

# AGRICULTURAL COMPETITIVENESS ISSUES PAPER

**Submission Issue Number 2 (part)**

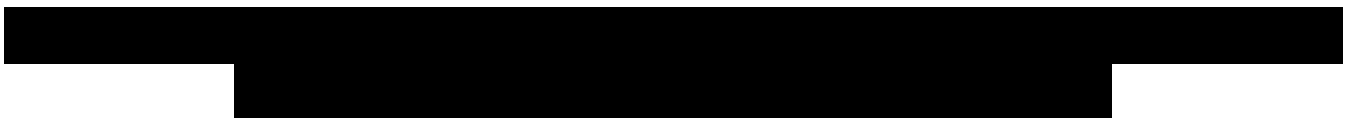
**Farmer Decisions for Improving Farm Gate Returns**

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## Issue Number 2 - Farmer Decisions for Improving Farm Gate Returns

### Background

Making a moderately decent living out of an extensive grazing enterprise used to be relatively straight forward. Adoption of sound animal and land management strategies along with the application of tried and tested bush economic principles, was a relatively simple formula for a profitable business and a desirable life style.

At least that is how it used to be a generation or two ago when:

- debt levels were much lower or non-existent
- financial institutions were much more adaptable and understanding of the vagaries of primary production
- land prices were more in sync with income producing potential
- the natural resource (land) could be more conservatively managed as a buffer against dry spells and droughts
- costs of production were lower and fewer
- fewer government and environmental constraints impacted on management decisions
- there was less commodity related price, demand and market access volatility
- rabid 'animal rights' and 'conservation' groups had less influence and media outlets were more objective in their reporting of issues
- the list goes on.

But the current plight of some primary producers cannot be entirely attributed to external factors over which they have little or no control. Many of those with high and/or unsustainable debt levels have also contributed to their own plight. They have taken on significant levels of debt to pursue unrealistic and/or high risk outcomes whilst ignoring what is often referred to as 'bush economics'.

Bush economics has three basic maxims:

- don't spend it if you haven't got it, or
- only enter into debt to fund fully researched, low/moderate risk, conservatively budgeted projects that have a strong short/medium term return potential, and
- if taking on debt, repay it (principal and interest) as quickly as you can.

Once debt gets to a certain point, economic forces are such that production levels need to be maximised on a much more regular basis, leaving little room for error. Some businesses have become so highly geared (financially), that every square metre of land has to be in maximum production all of the time for the fragile balance to be maintained. Lower income years that may come about as a result of seasonal variations, greater than normal commodity price volatility, disruption of export markets and/or other unforeseen setbacks are increasingly managed through access to credit. Financial reserves or even a spelled paddock are often not available.

The upshot of all this is an inability to withstand even relatively short periods of production losses and the time taken to recover is ever increasing, with many never actually achieving real recovery. Add to this a down turn in property values and subsequent lowering of equity levels, and the options become very few and unpalatable.

## Business Management

Prudent management of the business side of the grazing enterprise has been left in the wake of a continual desire to maximise (as opposed to optimise) income, as well as a willingness to put the costs associated with chasing this income onto the credit card. Business and financial management issues that no longer appear to be part of the repertoire include:

- identifying, understanding and showing respect to risk
- incorporating risk management into the production management system
- developing and implementing risk management programs
- identifying commercially viable options for business improvement
- developing and adhering to financial management systems
- separating business decisions from personal and life style considerations
- incorporating all of the risk scenarios when evaluating and costing decisions
- objectively analysing management options
- giving too much weight to the ‘opportunities and strengths’ and not enough to the ‘weaknesses and threats’ (including those that they have little or no control over) of proposed actions, and
- the importance of enterprise mix and diversification.

