



# Profitability of the Kiwi Dream: What are the main drivers of profitability on North Island East Coast Sheep and Beef Farms?

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New Zealand's specialist land-based university

## Executive Summary

Profitability is often a challenge within many businesses. North Island East Coast Sheep and Beef farming businesses are no different, operating in a diverse and ever changing economic and climatic landscape. Currently these businesses are facing a more positive outlook, but for how long? And what are really the key drivers of profitability within these businesses? These are the questions this report has sought to answer.

In addition to identifying the common themes driving profitability from farmers and rural professional's, answers were also sought in regards to some underlying themes in the industry being "value add", "collaboration" and some actual hard "financial analysis" of these types of businesses.

In terms of the value add proposition for East Coast sheep and beef farmers this has some real merit. This opinion was based solely on the MPI New Zealand Sheep Industry Transformation Project however, this programme has generated some real successes for all parties involved with much of this thinking easily transferable across and in between industries.

The theme of collaboration was discussed based on the Red Meat Profit Partnership Primary Growth Partnership Programme. The conclusion from this analysis was that while the intentions seem right with the programme, the execution seems lacking in terms of providing a real benefit back to the farmers.

The financial analysis theme was data pulled directly from Beef & Lamb's economic survey. This is a comprehensive set of data researched every year specifically targeted to regions and land classes within those regions. This set of data lined up well with the target subject of this report. The conclusions from the analysis showed that these businesses did make a financial operating profit. However, there were significant other factors to consider around the financial viability of these businesses. Debt position was a key factor to consider further.

The main successes from this report were the identification of key themes that drove profitability across East Coast sheep and beef farms. These are summarised within the conclusion of this report but can be broken down into the following areas:

- What is profitability actually defined as when considering North Island East Coast Sheep and Beef farming businesses? There is more than just the financials.
- Measure, Monitor, Manage.
- Use outside skills where appropriate, build a well-rounded advisory team to fill any knowledge gaps you do have or to explore ideas or concepts further.
- Adopting new technologies, aids in business enhancement and profitability.
- Good quality staff are key to business success.
- Take the time to work on the business rather than in it.
- Do the basics well!

In addition to identifying the above themes it is also an important part of this research to share the learnings with the target and related communities. The next steps at the end of this report conclude this well, with this likely to involve further one on one discussions and potentially tailored presentations around the content of this report.

Again, profitability is a challenge within many businesses but none are more better placed to achieve it than North Island East Coast sheep and beef farmers.

## Acknowledgements

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The second acknowledgment must go to the strategic partners of the Kellogg's course being AGMARDT, FMG, Beef & Lamb and Dairy NZ. In particular to FMG who are my employers. Without your support, this programme would simply not be available and FMG's specific financial contribution has allowed me to fully make the most of all the opportunities available within the course.

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## 1.0 Introduction

### 1.1 Definition of an East Coast Hill Country Sheep and Beef Farm

A key part in setting the context of this research project is defining what makes up an East Coast Hill Country Sheep and Beef farm. Beef and Lamb New Zealand (B&L NZ) have a definition for North Island hill country being “Easier hill country or higher fertility soils than Class 3 classification”. Mostly carrying between seven and 13 stock units per hectare. A high proportion of sale stock sold is in forward store or prime condition” (Beef and Lamb New Zealand, 2015).

To refine this research paper, comment and focus has been given to the East Coast of the North Island specifically. This allowed more accurate conclusions and comparisons across information sets. The information was refined further for the primary data focusing on the area from Northern Hawkes Bay through to Southern Hawkes Bay. Data and information that reflects both sheep and beef production within the one farm has also been used as these two systems are commonly interlinked within this region and complement each other well in this class of land.

Further specifics in regards to the East Coast hill country including rainfall, climate, soil type and land use can be found in Appendix One (Lang; S 2015).

### 1.2 Current ‘State of Play’ in the East Coast Hill Country

To give further context in this report it is important to reference the current situation of East Coast Hill Country Sheep and Beef farming at the point in which this report was compiled. This is important to note as this could potentially impact on the angle of some of the information obtained and supporting commentary given.

Currently East Coast Hill Country sheep and beef farmers are experiencing a slightly more positive operating environment. Sheep and cattle prices are classed as above normal with store lambs fetching over \$3.00 per kilogram of live weight and weaner cattle generating close to \$4.00 per kilogram of live weight (Stock X, 2017) which are key drivers of income for East Coast Hill Country sheep and beef farmers. Further income measures available in Appendix One (B&L NZ, 2017).

On the other side of the ledger farm costs would be considered moderate at this point in time. Key inputs such as fertiliser, fuel and animal health products would be considered moderately priced mainly due to the strong New Zealand dollar which is sitting at 0.70 cents against the U.S. Dollar (NZForex, 2017) with the majority of these products being imported.

A third significant factor to consider in the current state of play is the cost of debt on East Coast Hill Country sheep and beef properties. Currently ANZ, New Zealand’s largest rural lender, has its floating rate at 4.96% for a modest type rural business (ANZ Agri Focus, 2017). These interest rates would be considered low with most key players in the rural lending market working Status Quo budgets on 7.25% interest rates, including ANZ.

There are also many more significant factors both Macro and Micro that contribute to the state of play of East Coast Hill Country sheep and beef farmers. However, the above gives a snapshot into just some of the positives and challenges that are currently being faced.

### 1.3 Intentions of the Research

The intention of this research project is to understand the common themes across a variety of sources when referring to profitability on East Coast Hill Country Sheep and Beef farms. These themes may be varied in nature from financial to social factors and will explore themes that have both, a positive or negative impact on profitability.

After identifying and exploring the key themes as a result of this research, conclusions and recommendations will be made. The intention then of these learnings will be to share these with related members of the East Coast Hill Country Sheep and Beef farming community to aid in quality decision making, both on farm and as communities, to bring or continue a positive trend within this specific slice of the rural industry and New Zealand.

