

Improving profits and managing risk: two keys to the future



Geoff Thomas, (*Low Rainfall Collaboration Project*)

Farmers have been seeking guidance for years as to how they can better fit the various components of their farm systems together.

That no longer means simply improved production: profitability, reduced inputs and management of risk are increasingly recognised by farmers as major factors affecting the performance of their businesses.

Since each farmer's business is different, a "one size fits all" approach to financial analysis does not work. What is needed are simple budgets and guidelines which allow farmers and their advisers to feed in their own figures and ask the "what if?" questions appropriate to their businesses. The aim is to better inform decisions through more thorough understanding of the outcomes of each option.

One response by GRDC has been to support a Low Rainfall Collaboration Group project using a whole farm, case study approach which brings together past farmer experiences and activities. It involves farm business experts and consultants as well as farmers. Through different grower groups, the project covers the Wimmera, Mallee, Eyre Peninsula, Upper North in SA and Central West NSW.

While keeping to this principle, each group has used a different approach.

- a case study farmer group (BCG, Mallee and in Upper North)
- teaching young farmers bookkeeping/simple accounting concepts (Eyre Peninsula)
- emphasizing grain marketing outcomes (Central West).

Experiences to date have been interesting in the following ways:

- farmers show less interest in better seasons, despite this being the very time they need to maximise profits to see them through tough times. One of the most important parts of the projects is to increase awareness about the benefits of improved business management and the ease with which improvements can be achieved.
- all projects have involved farm consultants who are seeing the importance of both improved farm business decisions and getting the agronomy right.
- involving accountants in the farm business projects is invaluable: their advice needs to take into account the broader issues affecting profit and risk, not only management of the tax bill.
- farmer figures and case studies must be used and the *messages kept simple*. Too much farm business training in the past has not been "real world" and has been overly complicated.
- simple rules of thumb are the key. Most farmers already have these in place, but they are sometimes based on bad habits. The aim of the project is to use farmer experience and intuition supported by simple farm business understanding to improve these "rules".
- having these simple "rules" and the flexibility to adapt, especially at the opening of the season, is essential if potential of the good ones is to be realized. The purpose of this project is to consider not just the agronomy and the weather but to assess the potential impacts of various options on the business.
- a mix of cropping and livestock enterprises is still important in managing risk, especially during tough years and fluctuating grain prices.
- lifestyle considerations are becoming increasingly important, with farmers seeking systems and business structures which give them more free time. This of course can lead to an apparent conflict (keeping livestock is time-consuming) and highlights the opportunity for better ways of handling stock.

- the balance between labour and farm machinery investment is important and differs from farm to farm. While machinery must be reliable, over expenditure on machinery was a major factor exposing farmers to risk in tough times.
- most farm businesses are family partnerships. It is essential that all members be involved in skill building projects: not only does it increase the quality of the information (often the spouse keeps the books), but it also improves the quality of discussion and decision-making because participants have more and better-informed views. Responsibility for decisions is shared and the need for planning both the short and long term future of the business highlighted.

The Low Rainfall Collaboration Project will conclude in June 2013. However, the Profit/Risk work will continue for a further two years with current funding and, it is hoped, beyond.

For more information about managing Business Risk please contact Tim McClelland on (03) 54922787.

Acknowledgements

The Low Rainfall Collaboration Group