

# Putting cattle management and marketing together to achieve quantum leaps in profit

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## Session 2c

### Overview

Progressive managers “chase the magic”. That is they seek a change in the utilisation of resources that produces a quantum leap in profits. This is not reckless behaviour but a deliberate strategy to look at the big picture and to find ways to double profits with due regard to risk. Obviously the small things do count but it is the big picture things that double profits.

What I wish to do in the next 30 minutes is to draw on my experience in the cattle production business, especially as the MD of AA Co, to illustrate how you can “chase the magic”. I also will draw on my knowledge of marketing from my present position as the MD of AustAsia which has captured 35% of the Indonesian beef market and 20% of the market in Malaysia and the Philippines for Australian cattle.

### The Australian Agricultural Company experience

In the 10 years ending in 1999 AA Co increased beef turnoff from 13 million kg to 30 million kg and profit from an EBIT of \$6 million to \$25 million with very little change in resources, but with huge changes in the way these resources were managed.

The key to this result was a thorough understanding of the resources under management and a detailed assessment of how these resources should be optimally managed to produce what the customer wants so that profits are maximised.

In the case of AA Co this was done with Linear Programming techniques. This sounds academic however it proved very commercial and one of the only ways of properly considering the many variables in cattle management and marketing, that determine the optimum strategy to achieve the goal of maximising profit with due regard to risk.

Once a long term broad strategy is evolved it is important to remain flexible as to the best way of

achieving the changes necessary along the path towards the goal. As a greater knowledge of resources, people, cattle, feed pools is gained so often are ways found to better achieve progress.

However the broad principles of the strategy need to be adhered to through all the turmoil. The greatest obstacle to progress is “culture” which will undermine progress if the strategy is not clear and well thought through. Some of the greatest proponents of the AA Co strategy today were its greatest opponents at the beginning. This especially applied to changes in genetics and the utilisation of feed pools.

One of the greatest problems in Australian agriculture is a belief that if you produced something you have an automatic right to a customer to buy it. AA Co had this problem and had to develop systems to ensure it was a reliable producer of what the customer wanted. The real “icing on the cake” for producers is to capture the margin between the farm gate and the consumer. This margin has not been captured by AA Co although Stanbroke, NAPCO and others have been making every effort to capture this opportunity. AA Co's new involvement with Polkinghorns in Melbourne may assist them to make progress in this area.

### The AustAsia experience

AustAsia has captured a large slice of the South-East Asian live cattle market and is continuing to expand. The key to success is to thoroughly understand the market. In South East Asia this is very difficult for Australians as the business culture is very different, infrastructure is limiting, law as we know it often doesn't exist, distribution systems can be unreliable and slow, Government decision making can be unpredictable, assets as collateral are often discounted by banks, sovereign risk, currency risk and the bankruptcy of the economy are all matters to consider. Nevertheless AustAsia has successfully captured the margins between the farm gate and the customer with excellent profit results.

In this case the very successful working together of local people and Australians on site has enabled many of the difficulties to be overcome. In the case of the Indonesians in AustAsia they are extremely capable businessmen mostly highly trained from western Universities. Their local knowledge combined with the Australians' knowledge of cattle handling, feedlots, cattle slaughter and beef marketing has proven to be a most successful blend.

A major reason for the excellent profit results is the vertically integrated structure of the business. AustAsia purchases cattle at the farm gate, depots them, ships them live, feedlots them in the end country, slaughters the cattle in an AustAsia abattoir or wet markets and distributes beef under its own brands to supermarkets or direct to fast food outlets.

For the future AustAsia will continue to build profits via drafting and back-grounding cattle into quality lines in Australian depots, perfecting feeding systems in tropical environments, improving distribution systems and value-adding products for Asian customers.

## The Strategy

### Resource evaluation

- Feed pools - quality, quantity, reliability within year variability
- Environment - heat, ticks and feed type
- Cattle genetics
- Managerial ability
- Capital availability
- Markets
- Deficiencies and excesses
- Economics
- Computer simulation

### Resource utilisation

- Optimum short term utilisation
- Optimum long term utilisation

### Training

- Understanding and "ownership" of the strategy
- Lifting managerial ability
- "People" are the key to success

### Management systems

- Reporting
- Evaluation
- Feed-back

### The Quantum Leap Profit Formula

- Key profit drivers
- Changes over time

### Marketing

- Uniformity
- Reliability
- Differentiation
- Brands
- Distribution

## Conclusion

Look outside the square and think the big picture and then fill in the detail. Aim for double the profit level you wish to achieve and continually challenge the status quo. Invite full participation in the evolution of the strategy, communicate the vision and the strategy and be passionate about it. Monitor progress and be ready to modify the path to the goal. Don't be derailed by short term failure.

## Good luck!



While John Griffith was CEO of AA Co, large composite breeding programs were successfully initiated. There are currently two lines: The Gulf Composite (see bull left) which is 50% Senepol; 25% Brahman; 12.5% each Charolais and Red Angus; and the Barkley Composite, which is 50% Santa Gertrudis; 25% Senepol; 25% Charolais. Other Northern composite programs are discussed in Supplementary Paper S3: "Experiences with composites". Ed