



# MANAGING FOR PROFIT & RISK MANAGEMENT.

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*Farmers have been seeking guidance for years as to how they can improve the fit of their various farm systems components to improve profitability and reduce risk.*

*In the past a lot of attention has been placed on agronomic considerations and hence a concentration on varieties, rates, seeding dates, row spacing type work. 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 fit the various technologies together to best effect. 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.*

*The Low Rainfall Project established an initiative funded by GRDC in which local staff worked with farmer groups to develop “model “ farms based on real local figures and use this to explore various on farm issues*

*The intent of the project has been to focus on decision making in terms of profitability rather than productivity alone, taking into account the risks associated with the production and marketing process. Consequently, the project has heavily focused on the economic consequences of decision making. It recognises that each manager will have a different attitude to risk which will in turn, influence the decision process. A prescriptive process is not seen as the solution, what works well for one farmer will not necessarily work well for his neighbour.*

*The project has aimed to improve decision making amongst local farmers by improving the knowledge and understanding of the economic relationships which exist in our farming systems, and improving skills of participants to assess particularly the economic consequences of their decision making in critical areas within their farm business.*

## **OUTCOMES:**

The outcomes of the project are complex and vary from region to region but overall there is no doubt that it has played an important role in establishing farm business as an important area. So what we present here is a broad summary of outcomes:

- Farm business skill programs are being demanded by a wide range of farmers and consultants and

have now become a core component of most groups. In several cases further projects have been developed using a wide range of funding.

- Some regions concentrated on teaching the basics of farm business to younger farmers.
- Two groups have used the project to support about 40 people, usually women, gaining the Diploma of Agribusiness.

- In several cases local accountants have been used in the programs adding to their knowledge base as well as that of farmers and consultants. Both accountants and consultants are seen as key players in the future development of farm business skills.

Some of the main areas addressed by farmers through the use of their local farm models have been:

- Any analysis of the farm business based on averages is misleading at best and often dangerous. Analysis must take into account the impacts of good and bad seasons.
- The risk management focus needs to be on methods to limit downside losses in poor years without substantially compromising gains in better years.
- The merits of buying vs leasing vs share farming.
- The importance of succession planning and overcoming the barriers to expansion.
- The best balance between livestock and cropping on farm.
- The importance of planning cropping programs and inputs according to the different capabilities of various types of land on the farm using the options of crop type/variety, livestock, or leaving paddocks out altogether if the seasonal opening is dodgy.
- The importance of capital investments in managing risk and making the right machinery decisions based on need/reliability and not just on tax considerations.
- The need for researchers and farmers to assess research outcomes in terms of the impact on the whole farm business in terms of profit and risk. The model farm approach allows this.

Taking the Mallee as a case in point, the following “messages” arose from the analysis by farmers, issues which have application across the entire low rainfall farming zone:

- It is difficult (both financially and practically) to maintain nitrogen inputs in long term continuous cropping farming systems. Profits in the high rainfall seasons are being constrained as farmers are unwilling to fertilise to the levels required to reach potential yields. More ‘natural’ nitrogen is required farming systems through more frequent legume phases in paddock rotations.
- Farmers are relying on expensive chemical bills to maintain current high input farming systems which is in-turn increasing risk. Lower cereal intensities and a greater proportion break crops and pastures in the rotation are required.
- Livestock play an important role in moderating

financial losses incurred from crop-ping in poor seasons. Business that choose to remove livestock need to find alternative methods to reduce risk. Examples include finding greater off farm income or maintaining higher levels of equity.

- Maintaining investment in machinery is a large cost and increases risk considerably. Generally, greater critique of machinery investment decisions is required by considering carefully what type of machine is required to reliably complete the task required. Shifting a greater proportion of machinery investments into profitable seasons is an-other strategy to reduce financial exposure in poor seasons.

## SO WHERE TO FROM HERE?

Apart from the groups continuing to roll out the results of this project there will be further development in two main areas:

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**“THE DEVELOPMENT OF A SIMPLE TOOL FOR FARMERS AND CONSULTANTS TO USE WITH THEIR OWN FIGURES TO ASSESS VARIOUS DECISIONS. AND THE FURTHER APPLICATION, WITH CSIRO TO USE THE TOOL TO ASSESS RESEARCH RESULTS IN TERMS OF THEIR IMPACT ON PROFIT AND RISK ON FARM”.**

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