Assessing your farming enterprise

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Profitability from cropping ranges widely between regions and between individual farm enterprises. Some cropping farmers are doing very well whilst others are struggling. One of the most important principles which the farmers who are performing well financially adhere to is that they know where there business is coming from and where it is heading.

Many farmers argue that it is luck which determines the outcome from any one year. Sure, luck has a lot to do with it - 30 mm of rain in mid October can make a huge difference in crop yields but we cannot manage the vagaries of the weather. We can, to a large extent, manage our risk to adverse climatic conditions.

It is not only production which is influencing your bottom line. Your farming business is also influenced by how well you manage your:

- costing structures (variable inputs such as fertilisers, herbicides etc.)
- price risk
- machinery costs
- exposure to debt
- off farm income
- employees
- and don't forget your business partners - your family!

Managing all of the above factors is essential for any successful farming operation.

- Keep good records, not only of the performance of your crops, but also of how your business is performing.
- Compare your performance to your peer group - you must know where you are, where others are and how you can keep your business ahead of the declining terms of trade.
- What can you learn from others will help your business survive and thrive.

To benchmark your business you need to know where you are in relation to others. An example of such a program is the FM500 FAST Systems Economic Analysis. In this analysis the long term financial performance of FM500 members was assessed and criteria of performance were developed.

The results of this assessment were very clear cut. An example of three of the key benchmarks are:

1. Cost structures	Operating costs (your variable plus overhead costs) as a percentage of your total farm income (between 50 and 60 % appears to be a reasonable target, above 60% your expenditure is too high)
2. Debt	Financing costs as a percentage of your total farm income (between 7 and 15% is a reasonable target).
3. Machinery	Market value as a ratio of total farm income, (machinery value / total farm income). A machinery value of between 0.8 and 1.2 times total farm income seems to be a reasonable target.

Inputs for 1997

Farmers produce crops with different levels of inputs. The level of risk you are able and willing to take depends on, where you farm (rainfall is a prime determinant here) and, you as an individual (no point exposing yourself to a lot of risk if you can't live with that exposure).

The main risks for this year are:

- **high fertiliser inputs** - Chasing yield is important but not if you do not get an economic return from your inputs. An expenditure of between 10 and 15% of your total farm income on fertilisers seems to be a reasonable input of nutrients. At this level, the inputs are in balance with what is exported from the farm (as grain or wool). Below this level you could be mining the soil, above this level you are not getting the return from your investment which you should. There are exceptions to all rules, as an example, a gypsum program for this year will have lasting benefits and it would be unfair to attribute all the gypsum cost to one year).
- **price risk** - Prices do not look very healthy at the moment. Work out your cost of production and start looking at least covering some of this cost by having a marketing plan in place. This is a lot easier to do when prices are buoyant but at least knowing what is happening is a help - and remember because prices are low does not mean that they cant go lower!
- **mice risk** - In some areas mice are present in huge numbers. Assess your paddocks very soon, and if there is a problem make life a misery for them by burning stubbles and fencelines and cultivating paddocks. Baiting is an option but the amount of work involved with bait stations makes it impossible except for your most valuable crops (eg Kabuli chickpeas)
- **nitrogen fertiliser risk** - know how much nitrogen is required to optimise your production for this year. Not many people can afford to over fertilise this year in the hope they pick up the difference next year
- **frost risk** - A very hard issue, but it is worthwhile to know what are the risks of getting a frost in your area at flowering time. If you farm in a totally frost risk free manner by sowing very late, the opportunity costs will be very high in years with no frost.
- **rainfall risk** - If you are in the Mallee or southern Mallee do not grow high risk crops such as canola if you do not have any stored soil moisture.

And most important of all - I hope you get your share of luck this year!

note: The FM500 study is available from Michelle Potter on 03 5441 6176 for $15 incl. postage)