

MANAGING the RISK for CROPPERS

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Introduction

When preparing individual farm plans for the 2005 cropping season, the impact of the 2004 and 2002 low income years will be important. No two farms are the same, so making the right choices for each individual will be best if all four of the following key attributes are included in their planning.

The most appropriate Farming System for any individual is linked to the key attributes of each and includes:

Production	-	Enterprise choice
	-	Climate Variability
	-	Nutrients and Pests
Financial	-	Income, level and volatility
	-	Cost Structures
	-	Debt level
Resource Use	-	Machinery
	-	Labour
	-	Scale
	-	Rainfall/Water
	-	Climate
	-	Land Capability
Human	-	Knowledge and experience
	-	Skills in Management & decision making
	-	Tolerance to stress
	-	Attitude to risk
	-	Communication skills

Intensive cropping and high yields achieve good profits for one farm but not for another. Over the last seven years this difference in profit can be largely attributed to income volatility due to seasons and to high costs. Finding farming systems which have low income volatility and do not increase costs is the key to profits.

Current Situation

Results from the 220 farms surveyed by ORM in South Eastern Australia shows that:

↑Inputs per hectare (fertilisers and sprays) = ↑Income per hectare (yield)

HOWEVER

If crop intensity is high then:

↑Income per hectare = ↓Profit (whole of business)

Comparison of whole of farm performance for the intensive croppers' verses the group average is detailed in table 1.

Table 1. Income and Costs per whole farm hectare -Sample is for Mallee - 7 year average to 2004

Sample	Farm income/ha	Farm Inputs/ha	Machinery/ha	Labour/ha	Finance/ha	Profit/ha
Group Average 58% crop	212	68 Fertiliser 26 Spray 20	64	37	13	30
Intensive croppers > 75% crop	265	101 Fertiliser 35 Spray 38	88	45	20	11
Comparison intensive to average	↑25%	↑49%	↑38%	↑22%	↑53%	↓56%

Performance of Farming Systems over the 7 years to 2004 can be summarized as:

- 1 Intensive croppers have higher costs per hectare
- 2 Profit decreases when costs increase faster than income.
- 3 When income is limited by rainfall, frost, heat etc, then farms with higher costs per hectare are first to make losses, and make the biggest losses.
- 4 Extra Profit in the good years has not been sufficient to offset the extra losses in the poor years.
- 5 Business Profit is highest when:
 - fertilizer response is 8 to 1 ie. (spend \$12 on fertilizer to achieve income of \$100)
 - and
 - sprays response is 10 to 1 ie. (spend \$10 on sprays to achieve income of \$100)

Note: Higher rainfall areas can be as profitable with lower response ratios

- 6 When crop intensity increases to above average, the marginal rate of return from additional farm inputs can reduce to one half of the above. Farms with high fixed costs or high income volatility have higher financial risk. If combined with this lower marginal rate of return then profit reduces and is often not sufficient to cover the losses incurred in low income years.

Reasons why intensive croppers have higher risk

Research by ORM indicates that intensive croppers have higher risk which in turn results in lower profits for the following reasons:

1. Income is determined by rainfall and climate, hence higher costs results in higher losses in poor years.
2. Ratio of profit years to loss years is reduced ie: there are more loss years.
3. Costs are hard to reduce in poor years ie: most costs are committed before the income is known
4. Fixed costs are usually higher eg:
 - Recent land purchase high living expenses
 - high land rental high machinery capital investment
 - high core debt
5. Higher incidence of disease / herbicide resistance.

The right farming system and paddock plan

When preparing 2005 paddock plans, allow for individual circumstances and recommend accordingly.

The following ORM groupings provide a start when tailoring advice to suite the individual.

Table 2. ORM Groupings

ORM Grouping	Recommendation	Actions
Strong Steady	Continue to do what you do Check costs to income ratio to identify limiting factors	Have choices to grow if they want Check if debt is limiting Increase inputs if production is low Go for safe farming system with moderate returns
At Risk	Reduce total costs	Target enterprises with lowest risk Reduce crop intensity Optimum yield NOT maximum Maintain inputs to cropped paddocks

Some guidelines to help identify ORM Groupings are shown in table 3:

Table 3. Guidelines for client attributes and performance

	Attribute	Client Performance	ORM Grouping
1	Profits	4 out of the last 5 years	Strong
2	Production	Good but low profits	Steady
3	Attitude	Loosing enthusiasm	Steady
4	Impact of a loss in 2005	Low equity	At Risk
5	Land, Improvements and machinery	Running down	At Risk

Outcomes

When preparing farm plans in 2005 the impact of poor seasons in 2004 and 2002 will require special planning to meet the particular circumstances of individuals. Points to remember are:

1. One Farming System does NOT suit all.
2. When yields are at average, then keeping costs in balance can improve profits more than chasing extra yield
3. In 2005 many clients will have an ORM rating of **At Risk**. The best advice to these is likely to be:
 1. Reduce total costs
 2. Target enterprises with lowest risk
 3. Reduce crop intensity
 4. Optimum yield NOT maximum
 5. Maintain inputs to cropped paddocks

For further information on cost control and Business Performance Targets see the Farm500 publication:

Business Health Indicators for Professional Farmers

Authors, Gavin Beever & Matt McCarthy of O'Callaghan Rural Management