

Improving profits and managing risk – the two keys to the future

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Farmers have been seeking guidance for years on how they can better fit the various components of their farm systems together. That no longer just means 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 and involves farm business experts, consultants as well as farmers. The project covers BCG in Vic, Eyre Peninsula and Upper North in SA, the Mallee, and Central West NSW.

While keeping to this principle, the approach used by each group has varied from the use of a case study farmer group at BCG, in the Mallee and in Upper North; teaching young farmers bookkeeping/simple accounting concepts on Eyre Peninsula, and with an emphasis on grain marketing outcomes in Central West. There have been many experiences to date which are interesting:

- 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 from improved business management, and the ease with which improvements can be achieved.

- All projects have involved farm consultants who are seeing the importance of improved farm business decisions as well as getting the agronomy right.
- There is a lot of value in involving accountants in the farm business projects – their advice needs to take into account the broader issues impacting on profit and risk, as well as manage the tax bill.
- Farmer figures and case studies must be used and **KEEP THE MESSAGES 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 have these 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 and capture the good ones was essential. The purpose of this project is to not just consider 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 have an apparent conflict with keeping livestock 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 and it is essential that all members be involved in these 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 through having more views. It also shares the responsibility for decisions and highlights the need to plan for both the short and long term future of the business.
- Whilst the Low Rainfall Collaboration Project will conclude in June 2012, the Profit/Risk work will continue for a further two years with current funding, and hopefully beyond.

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