### 1.4 Structure of Report

This report will begin at looking at the aims and objectives of this research project. It will then move into comments and analysis of specific literature relating to this topic. The method behind the information collated will then be discussed followed by the results and analysis. The report will then flow through to the findings and the discussion on these results, following on with some conclusions and recommendations. The report will then close after the next steps have been outlined.

## 2.0 Aims & Objectives

The primary aim and objective of this research is to gain insights on common themes that dictate or influence profitability on East Coast Hill Country sheep and beef farms.

The intention is to gain perspective and comment from four viewpoints being farmers, professionals, personal and the public. In relating to these four areas it is hoped that a more rounded and balanced outcome will be achieved.

Farmers will be able to share many comments and themes from experiences and observations from within the businesses. Rural professionals will be able to share a perspective that has a view from outside the farm gate and potentially an overview of many businesses within the specified category. Personal and public opinion and/or information will be linked in where applicable.

After concluding the themes, the intention is for these to be shared and utilised by a number of people or organisations within the industry as a resource or to form part of discussions when considering profitability of East Coast sheep and beef farms. Examples of this use could be informing young people looking at purchasing their first farm or supporting a discussion around land use and best land use type within existing members of the industry.

There are also some themes that sit alongside the focus of this report which I will also look to reflect on as part of this project. These will make up the majority of the next section of this report as they are common opinions or thoughts across the industry which I suspect will all tie into the profitability of East Coast sheep and beef farms. These include the raw data 'financial analysis' of sample farms

on the East Coast, the “value add” proposition for East Coast sheep and beef farmers, collaboration and how this may or may not improve profitability for this group of farmers.

### 3.0 Literature Review

#### 3.1 Beef & Lamb New Zealand Economic Survey

Since 1950 B&L NZ have been conducting the Sheep and Beef farm survey (B&L NZ, 2017). This is a national survey completed annually by sheep and beef farmers collecting a diverse range of data from these businesses including production trends, financial analysis, exporting trends etc. The data is also divided into a per region analysis which allows for farmer benchmarking. The regional specific data is the detail that has been focused on for this part of the report.

One measure of profitability when discussing East Coast sheep and beef properties is the operating farm profit that is generated from these businesses. B&L NZ sheep and beef farm survey’s (B&L NZ, 2017) have identified this data which I have outlined in the table below. It is important to note that the figures used are specific to North Island East Coast Hill Country “Class 4” land. This is important as this set of data aligns with the focus group of this report.

<b>Financial Year</b>	<b>Farm Profit Before Interest &amp; Tax (per annum)</b>
2012-13	\$68,728
2013-14	\$133,180
2014-15	\$171,059
2015-16 (Provisional)	\$81,500
2016-17 (Forecast)	\$86,700
<b>Average</b>	<b>\$108,233</b>

It is important to note that the figures represented above are the profits for these businesses before any interest and tax has been paid. This is important, as the debt and tax position is very dependent on individual circumstances and will heavily influence what actual “cash profit” will emerge from these businesses year on year.

Due to this it is appropriate to use the above figures which give a fairer representation of “on farm financial profitability” for East Coast Hill Country Sheep and Beef farmers.

To draw a conclusion based on the above data it must be said that the subject businesses are profitable as they are making an average annual income as highlighted above.

More analysis around comparing the financial return gained against the capital and equity invested in these types of businesses was considered. However, due to time constraints this analysis has not been conducted as part of this report. This decision is also supported by the fact that “financial profitability” is only part of the overall profitability of these types of businesses which will be explained further within the primary data research findings in this report.



## 3.2 Ministry for Primary Industries Primary Growth Partnership

The Primary Growth Partnership (PGP) is a joint venture between government and industry, that invests in long-term innovation programmes to increase the market success of the primary industries (MPINZ, 2017).

PGP programmes are primarily business-led and market driven innovation programmes to boost productivity and value across the primary industry value chain – from producer to consumer. As at 20 December 2016, there are 20 PGP programmes underway, and two completed programmes (MPINZ, 2017).

### 3.2.1 MPI NZ Sheep Industry Transformation Project

After identifying the need to return more value to the producer The Ministry for Primary Industries New Zealand via the PGP established an initiative in 2010 called the New Zealand Sheep Industry Transformation Project (NZSTX). This initiative was then partnered by The New Zealand Merino Company (NZM) to develop and execute a programme which created new opportunities and value for the New Zealand sheep industry.

Below is the aim, challenge and solution to the programme:

#### **The Aim:**

The New Zealand Sheep Industry Transformation Project (NZSTX) aims to shift New Zealand sheep production to a 'fit-for-market' model, focused on fine-wool sheep production, where the consumer informs an aligned supply chain right back to the farmer. By removing long-standing barriers to increasing fine-wool sheep production, and using product differentiation and direct supply contracts to generate better grower returns, NZSTX aspires to move New Zealand's sheep industry to fit-for-market fine-wool sheep production (MPINZ, 2017).

#### **The Challenge:**

Over the past few decades, profitability in the New Zealand sheep sector has been in decline, with an over-reliance on volatile commodity markets and a lack of product differentiation. This has resulted in a significant drop in the national sheep flock, as farmers have moved to other land uses. Bucking this overall trend, the fine-wool sector is achieving premiums and relative price stability through successful product differentiation and direct supply contracts. The demand from particular international markets for New Zealand fine-wool fibre has begun to outstrip supply, and there is a need to increase production to meet future market demand (MPINZ, 2017).

#### **The Programme:**

The New Zealand Merino Company (NZM) business model forms the foundation of the NZSTX programme's fit-for-market approach. Connections are made throughout the value chain, from the producer to the consumer, linked by long-term contracts. These strong relationships enable direct communication of end-user specifications to the grower, encouraging fit-for-market production and providing the opportunity for premiums to be generated throughout the supply chain.

