Southern Australia Focus

Covering cropping systems of Southern NSW, Victoria, Tasmania, South Australia & Western Australia

THE RESEARCH VIEW

Business planning for 2009

By Geoff Thomas[1] and Nigel Wilhelm[2]

THE DECISION CYCLE

Business planning is cyclical and it is good practice to revisit your plan on a regular basis to see whether it needs adjusting for new conditions. It is unusual for any manager to get the program exactly right the first time around, especially in this era of rapidly-changing seasonal and financial conditions.

This guide to decision making concentrates on low cost/low risk options for farm businesses with little financial freedom to operate into 2009. It is about having a look at a range of options and considering their potential outcomes. Each key decision should be assessed for the likely benefits and costs of implementation, which will focus attention on those decisions that are critical for survival.

And don't overlook the importance of the personal perspective as well as the financial.

Each of the following sections relates to a step in the decision cycle.

Geoff Thomas.

STEP 1

Work out the financial condition of your business and discuss it with your financier – do it early

- Work with your accountant and/or financial adviser to establish the financial health of your business, including off-farm investments.

Some of these financial services will be available for no cost, or at reduced rates, in EC-declared areas.

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Consultants' Corner

Consultants' Corner is an initiative by *Australian Grain* highlighting current GRDC-funded research with a particular focus on the commercial implications of adopting cutting-edge research.

◁i...CONSULTANTS' CORNER

Clearly identify your fixed costs (rates, taxes, interest on loans, school fees, living expenses, etc) and input costs (fertilisers, fuel etc) separately and consider how they can be met.

Loan repayments should be clearly defined and all finance and repayment options discussed.

Remember, your financial issues are also your financier's. Communication is the key: Act early and talk with your financier to see how potential problems can be managed or avoided.

- Next, work out the gross margins (income minus input costs) for each of your crops and livestock enterprises in 2008. This will give you a good indication of what did best in a poor season. Then do the same for average yields at current costs and prices, which will give an indication of what crops and paddocks will fit a low-risk strategy.

STEP 2

Detail your cropping program

- The most important consideration is time of sowing because it is likely to be the main determinant of yield and profit. Plan your program so you get all the crop in as soon as rains allow. Late-sown crops are usually high-risk crops and there is no place for them in this strategy.
- A second essential is to check the germination of seed grain. With light seed weights from the 2008 harvest, germination might be low or variable.
- Group your cropping paddocks into three categories: Definitely will seed; Will seed with a good start; or, Will not seed.

Definitely will seed (best cropping paddocks; low risk/high return)

These paddocks:

- Will have low weed and disease levels and good levels of carry-over nutrition.
- Will usually be the ones that have performed well in the past. Your paddock records will reveal these.
- Are dominated by soil types that reliably finish crops.
- Have been set up to easily and quickly seed in 2009.
- Should be the first seeded. Dry seeding some is a real option but avoid situations with variable moisture (re-seeding after poor establishment is expensive and untimely).
- Should be seeded with high-value cereals (for example, hard wheat, malting barley).
- Should be monitored closely to avoid major yield-limiting constraints such as severe leaf diseases or nutrient deficiencies (N or trace elements most likely). Early interventions are usually the most effective and the cheapest.

Will seed with a good start to 2009 (average cropping paddocks; medium risk/medium cost)

- These paddocks have one or two factors that will either increase the cost of production or increase the risk of a good outcome (for example, major areas of a soil type that requires a good season to produce well).
- Plan not to seed all of these, even with a good start. More cropped area means more risk and requires higher cash flow, both of which can reduce viability. The finances saved by reducing cropping area can be used to build the potential in the cropped paddocks as the season progresses (for example, extra N). This keeps up-front costs low and reduces overall risk. The old adage that 'it doesn't cost much to put a crop in' is simply not true any more.
- Seed this category after the 'definite' paddocks to allow low-cost weed control options prior to seeding.
- Seed these paddocks with cereals and manage them so they can be used for grazing or hay if necessary.

Will not seed (difficult, high-risk cropping paddocks)

- These paddocks should be used to support the livestock enterprise.
- Control summer weeds only in paddocks to be cropped.

