |
| + | General Farm Costs |
| + | Rent |
| + | Finance |
| + | Depreciation |
| = | **Fixed Costs** |

### Net Margin

is the **Gross Margin** minus **Fixed Costs**. This will give a profit or loss figure per ewe or cow. This could also be done on a per hectare basis to give an individual enterprise performance per hectare.

**Net Margin = Gross Margin - Fixed Costs**