To assist New Zealand sheep growers to respond to these market signals, NZSTX includes a range of on-farm initiatives to increase New Zealand's production of fine-wool sheep across a range of environments. A combination of ground-breaking research and targeted extension is delivering a suite of tools to New Zealand sheep farmers to enable them to improve production and profitability. (MPINZ, 2017).

#### **Some Key Facts of the Programme:**

**Programme start:** September 2010

**Length:** 7 years. (A 2-year programme extension ending in June 2017 has been approved)

**PGP funding:** \$16.8 million

**Industry funding:** \$16.8 million

**Crown funding paid out to programme for work done to 28 February 2017:** \$15,963,778.13

**Commercial partners:** The New Zealand Merino Company Ltd

**Estimated potential economic benefits to NZ:** MPI is confident that this PGP programme will generate conservatively \$250 million a year in economic benefits by 2025. Potentially the gain could be much higher if this programme is successful in its objective of transforming the sheep industry (MPINZ, 2017).

#### **Highlights of the programme:**

- The differentiation of New Zealand fine-wool fibre through NZSTX initiatives has enabled NZM to develop new brand partnerships, while also meeting growing demand for New Zealand fine-wool fibre from established brand partners.
- Work in the digital communication space has assisted brand partners with market positioning of New Zealand fine-wool fibre.
- The NZM fibre supply contract model has been used to facilitate further direct supply contracts for New Zealand fine-wool fibre with leading global brand partners.
- During 2015-16, NZM and Reda Successori released a \$45 million, 5-year, 2,500 tonne contract for 15.8-19.2 micron fibre. Renowned globally for wool suiting fabrics, Reda diversified into activewear with their launch of sports brand Rewoolution in 2012. Superfine New Zealand Merino wool woven by Reda is used in the production of the Allbirds Wool Runners. The Reda contract is the result of a long-standing relationship between Reda, NZM and New Zealand fine-wool growers, and a targeted investment through NZSTX to accelerate Reda's innovative approach.
- NZSTX has further enhanced NZM's farm accreditation system, which underpins the credibility of traceable and sustainably produced New Zealand fine-wool fibre, enabling brand partners to meet the increasing consumer demand for these attributes.
- Alongside NZSTX, NZM has begun marketing New Zealand strong wool with a number of early successes acquiring new brand partners and significant grower commitment. This work is strongly aligned with the NZSTX extension strategy, building relationships with strong-wool growers to develop opportunities for encouraging a shift towards more fit-for-market production.
- Through the development of Alpine Origin Merino and the 'SILERE alpine origin merino' brand, merino meat has been successfully differentiated, both domestically and internationally.
- In collaboration with New Zealand Light Leathers, NZM prototyped merino leather in the high-end fashion market (as 'Kura New Zealand Alpine Leather'). While this concept showed promise, it is not a commercially scalable prospect at present.

- The FeetFirst project has successfully developed a genomic breeding value (gBV) for predicting resistance to footrot in fine-wool sheep. This is a world-first and creates a great platform from which the New Zealand fine-wool sheep industry can create a footrot-resistant future.
- NZSTX has enabled a fine-wool central progeny test (CPT) to be established in New Zealand. As a result, estimated breeding values (EBVs) have been generated across the New Zealand fine-wool sheep flock, and there has been a significant shift in uptake of EBVs amongst New Zealand's fine-wool ram breeders. The CPT is also playing an important role in the development of the gBV for footrot resistance.
- A nucleus breeding flock has been established through the NZSTX programme, with the objective of developing a new fine-wool sheep genotype (with improved carcass, reproduction and animal health attributes), and a group of seven breeders are continuing the nucleus flock as a commercial entity.
- Research into the impact of ovine Johne's disease, undertaken by the Johne's Disease Research Consortium (JDRC) and co-funded by NZSTX, has delivered improved understanding of the economic proposition for vaccinating fine-wool sheep against the disease.
- Software has been developed for modelling production system comparisons between different sheep genotypes (for example fine wool versus strong wool), and has been used in consultations with sheep producers considering the transition from strong-wool to fine-wool sheep production systems.
- Forage trial work done by Lincoln University has increased knowledge about establishing and managing alternative legumes in challenging high country environments. In addition, a forage advisory service supported by NZSTX has accelerated forage development amongst New Zealand's fine-wool sheep producers.
- Research into the impact of mob size and stocking rate on lamb survival, undertaken by Murdoch University and co-funded by NZSTX, is demonstrating the opportunity for fine-wool sheep growers to improve this crucial production driver by changing management practices.
- Newly formed producer discussion groups are proving to be an effective vehicle for extending production science project results, incorporating peer-to-peer learning and hands-on demonstrations (MPINZ, 2017).

It is clear that a strategy around “value add” and a focus towards returning value to the producer would have significant positive impacts on profitability for East Coast sheep and beef farmers. These reasons have also been reinforced and highlighted above as part of this literature review. It was stated as one of the underlying objectives of this report to identify if a “value add” proposition would be effective in driving profitability and it can be concluded that it would be if the outcomes above were standards to measure this by.

### 3.2.2 Red Meat Profit Partnership

What is the Red Meat Profit Partnership?

A consortium of agribusinesses and the government have partnered up to invest in a \$64 million programme to drive sustainable, long-term profits for New Zealand's red meat sector (MPINZ, 2017).

This programme focuses on supporting farmers in the adoption of best practice behind the farm gate and between the farm and processor.

There are nine industry partners alongside Beef + Lamb New Zealand – meat companies Alliance Group, ANZCO, Silver Fern Farms, Greenlea, Blue Sky Meats and Progressive Meats, and banking sector participants Rabobank and ANZ Bank. All will work together, and with other stakeholders in the sector to support the adoption of best practice behind the farm gate, and between the farm and processor (NZMPI, 2017).

