# A comparative analysis using Gross Margin for grain and sheep enterprises

## Ashley Herbert, Farm Management Consultant, Agrarian Management

|  |
| --- |
|  This analysis was commissioned by the Sheep Industry Business Innovation project as part of its work around understanding the barriers to increasing supply of lambs in WA and a full report will be available at [www.agric.wa.gov.au/sibi](http://www.agric.wa.gov.au/sibi) after the Sheep Updates. |

It is generally accepted that cropping is more profitable than the sheep enterprise. However, the difference has been reduced significantly by the high prices currently being received for sheep and wool and poor pricing expected for cereals.

Currently, the sheep enterprise is generating gross margins in the range of $35 – $45/ dse. This is significantly above the medium term average of $25/dse.

The figures in table 1 illustrate the comparative gross margins for crops and sheep enterprises typical for the West Katanning area. The two scenarios presented represent an average outlook for production and an above average outlook reflecting the exceptional seasonal conditions of 2016.

At average production levels there is very little difference in the profitability between the crop and sheep enterprises at current grain prices. Significantly above average production is required for cropping to maintain a significant profit advantage over sheep.

Table1 Estimated enterprise gross margins with current price expectations for the 2016 season for West Katanning WA

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   | Prime lamb | Merino | Wheat | Barley | Canola |
| Average production  | $385 | $349 | $394 | $327 | $454 |
| Current season production estimates | $450 | $409 | $561 | $434 | $595 |