Put simply, primary producers need to become better business managers. They need to be able to objectively analyse their primary production enterprise in its entirety and be confident in arranging the building blocks of their business to ensure long term viability. It’s no longer good enough to:

- hold out for rain when probabilities suggest otherwise
- refuse to sell livestock because they are ‘irreplaceable’
- overload available resources to the point where options for mitigating risk are negated
- regard debt as a necessary evil that will take care of itself in the fullness of time
- regard profitable years as ‘windfalls’ rather than an opportunity to make provision for the inevitable low income years
- make long term decisions on the basis of short term optimism, or
- expect tax payer support for circumstances that could have been avoided through an integrated management approach and implementation of sound risk management procedures.

## Suggestion

Primary producers who wish to be considered for government drought assistance, must be able to show that they have been proactive and taken prudent and reasonable steps to prevent their situation from deteriorating to a point where they are dependent on outside help. Management plans that address risk and action plans that are implemented in a timely manner, are one way that graziers can not only help themselves, but be seen to be doing so.

Each enterprise would therefore need to have a robust business and risk management plan to compliment management plans for other aspects of their operation.

1. **That a ‘Business and Risk Management’ training program be developed that is specific to the extensive grazing industries.** It needs to be:
  - able to be customised to suit different industries, regions, and levels of capability of participants
  - practical and as user friendly as possible
  - capable of allowing participants to use inputs from their own enterprises in case study worksheets
  - be delivered in a variety of ways to suit most preferences (small local groups over a number of spaced out meetings; small regional workshop style over 1-2 days; etc)
  - be outcome driven, with participants finishing with at least the outline of a personalised, integrated business management plan as well as the necessary tools, knowledge and contacts to further develop and implement their plan
  - followed up with ongoing support to assist with the future development and changing circumstances that may necessitate the fine tuning of individual plans.

Plans do not need to be excessively complicated or lengthy documents and they do not need to be prepared by consultants or other professionals. But they do need to include and adequately address a core number of specified components.

2. **That all graziers be made aware of the link between demonstrated self help (above) and any future government financial assistance.** It should be made clear that there is no compulsion to participate, but those who choose not to, acknowledge this as a criteria for ineligibility for future assistance.

A standardised set of guidelines would need to be developed to ensure management plans meet an acceptable minimum standard. It would also be helpful if there was some form of accreditation or approval process (preferably on a local or regional basis) as well as a set of guidelines for the recording of actions taken to substantiate the implementation of plans. All of this would be as low key as possible with no heavy handed, over the top stuff. You are either in or you are out. If you are in, these are the steps needed to get up and running.

## Conclusion

Primary producers are a fiercely independent lot. They value their right to determine their own destiny - the how, when, why and who with aspects of life. However, you can't always have it both ways. Business managers who believe that they should be helped out with taxpayer's money in times of hardship, must recognise the need to be accountable for any assistance received. I am quite sure that this process could be worked up and sold as a positive initiative and something that will benefit the industries concerned. Minimising excessive red tape and unnecessary bureaucratic involvement can only enhance the appeal of any such scheme.

## Footnote

### Random thoughts:

- When the worst case scenario eventuates (as now) there are few options left and the many people who could have done things differently and been better off as a result, have nowhere to go. The only action that may help now involves handouts of various types - and very large ones at that. We need to move past this.
- When the drought breaks, many of those who pull through will not reflect on how they got into the situation or how they might be able to avoid/mitigate the same thing happening again.
- Business management / management plans / not needed to be costly or complicated / or inflexible / include various options / operate as a business with lifestyle benefits not other way round / science based e.g. pasture growth after a certain date ; rainfall probability / if plan is good and acted on and still get into trouble - help / if not - no help.

### A summary of my involvement in the extensive grazing industries.

- Have been involved in the extensive grazing industries of sheep/wool and beef in various capacities (research, extension, primary producer) since 1975.
- Have seen and been intimately involved with many dry times and a number of serious droughts in the capacity of providing assistance to others as well as trying the help myself. Have worked very closely with many primary producers in the good, OK, not too bad, bad, very bad and disastrous years.
- I understand the thought processes that people go through when making difficult management decisions. I am also aware of how the optimism (which primary producers have in abundance) that returns along with the good seasons, has a way of blocking out the memories and lessons that should have been learnt from the recent past.