### **The Challenge:**

The Red Meat Sector Strategy (RMSS) noted that sector collaboration was ad-hoc at best and generally driven by a particular issue or circumstance.

Farmers are currently subject to a vast array of information. However this information does not always provide tailored solutions that take a 'whole of business' approach. Farmer uptake of agriculture's considerable research and development outputs is generally low, resulting in missed opportunities for productivity gains.

A key component of the required sector change is the need to move the focus of the sector from one that is currently dominated by price, to one that focuses on productivity and profitability, where differences are significant and can be controlled (NZMPI, 2017).

### **The Solution:**

This programme, for the first time, sees a significant collaborative effort by sector participants, uniting those who compete vigorously in the market, in a pre-competitive and unified approach to raise the performance and profitability of sheep and beef farm businesses. By doing so it seeks to better enable a range of proprietary and industry-good programmes, products, tools and services.

To achieve this vision, the partners, alongside the Crown, will invest \$64 million over seven years. This Programme, underpinning other Crown funded PGP programmes within the sector, will change the way information and knowledge that supports best practice is developed and delivered within the sector. It will expand on current extension activities for farmers, and develop new information and technology transfer systems by taking a farmer focussed, partnered approach to the delivery of best practice information, developing networks incorporating communities of farmers, advisors, and value chain partners.

While focusing around the farm gate, the programme does not represent a traditional 'production push' strategy. Rather, it signals a move to a more capable, agile and responsive farm businesses better equipped to respond to market signals delivered by programme partners, other PGP investment programmes, and the wider agribusinesses involved in the sector (NZMPI, 2017).

### **Some Key Facts of the Programme:**

**Programme start:** November 2013

**Length:** 7 years

**PGP funding:** \$32.15 million

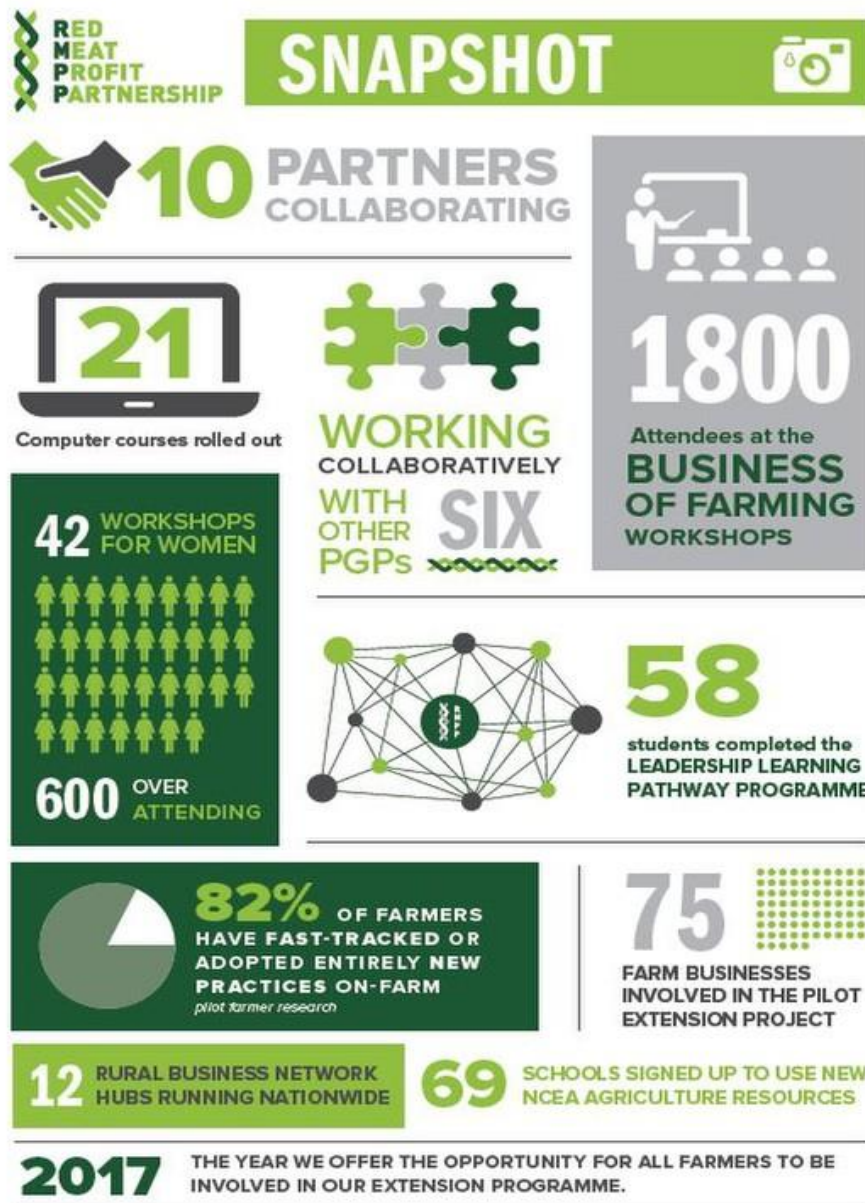
**Industry funding:** \$32.15 million

**Crown funding paid out to programme for work done to 28 February 2017:** \$8,608,626.12

**Commercial partners:** Alliance Group, ANZ Bank, ANZCO, Beef + Lamb New Zealand, Blue Sky Meats, Greenlea Premier Meats, Progressive Meats, Rabobank, and Silver Fern Farms.

**Estimated potential economic benefits to NZ:** By 2025, up to \$880million per annum in additional on-farm revenue, of which up to \$194million per annum will be additional on-farm before tax profit (NZMPI, 2017).

**Highlights of the Programme:**



(RMPP, 2017).

