farmtalk

MALLEE SUSTAINABLE FARMING INC. SA NSW VIC

This article contains information most relevant to the less than 350 mm rainfall mallee farming region

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Australian Government Department of Agriculture, Fisheries and Forestry
GRDC Grains Research & Development Corporation
CSIRO
Government of South Australia Department of Environment and Natural Resources
SPAA Precision Agriculture Australia
State Government Victoria Department of Primary Industries
mallee catchment management authority
NSW Government Industry & Investment
Government of South Australia South Australian Murray-Darling Basin Natural Resources Management Board
The University of Adelaide Australia
Government of South Australia SARDI South Australian Research and Development Institute

Changing the focus from productivity to profitability

Barry Mudge- Rural Solutions SA

An outstanding crop – but is it profitable?

The issue

Tightening margins between input costs and output prices and a prolonged series of poorer seasons has resulted in a shift of focus from productivity to the need to balance profitability and risk. It is no longer possible to rely solely on good agronomy to satisfy the bank managers requirements- *risk management* has become the buzz word of the 21st century.

What we know

By necessity, farmers are already very good risk managers. And they need to be, given the complexity of the decisions they face. Decision making can be aided by analysis and intuition but "rules of thumb" are also an important ingredient in the process. As Einstein said "It is important to keep things simple, but no simpler" and rules of thumb which incorporate complexity but deliver simplicity are often the key.

What it means for Business Management

Business Management is the overall structure which pulls together the wide and varied nature of farmer's operations. Focussing on a number of key areas and comparing these with a broader industry perspective can provide feedback to the business manager on his relative performance against his peers. Comparisons can be both quantitative and qualitative.

Focus Areas

1. *Scale Efficiency*. Discussions around scale are usually focussed on land area but equally important is the need for the business to achieve high levels of productivity per labour or machinery input. Labour productivity can be difficult to define on mixed enterprise farms but simple comparisons with other businesses can provide important insights. For machinery, a rule of thumb is that machinery investment should be roughly equal to average gross farm income. Consequences of poor scale efficiencies are either overcapitalisation (with machinery) or disguised unemployment (with labour). Efficient businesses are able to identify opportunities and respond accordingly. Once identified, Mallee farms have many alternatives available to correct any scale issues around machinery and labour.

2. *Enterprise selection*. The rule of thumb is that businesses either need to be highly specialised or broadly diversified to manage risk. A highly specialised business may be able to withstand external shocks simply by being the best in their field. A diversified business, particularly when combined with flexibility provides resilience in the face of change. The combination of livestock and cropping on most Mallee farms provides an excellent starting platform.

3. *Input cost control.* Businesses should aim for high levels of output per unit of input. At a minimum, input expenditure of $1 should result in the expectation of output of at least $2. This healthy margin is needed to allow for the risks involved in Australian agriculture.

4. *Flexible programs.* At an enterprise level, farm businesses need to have the capacity to respond quickly to changing circumstances. Integral to this is the establishment of well defined trigger points to help guide decision making. These trigger points can be quite complex to assess and are best analysed, at least in broad terms, well prior to the action having to be implemented.

5. *Rate of adoption of new technology.* Farmers are faced with a dazzling display of new technology on a regular basis. While it is important not to be left behind in the adoption of new technology, the safest approach is to look to be an early adopter rather than an innovator. Technology obsolescence can also be a real danger and may need to be managed in some circumstances by innovative approaches to technology adoption such as hiring of equipment or machinery syndication.

6. *Timeliness.* Applies across the whole range of business operations. Prioritise what needs to be done today and what can be put off until tomorrow. Planning, investment in the right equipment and judicious use of extra labour or contractors at critical times can help provide better timeliness outcomes.

Strategic use of contractors can improve timeliness of operations

7. *Appropriate business structures.* This is a very large area for discussion and encompasses wide-ranging considerations from debt levels to income tax management. In addition, business structures need to satisfy regulatory requirements. Most farmers will have access to necessary expertise in this area.

8. *Record keeping.* Again, important for regulatory requirements, but can provide invaluable feedback to the business manager on historical performance. Recording methods can vary from simple notebooks to more complex computer based systems- the important focus is ensuring the system provides information back to the business manager to assist with decision making.

Where to next

Looking at the focus areas can allow the business manager to identify the areas which need addressing. Remember that top farms achieve a much higher profit than average farms, not necessarily by achieving better yields, but by managing all aspects of their business better.

Change can be uncomfortable, and will usually involve some risk. However, failure to change those areas of the business which are not performing also exposes the business to risk.

Advice can be sought from business consultants who recognise the importance of a "whole of business' approach rather than focusing purely on agronomy issues.

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