Do not spray early summer weeds in paddocks to be cropped unless trash flow is a critical issue. Summer weed control should be a higher priority on lighter soils than on heavy.

In late summer/autumn, spray early after a major rainfall event with the lowest-cost effective chemical option under suitable delta-T conditions.

Use sheep to reduce bulky weeds for easy seeding.

Maintain high levels of crop residue to maximise infiltration of rainfall, slow evaporation and protect the soil.

- Grass control.

Due to the severe impact of high grass numbers on cropping profitability, the difficulty of keeping grasses under control and the long-term nature of seed bank management, grassy weed control should not be compromised.

- Control fertiliser costs.

Substantial savings are possible on most farms by reducing P fertiliser rates or in some cases leaving it off altogether. You will not fall off a production cliff without P provided soil reserves are adequate.

If you need to use P, apply it with the seed and use only enough for the 2009 crop.

With nitrogen, use only 0–10 kg per hectare at seeding. More can be applied mid-season if necessary when you have a better idea of the crop potential.

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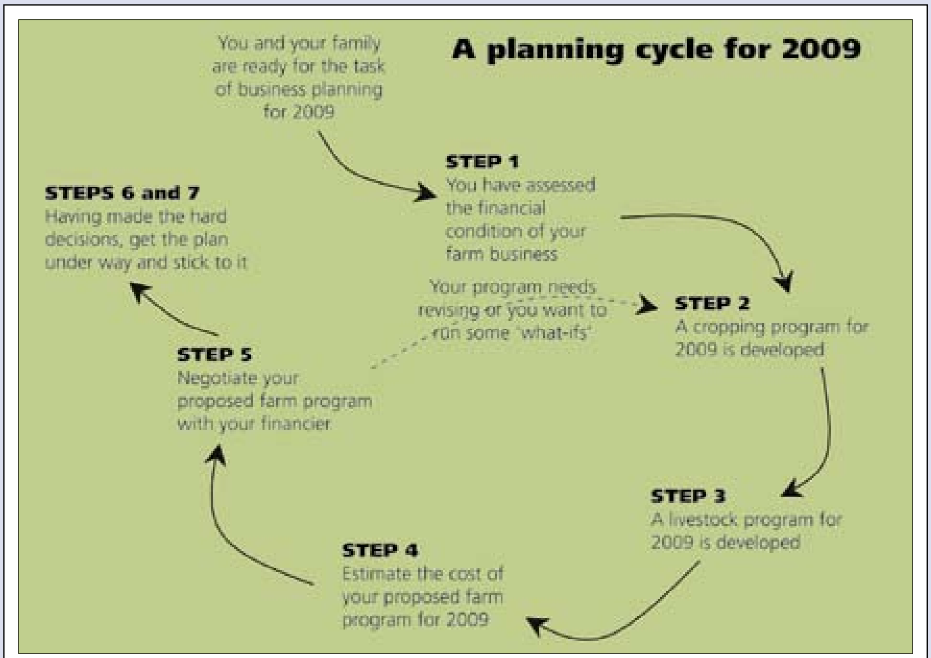

◁ii...CONSULTANTS' CORNER

Do not apply other nutrients (for example, K or S) unless you are confident they are deficient.

Manage trace element deficiencies by using seed from a very fertile paddock, applying a seed dressing or foliar sprays.

STEP 3

Low cost livestock management

- Concentrate on livestock management to increase weaning percentage and growth rates, which can often be achieved with little cash outlay.
- Increasing livestock turnover is the key. Higher profitability and lower risk can sometimes be achieved by selling growing stock at lower weight ranges.
- There is likely to be plenty of low-cost feed grain available in 2009 but it should be tested for nutritional value, particularly energy levels.
- Do a forward feed budget and ensure you have enough feed for existing stock until, say, one month after the average break of season when there is likely to be sufficient grazing available. If you do not have enough feed, options include: Reducing stock numbers; Securing more feed; or, Using existing stored fodder and paddock feed more efficiently.
- If you have enough feed to carry stock past the average break, will your current cropping plans ensure enough feed for your stock throughout 2009? If not:

Nominate a paddock or two of cereal for grazing or hay.