A key aim of this report was to look at the underlying theme of “collaboration” and how this would drive on farm profitability for North Island East Coast Sheep and Beef farmers. The red meat profit partnership as outlined above is a key initiative to address misalignment within this sector. After further discussions with farmers as part of this report, there is agreement within industry that interested parties do not collaborate well. In addition to this, we are now four years into the red meat profit partnership and have we really seen an impact on farm profitability yet here on the East Coast? Despite many of the highlights captured as part of this literature review above.

Drawing a conclusion if collaboration does drive profitability on East Coast sheep and beef farms was an objective of this report, based on the evidence above I would have to say no. However, caution

needs to be taken with this analysis as this is solely based of the success or lack of for one project (RMPP) and is it justified to draw this opinion across an entire concept, potentially not.

## 4.0 Method

The research method for this research project consisted of two main sources of data. The first being secondary data and the second being primary data.

### 4.1 Secondary Data Collation

The secondary data used in this report was information gathered as a result of researching related topics or specifically to East Coast Hill Country sheep and beef farming. This data has been specifically referenced within the text of the report. The technique followed to gather this information was simply via keyword searches in large information sources such as Google, Google Scholar, Lincoln University Library search function. These searches were also reinforced by specific industry research carried out by organisations such as B&L NZ and The Ministry for Primary Industries.

### 4.2 Primary Data Collation

The key source of information for this report was gained directly through primary data collection in the form of semi structured interviews with participants. These participants were three farmers and three rural professionals across the set area of research being the East Coast of the North Island even more specifically the Hawkes Bay region. It was important to have a variety of interviewees in terms of location within the group however it was also important to be narrow in terms of within one region of the greater region to give some form of consistency across the sample. The list of interviewees is outlined in Appendix B.

The interview sessions ran between 30mins & 1.5hrs each and were all conducted in person. These interviews were based on six semi structured questions (Refer to Appendix C) and were asked with the intention of capturing common themes across the sample group. Each interviewee was informed prior to the interview that they would be referenced as an interview respondent however, none of the referenced quotes in the report would be listed against any one individual directly. The intention of this was to enable the interviewees to speak openly and freely and give their most honest opinion which would give more validity to this report.

At the conclusion of each interview, time was taken to collate and summarise the key themes and discussion points of each interview. These points were then referred to directly as part of the results and analysis section of this report.

### 4.3 Analytical Approach

The data was analysed by selecting the most common themes across all of the interviews. The themes that were the most common were selected to be included in this report. The number of themes were limited to seven as these were clearly the most common across the interviews. The data was gathered by bullet pointing each theme as it was discussed in each interview.

## 5.0 Results & Analysis

This section of the research looks at the outcomes of the six interviews conducted on related members of the North Island East Coast Sheep and Beef farming community. These findings then lead and justify the discussions and recommendations in the following sections. These discussions will be supported by relevant secondary data as required.

It is important to note that the broad nature and open discussion format of the interviews allowed for a variety of answers to be given by each interviewee. This style also influenced how much time was used to discuss each theme or topic which varied for each interviewee. Further to this not all themes below were identified by each interviewee, however most were common across the group as a collective.

A second point to note as part of this research is the limited sample size of the data. This must be accounted for when analysing the themes as this is just a small section of the focus group commented on as part of this report being North Island East Coast Sheep and Beef Farmers.

### 5.1 What Defines Profitability?

One of the most popular and discussed themes across all interviews was the discussion around profitability itself and what defines it.

Immediately when discussing profitability, the “financial” performance of the business or farm was the first point to be raised. However, whilst being financially profitable or generating a cash surplus is a key part of these businesses it was discovered via all six interviews that this was not the sole driver or most important measure of profitability in these businesses.

Other factors such as family/personal lifestyle, pride in land ownership, farming for the next generation & “enjoying what we do” were all very significant drivers and often more important measures of profitability or success within this group, and likely across most North Island East Coast Sheep and Beef farms and farmers.

### 5.2 Measure, Monitor, Manage

The second theme identified as a key driver of profitability in these businesses was the importance of some form of measuring, monitoring and then managing these results in various aspects of their

business. All interviews touched on the importance of measuring decisions made within the business in some form. Some touched on the physical measures of the business examples being grass growth rate or stock production with others discussing measures around goals and execution of the business plan. There were also a huge variety of tools used to measure performance that were discussed including computer programmes (Farm IQ, Cash Manager), physical tools (EID Tags) or machinery (Auto Drafting Equipment), in addition to simple pen and paper and notebooks.

Whilst the measuring was a key starting point most commented that without regular monitoring and then making decisions off this information (managing), then the measurements are far less effective. This concept will be discussed further in the next section of this report.

### 5.3 Using Outside Skills

Having “outside” key people involved with decisions affecting the business was also a strong theme that emerged from the six interviews. It was common practise for the decision makers within these businesses to consult trusted third party advisers when making decisions for the business or farm. The number of advisors did vary across the interviewees. However it was concluded that it was really individual specific and the number of advisors were relative to what the individual business felt comfortable with.

It was stated in one form or another within these interviews that having better advice to make better decisions has a direct correlation with increased profitability in these businesses. This also applies to lack of advice and a reduction in profitability.

An interesting theme around what type of advisor was advising at which level of the business also started to emerge which will be explored further in the next section of this report.

### 5.4 Technology Adoption

The adoption of new or developing technology was also an underlying theme into profitability in these types of businesses. Often comments were made within the interviews when chasing increased profitability or business enhancement or performance, this was often linked with an adoption of new technology or thinking.

A common example given was the introduction of physical new technologies such as weighing systems, measurement tools or genetics. Also in addition to this the adoption of some “new thinking” was also touched on especially in regards to governance and management of the business. This is explored further in the discussion section of this report.

### 5.5 Staff Key to Success

Having good quality staff and looking after them was another key theme that emerged from the six interviews. Most commented that having good staff that they looked after well did improve the



profitability of their business. This was for a number of reasons with the most important reasons being time efficiency's, work/life balance & idea generation (someone to discuss ideas with).

