

Achieving Enterprise Balance to Increase Profit, Reduce Risk and Improve WUE in Low Rainfall Areas

A GRDC Project.

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Farmers have been seeking guidance for years about how they can improve the fit of the various components of their farm operation so that they can improve profitability and reduce risk. These needs occur at a number of levels:

- Farming according to land capability which may involve different enterprise mixes on different areas of the farm, including retiring some land from crop production.
- Integration of crop and livestock enterprises so that they are complementary, rather than antagonistic.
- Getting the sequence of crops right within the cropping regime including the use of break crops so that productivity is high and pest/weed burdens low.
- Optimizing the use of different practices for each crop type.
- Coping with increasing frequency of poor seasons.
- Keeping cost structures low so that financial exposure in any one year is minimised.

In the past a lot of research and advisory attention has been placed on agronomic practices with much of the work concentrating on varieties, rates, seeding dates, row spacing and weed and pest control. Similarly with livestock we have seen work on grazing cereals and other crops. While all of this has a place, farmers are now seeking more and more advice on how they can fit the various technologies together creating a “best effect” with reduced financial exposure. That “best effect” no longer just means production as it often did in the past – **farmers now see profitability, reduced inputs and management of risk as the major drivers.**

While these issues might have been highlighted by the recent poor seasons they will continue to be important as margins are likely to remain tight and seasonal variability increases.

Farmers are seeking a greater business approach to research and extension, including information and tools to assist their decision making. A good example of this demand was the popularity of the

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Mallee Sustainable Farming 2009 Research Compendium pp. 177 - 179

Also available at: <http://www.msfp.org.au/research.php?page=compendiums>

Profitability/Risk Management Guides produced by GRDC for the 2008 and 2009 seasons.

Farmers intrinsically balance risk and return before arriving at decisions. To aid the decision making process, farmers formulate a profit risk profile first (i.e. profit and risk assessments over a range of possibilities – or season types or deciles). Simple win/win decisions involve profit in the vast majority of circumstances, against little risk. The more complex decisions involve a balance of risk and profit (e.g. cropping that extra paddock may give good returns if the season is above average but might incur major losses in a poor season and would have been best left out and run with sheep). More objective assessments of these profit/return options would greatly improve the quality of decision making.

Since each farmer and his farm business are different, a “one size fits all” approach is not appropriate. Rather, a set of guidelines/decision making tools that allows farmers and their advisers to feed in their own figures and ask the “what if” questions. These tools/guidelines inform the decision making process but does not allow the farmer or their adviser to make decisions solely based on the information that has been entered into the decision making tool but allows for discussion with advisers, family members and/or business partners to be made. Such tools at present are not widely used by farmers.

Not only do farmers and their advisers need these tools but so too do farm systems groups and consultants in order to be able to evaluate their work and provide recommendations that are more comprehensive in financial and risk terms rather than on simple approaches such as gross margins.

The aim of a new project being funded by GRDC is to build capacity for farmers and for FS groups and consultants who work closely with them, even though each of the groups being supported by the Low Rainfall Collaboration Project is in a different stage of development for dealing with profitability/risk management:

EPFS has done some excellent work with local consultants and farmers and now wants to roll out their program more extensively across their area, partly in conjunction with their focus groups approach

UNFS has developed a programme to assess levels of strategic risk and effects of possible changes to individual farmer’s systems and are looking to roll this out further through their area and possibly the South Australian Mallee

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MSF has worked with Mike Krause in the past but the approach has languished in the area and needs revitalising.

CWFS has done little work on Profitability/Risk management but are keen to get started. They have access to a large data set of farm records from AgnVet which would be of value

BCG has been working on a pilot project involving 6 farmers and 2 consultant agronomists, using the experience and expertise of Ed Hunt, a consultant/farmer from Eyre Peninsula and Bill Malcolm from the University of Melbourne. This will be rolled out in 2010.

The BCG project has concentrated on one case study farm and has explored in detail the yield potential and performance of the different land capability types of the farm and the opportunities to further reduce costs, at least on some areas. Levels of debt and the capacity to service them has been a major issue as has the opportunities to reduce the capital tied up in machinery. It now remains for the group to bring all the messages together and provide them to the farming community early in 2010.

The results of this project will be considered along with a number of other approaches as part of a program by GRDC to improve the skills of farmers, consultants and farm systems groups in farm business management



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