Secure more feed reserves early – preferably save your own.

Improve infrastructure (fencing, watering) to allow more efficient grazing.

Refine grazing management – including setting up for containment feeding.

- If feed is short, consider weaning lambs early, giving them the best paddock feed and locking up ewes on a drought ration.
- Do not fertilise pastures in 2009.

STEP 4

Cost your proposed program

- Once you have established your work plan and stock needs you can cost various 'what-if' scenarios and develop options to use depending on how the season unfolds, your available finance, and how much risk you are prepared to take.
- For businesses with limited funds available the emphasis should be on low-cost/low-risk options, even if some potential profit is foregone.

STEP 5

Negotiate with your financier for funds to undertake your work plan

- This is your major negotiation.

Do it early and be confident and go prepared with a commitment to make it all happen. Have information prepared about:

- The current financial status of your business.
- A costed work plan for 2009.
- Some 'what-if' scenarios to demonstrate how the financier's investment will be protected if conditions change.

STEP 6

Monitor all crops and pastures closely for weeds and diseases

- Accurate pest and disease identification and early intervention is vital for cheap and effective control.
- Correct timing is often more important than the product used.

STEP 7

Review your marketing options as the season progresses

- Make sure the marketing tools you use are the most appropriate. The goal is minimum risk, not maximum profit.
- Forward marketing transfers your price risk to the market but does not reduce your production risk.
- Committing more than 25 per cent of your average crop tonnage before harvest can increase risk.
- Forward selling has little long-term benefit where yields are highly variable.
- Depending on the season, grain prices and your need for cash flow, on-farm storage may be an option. Buyers may pay more if you can store grain for a period.

Excerpts from GRDC's *2009 Planning Guide For Farmers With Limited Finances.*

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THE COMMERCIAL VIEW

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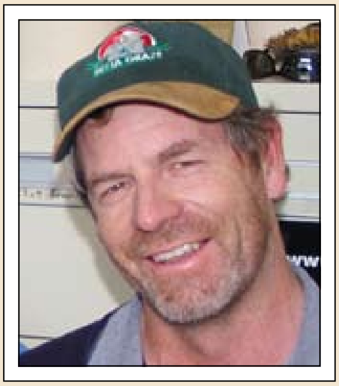

Nigel Wilhelm.

Recognising that in 2008 many farm businesses were under pressure to cut costs and minimise risk, GRDC developed the *Planning Guide for Low-Risk Farming*. At the time, most farm businesses had experienced a run of tough years but were trying to plan for an average 2008 season.

No-one could have predicted yet another below average cropping year in 2008. As a result, there is now a large number of farming businesses that can't afford to sow their full cropping program in 2009. Last year, the guidelines were to sow the best paddocks regardless of timing of the season break, and bad paddocks were only sown if the break came very early.

But the advice for farming businesses under severe financial pressure in 2009 is not to contemplate seeding the worst paddocks at all and closely reviewing the not so good paddocks as autumn unfolds.

A separate guide has now been developed by GRDC for those farming businesses that have very limited finances to fund a cropping program this year. It's the *2009 Planning Guide for Farmers with Limited Finances* and it's about planning when under significant financial pressure. It's about financial survival so these farmers can still be there for 2010.

The guide has been developed to help farm businesses plan a low-cost/low-risk strategy designed to return a modest profit while maximising the chances of the business continuing. It's about risk management, and reducing exposure by carefully considering how much the business can afford to lose rather than what it can potentially make. This approach will probably mean reduced profit potential should 2009 prove to be a 'bumper' season – but financially-constrained businesses simply can't afford the costs and risks associated with a full program.

Lowering input costs will be a key consideration this year. Some farmers will be able to cut their fertiliser bill in half without causing a major limit to production in order to stay afloat. The trick will be to lower costs but still maintain potential if the season delivers. If 2009 is a good year farmers can still make a profit – but their business planning must be sound so they are prepared for anything the season throws at them.