These discussions did often lead to the challenge around getting good staff, staff progression and staff accountability. However, these challenges have not been discussed as part of this report as outside of the project scope but this subject did generate discussion which may warrant investigation within another forum.

## 5.6 Working on the Business and not in it

The commonly discussed theme around working on the business and not in it, was again highlighted as a driver of profitability within this sample group of North Island East Coast Sheep and Beef Farmers.

The theme is simple. Often in these types of businesses the same person who is the key decision maker is as well the key labour unit. Often key decisions are not made as well as they could be due to the limitation around time with the day to day work needing to be done as well.

The following discussion section explores this idea in more detail and takes this one step further looking at the level of decision making within a business.

## 5.7 Doing the Basics Well

The final main theme identified as part of this report across the interviewees was the concept around "doing the basics well". This was identified as a key driver of profitability as if the basics such as growing grass or animal health were not done well this could have a significant flow through effect to profitability.

Again "The Basics" varied between each interview. Some focused on physical farm performance basics as per the above however subjects such as budgeting and goal setting were also identified as key basics that were needed to be done well to drive profitability.

Another point raised around this topic is the need to do the basics very well which will be explored further in the next section of this report.

# 6.0 Findings & Discussion

## 6.1 Identifying the need then implementing change

As touched on within the results a strong theme that emerged was the one of measure, monitor and manage. This is important to discuss further as this generally lead to further discussion in addition to self and peer evaluation. This report has explored some further sub themes to this below.

The first of these sub themes is executing all parts of the measure, monitor and manage. It became clear that there was varying level of execution and at times often one part of the “three M’s” was often missed. This is important to identify as to maximise profitability all three parts of this process need to be actioned or considered. A common example of this was measurements around farm performance e.g. lambing percentage or weaning weight but what was being done with this information in terms of monitoring this performance and then managing the outcome. Again, this varied within the individuals or business.

The second sub theme identified is the desire to do more measuring, monitoring and managing. This was positive to witness as this was identified as a key positive driver of profitability within these businesses. The challenges here however were usually time constraints and physical capacity to do more combined with the ability and want to action opportunities identified by doing more measuring, monitoring and then managing.

The heading of this section of the report is “identifying the need then implementing change”. After outlining the above this is another significant sub theme that emerged. In all the interviews and research as part of this report it is clear that this target group are very skilled in identifying opportunities within their business. However, often these opportunities are not capitalised on and so the benefit of this identification is lost.

## 6.2 The Inner Circle of Trust

It was clear that having valued advisors, external to the business was a key factor in driving profitability on East Coast sheep and beef farms. This can be explained by getting the correct advice for specific decisions enabled the business or the people operating that business to make more informed or better-quality decisions driving better outcomes and profitability.

Certain professions or suppliers to these businesses were more influential than others. When discussing business governance or strategy it was often the accountant or bank manager that was referred to as trusted within this space. Also, other respected farmers were aligned at this level.

In terms of physical on farm performance it was often a split between the vet, agronomist and fertiliser/soil health advisor at this level. Despite what level they were giving advice on however, it was commonly agreed that having a “well rounded” and diverse team of advisors was often a good recipe to drive positive profitability.

As discussed briefly in the results the number of advisors varied between operations. Analysing this further showed often one advisor would or could be wearing many hats rather than the business or farm not considering this part of their business e.g. a valued agronomist could give opinion on issues usually identified against fertiliser experts or veterinarians.

## 6.3 Technology vs Thinking

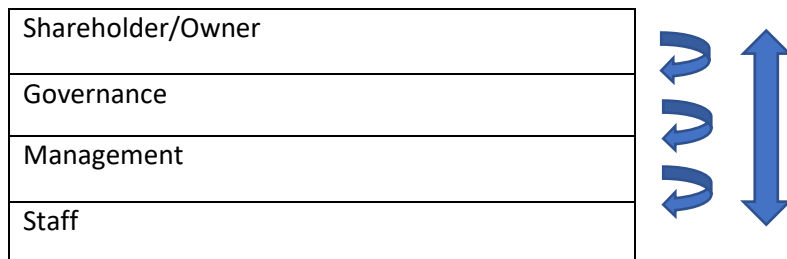
The introduction of new technologies was a key driver in positive profitability within this group. These technologies varied greatly and the majority were physical technologies such as weighing systems, animal identification systems and farm recording programmes such as Farm IQ.

Also identified was a new style of thinking that was emerging within this group. This thinking could be described as “bringing everything back to the why” and justifying each decision around “is this linking back to why we do things” and driving profitability within the business.

One interviewee touched on their fertiliser programme. Historically, the programme was just a broad-brush approach applying the same fertiliser to the entire farm no matter the contour or soil requirement. However, the thinking has now changed and a “targeted” approach based on soil samples is the new normal. This links directly back to profitability as this is a more efficient way of implementing their fertiliser programme.

In terms of technology vs thinking it is my opinion that these two often work hand in hand. Using these interviews to justify my stance it was often a change in thinking that initiated the change but this was often followed with new technologies to implement the change.

#### 6.4 The Four Levels of Governance



As discussed in the findings, spending more time on the business rather than in it was a key driver of profitability for East Coast sheep and beef farmers. This was again broken down by one of the interviewees into the above table which they described as the four levels of governance in these types of businesses.

In a more corporate structured business, each tier of governance has a specific role within the business e.g. shareholder/owner has an expected return for their investment. This is then executed by the next three layers with the governance team defining the strategy and the management team implementing it and the staff undertaking the day to day roles.

A challenge identified by this interviewee was that within these types of businesses often the one person or the husband/wife wear all four of these hats at any time. They described this as a challenge as often within these businesses a decision at one level may not have the desired effect at another and the accountability and ownership piece can be lost within this process.

A key driver of profitability in relation to the four levels of governance is that the best operators are aware of the decision-making process and what effect this will have across all four of the levels described above.

## 6.5 Doing the Basics Very Well

Doing the basics well was a key driver of profitability within these businesses. When discussing this further with the interviewees it was touched on often that these were needing to be done very well to enhance profitability.

This was often linked back to another key theme being measure, monitor and manage. The correlation there was often the basic task or theory was often identified or carried out but the enhancement was often ignored, primarily due to time pressures e.g. the measuring was done but no monitoring or managing. Example being measuring an increase in lambing percentage but no change made to the farm system to allow for the extra stock due to an increase in lambing percentage.

Another theme to this is the execution of all parts of a task or theory rather than just sections. A simple example given of this would be an annual focus around achieving targeted cattle weights. This business had a clear objective set in terms of what weights they wanted to achieve however lacked the regular monitoring and management to achieve that objective.

This has a direct flow through to profitability. Not achieving what was intended will reduce the maximum obtainable out of the opportunity or task.

## 7.0 Conclusions

This conclusion reflects on the aims and objectives set at the beginning of this research.

The key aim of the report was to identify common themes that influenced profitability on East Coast sheep and beef farms. These key or common themes are highlighted as per below:

- What is profitability actually defined as when considering North Island East Coast Sheep and Beef farming businesses? There is more than just the financials.
- Measure, Monitor, Manage.
- Use outside skills where appropriate, build a well-rounded advisory team to fill any knowledge gaps you do have or to explore ideas or concepts further.
- Adopting new technologies aids in business enhancement and profitability.
- Good quality staff are key to business success.
- Take the time to work on the business rather than in it.
- Do the basics well!

In addition to the main objective of this report there were three underlying themes the report was to draw conclusions on as part of this research. These were:

- Financial analysis of these businesses.
- A "value add" strategy, would it aid profitability on farm?
- Does industry collaboration lead to profitability for the farmer?

Each of these subjects alone could have warranted a full research project, so opinion was given solely based on evidence researched as part of the relevant literature review. However, it was

important to give an opinion on these areas as this was one of the aims and these can be found within the section 3.0 Literature Review as a conclusion to each of the reviews.

It was also an important aim to get a well-rounded view and opinion on this subject. This was by sourcing thought from four key areas being farmers, professionals, public & personal.

This report successfully achieved in getting well referenced material from farmers, professionals and personal but lacked significant public input. However, I think the balance of the report and the ability of it to be well rounded was not affected by not having significant public input.

The small sample size of this report means judgement based on the results is only indicative of the focus group.

## 8.0 Recommendations

- The main recommendation from this study is to use the findings within day to day business and making them part of a regular business model.
- The challenge with this type of information is how and when to implement it. The suggestion for this would be take 2-3 key points or the themes that can be most related to or impact most on business profitability and bed these down before implementing further actions or themes.
- Coming back to one of the key themes itself “Measure, Monitor, Manage” these actions or themes as they are implemented. Then reflect on how they have impacted profitability.

## 9.0 Next Steps

As outlined in the recommendations the danger with any type of research is for the content to stay locked within the report and not shared with its target audience. Below are the next four steps of this report:

- Feedback to interviewees results, discussions and conclusions. This is an important loop to close as it creates a “give back” for the time they spent to enable the report to be put together. They are also target members of the focus of this report so would benefit from the conclusions drawn.
- Share with target audience. Identify forums where best to share this information with the target audience and facilitate discussion around the themes identified as part of these forums. A good example of this maybe a guest speaker slot at local Beef and Lamb hosted event.
- Share with sheep and beef audience outside of the East Coast. I see this as an opportunity because these themes are potentially relevant across many sheep and beef farming businesses despite location. The key to this would be leveraging networks and gauging specific appetite for this type of information and then connecting this where appropriate which may look like a formal presentation or a direct one on one chat depending on the need.
- Make this information available to the wider public. The first forum for this would be the company I work for and posting this on our internal website and opening it up for feedback or discussion directly with myself.

If these four next steps were achieved it would round this project off well and will prevent this work dying within the report.

## 10.0 Limitations

To finalise this report it is important to consider some limitations when considering the findings and justifications made.

The first of these is the limited sample size. Due to time and resource constraints only six interviewees were able to be interviewed to form the primary data section of this report. These six were very good in terms of meeting the aims of the report but these 6 may have conflicting views to the large number of possible subjects within the defined category being East Coast Sheep and Beef farms.

Again, due to time and resource constraints the volume and depth of literature able to be reviewed was limited. It is very likely that there is more relevant literature available to assess and support the findings within this report however, the literature referenced was sufficient for this report.

Another limitation is that of interviewing only Hawkes Bay farmers or rural professionals and focusing only on discussions based on Hawkes Bay. This gave some consistency within the data group. However potentially more comprehensive data and analysis could have been obtained if interviews were conducted throughout the entire East Coast.

Culture was another limitation identified. All interviewees and myself all come from a similar background or culture. If data or opinion was captured from a more diverse range of people with varying cultures or background this may have influenced the report differently.

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## Appendix A

### Definition of East Coast Hill Country Expanded

The 'East Coast hill country' described in this report refers to the extensive stretch of land from southern Wairarapa to the top of the East Cape, predominantly pastoral farmland and forestry, on rolling to steep hills, from the coast to the inland ranges, interspersed with flat terraces and fertile river plains.

Local climates and rainfall are highly variable across and within this region with much of the region generally characterised as having regular summer dry periods and semi-regular droughts, often associated with El Nino events (Kenny, 2002). Heavy rainfall events associated with summer cyclones are also relatively common, especially further north. However they can reach further south, such as the 2011 cyclone that resulted in significant erosion in some coastal areas of southern Hawke's Bay. Figure 1 illustrates that annual median rainfall varies from 500mm to 2000mm along the East Coast, however this does not reflect important seasonal variation in rainfall.

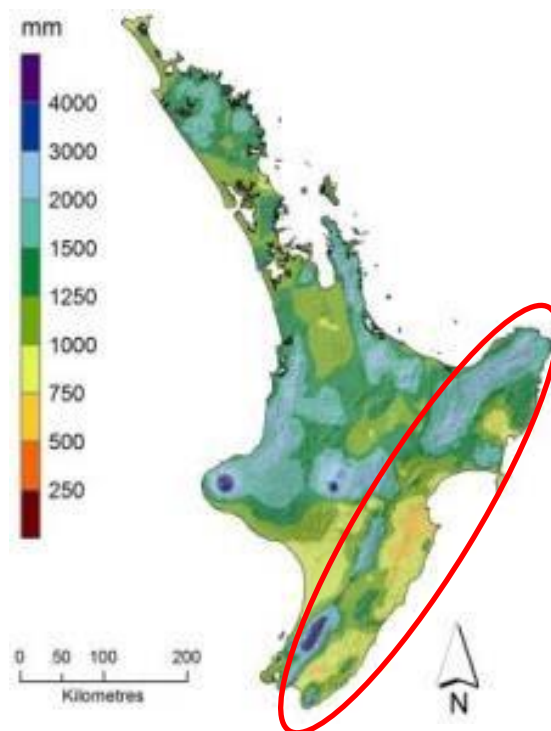


Figure 1: Map showing annual median rainfall for the North Island from 1990-2010 (Ministry for the Environment, 2013) with the East Coast hill country region circled in red.

Figure 2 below shows land use on the East Coast, which is mostly classified as low and high producing grasslands with some large pockets of natural forest in the south and north of the region. Soil type varies significantly with the dominant high order soils being Brown in central/southern Hawke's Bay and Wairarapa, Pumice between Napier and Wairoa, and Recent north of Wairoa (Figure 3) (Landcare Research, 2015).

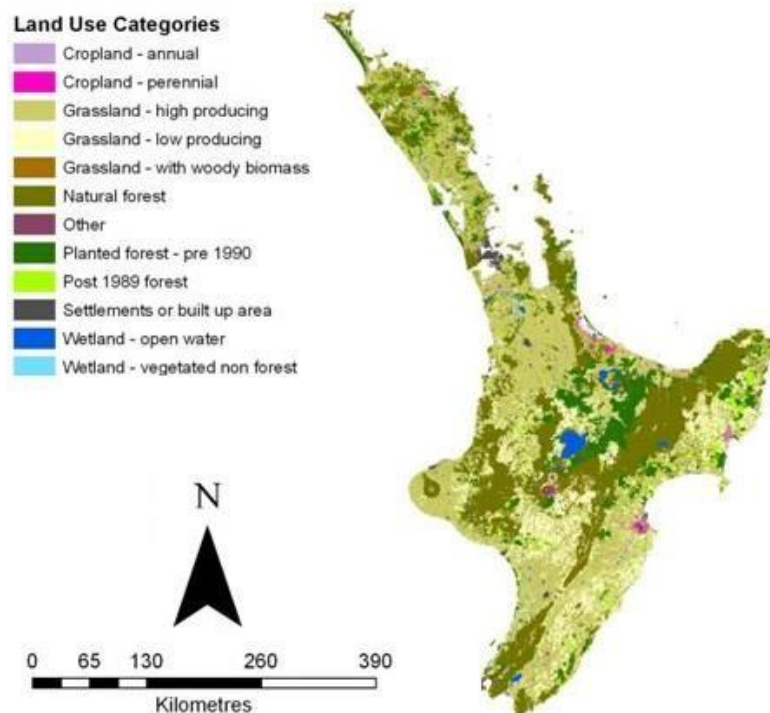


Figure 2: Map of the North Island showing land use categories (Ministry for the Environment, 2009)

## Further Income Measures for East Coast Hill Country Sheep & Beef Farms

Below is a link to the B&LNZ price trend graphs showing in this case the 10 year annual average of P Class Steer and Heifer cents per kg.

<http://www.beeflambnz.com/Documents/Information/P%20steer%20and%20heifer%20cents%20per%20kg.pdf>

Below is a further supporting link from the same source showing the 10 year annual average of all grades lamb dollar by head.

[http://www.beeflambnz.com/Documents/Information/All%20grades%20lamb%20\\$%20per%20head.pdf](http://www.beeflambnz.com/Documents/Information/All%20grades%20lamb%20$%20per%20head.pdf)

## Appendix B

Listed below are the interviewees that have been referred to in the body of this report in conjunction with their roles and affiliations they may have:

Andrew Tweedie – Northern Hawkes Bay Farmer

Tom O’Sullivan – Central Hawkes Bay Farmer

Steve & Bindy Free – Southern Hawkes Bay Farmer

Dan Billing – Rural Manager – ANZ Bank, Dannevirke

Michelle Monteith – Associate – BWR Accounting, Hastings

Blair Shortall – National Key Account Manager – FMG - Fielding

## Appendix C

The semi structured interview questions referred to in this report are outlined below:

- In your opinion what do you think are the main drivers of profitability on East Coast Hill Country Sheep and Beef Farms?
- What do you see are some of the strengths and opportunities for profitability on East Coast Hill Country Sheep and Beef Farms?
- What do you see are some of the challenges or threats to profitability on East Coast Hill Country Sheep and Beef Farms?
- Who drives profitability and/or who needs to on East Coast Hill Country Sheep and Beef Farms?
- What specific things or tasks undertaken on East Coast Hill Country Sheep and Beef Farms have the biggest impact on profitability? Measuring, Budgeting, Reading, Forecasting for example.
- What kind of level of profitability is acceptable on East Coast Hill Country Sheep and Beef Farms and why or why not?