The value of pastures to mixed farming enterprises

Mark Gardner,
Vanguard Business Services, Po Box 654, Dubbo NSW 2830

BACKGROUND

This brief paper will present three key points:

1) A discussion of the importance of pastures in Mixed Farms in the Central West of NSW.
2) A discussion of some of the challenges which are currently being faced by farmers from a cost perspective.
3) Floating of some ideas about pasture management 10 years from now (as a prompt for further discussion).

Vanguard Business Services helps farm families examine farm profit, in order to improve their business performance (in a larger sense) in the context of their own individual GOAL. Note I have used GOAL not goal. This is to recognise that while many farm families have production targets or short term goals; a GOAL is about a long term view of the future; for the land, for the desired lifestyle of the people, and the required level of profit of the businesses.

Many businesses that we work with do not have a GOAL, although many of the individuals have varying clarity in terms of the way in which they would like the future to be or not be. The challenge is to write this down, which requires a high degree of clarity of thought and to ensure that there is ownership amongst the family members. This can often be hard, but our experience is that unless this exercise is carried out, then often conflict, disagreement of misunderstanding can result, either now or into the future.

This important exercise then provides a context to look at the farm operations.

THE IMPORTANCE OF PASTURES IN MIXED FARMS IN THE CENTRAL WEST OF NSW

It is important to look at the structure of the overall enterprise mix between crops and pastures to help families get a feel for their business. Much of our work involves a degree of Whole Farm financial benchmarking, with over 14 groups of family farmers across NSW. The process of benchmarking has alerted us to many important components of whole farm profit.

Some points from our work are:

- At higher cropping intensities (% of managed area which is cropped), higher profit does not necessarily follow.
- Many profitable farmers had "moderate" cropping intensities 10-25% of their total area (and profitable livestock operations on the pasture base).
- Many farmers crop 20-50% of their areas, and this can either be profitable OR non-profitable. There are many pathways to profit. Deciding on a strategy to achieve it is critical.

Many profitable farmers also have quite high amounts of their land under pasture; it is possible to achieve good levels of farm profit at quite moderate levels of cropping.

Our work has indicated that many factors, apart from the area sown to crops or pastures, influence profit.

Some of these are:

- Rotation (crop sequencing, disease issues, paddock selection, fertiliser, herbicide strategy etc.)
- Costs, at the enterprise and whole farm level
- Prices (marketing and production skills) achieved
- Turnover of the business in dollar terms (this is NOT always related to farm size)
- Yield of the crop (t/ha) or pasture (animal production levels)

In effect, the "management" (decision making) which combines the above is at the essence of profitability.

Management decisions made for the pasture base, in the context of the individual GOAL, can make a positive and direct contribution to the above.

Take home messages:

The individual crop: pasture mix on a farm is an important component in determining farm profit, but there are many other factors to consider. Increasing crop intensity does not always improve farm profit. Our experience is that pastures are a key factor (but not the only factor) in profitability on mixed farms.

There is also a need to improve the understanding of how profit is created.

Our experience is that while pastures can provide an important contribution to farm profit, this does not hold true in every instance.

When working in real life situations with over 240 farm families over the last three years, we have come to believe that some factors are Black and White, but many are Grey. This is why setting the GOAL is important, to create some clarity. A GOAL can direct day to day activity, and create clarity. The difficulty of this is that for each farm and family it may be different, as they may be trying to achieve different ends. We try to respect this. The reality is that many (but not all) farmers can improve their understanding of their business and the factors contributing to profit (and so can the research and advisory sector…of which I am a member!).

The reality is that some farmers have rapidly increasing cost structures, as an example some (but not all) farmers have fertilizer, spray and fuel costs, which may have doubled over the last three years, but some don't. For some farm businesses, today's commodity prices are masking some rising cost trends. For these farm businesses, where will this situation be in 10 years time?

Our experience with working with farm families to create profit indicates that the following factors are important (in the context of the individual family's GOAL):

- Price
- Yield (production levels)
- Costs (enterprise and overhead)
- Turnover (measured in dollars)
- Risk.

We have often found that yield can be sometimes being a less important contributor to Whole Farm Profit than often thought. Many farmers are currently achieving good yields, and are sometimes achieving good Gross Margins but Farm Profit and Return on Capital is lower than they require. Sometimes the non- enterprise costs, such as the amount of capital and labour involved, risk factors or the turnover of the business can be an issue. The above five factors indicate that yield is only one component of farm profit. Yet it is often given the most focus! Of course for other farmers, yield may be an issue.

We are suggesting an individual farm approach based on an examination of the five important factors (and others which I will mention later), rather than a "one size fits all" approach, is needed to address any issues of profitability. Consideration of the above factors is important in this. "One size fits all" thinking can be complemented by an individual farm business approach.

A focus on yield, without a corresponding examination of the real costs to achieve that yield (Enterprise and Whole Farm costs), the capital required, or the risk factors involved, could run the risk of potentially moving farm businesses into lower profitability, with the best intentions. It is important to monitor Whole Farm Profitability, not just Gross Margin performance. Farmers are under immense pressure to improve yields but in our business we are assisting farm families to achieve their GOAL (which will include a desired level of profit), and therefore we need to be looking at more than just production levels.

Unfortunately much research and extension activity is oriented towards yield (production), often without a good understanding of the other factors which could block profitability.

As a result some farms can operate highly productive enterprises (high yield levels in their crops or animals) embedded in low profitability businesses.

Other important issues to consider are:

- What is the impact of the overall management of the farm on the farm ecosystem? Is it regenerative?
- Is the management of the farm leading to a good lifestyle for the family?

The questions must always be addressed as part of the day to day decision making towards the GOAL.

Based on our GOAL directed approach, it is important to look forward, say 10-15 years. During this time some of the following could occur:

- Fertilisers could be more expensive
- Some herbicides may be lower, some higher in price
- Fuel may be dearer
- Machinery may be dearer
- The cost of living (particularly education) will increase
- In ten or fifteen year's time, what will the environmental issues of salinity, acidity, erosion and weeds be like?
- How will farm management need to be, and how (if at all) will it need to change from today? It is important to be thinking ahead to be able to assist farmers to shape their businesses to meet the challenges of the future, and not of the past. A more considered approach to profitability and its interrelationship to the environment are needed.
- Not all farms and the people living on them are the same, nor is their GOAL the same. All of us need to be careful about the assumptions which we make in relation to how Farm Profit is created.

SOME IDEAS

Many farmers are moving towards an "ecosystem" approach to farm management, where they are managing enterprises, in the context of their water cycle, mineral cycle, energy conversion, community dynamics and bio-diversity (above and below ground).

This approach can create significant cost reductions, and at the same time regenerate ecosystems.

A greater range of land management "tools" are also being used. For example:

- Planned recovery of plants via planned grazing
- Grazing management to manipulate the ecosystem towards the GOAL
- Using animals and their hooves and mouths can "mimic" machinery or herbicides, at lower cost and be income generating.
- Managing the farm as a whole, and not as a series of unrelated enterprises

We believe that the future will need a greater focus on "synthesis" of aspects of the farm, and a more of a whole farm approach, requiring a greater depth of understanding of the interrelationships between profitability, farm ecology and the lifestyle of the family.

An acceptance of the many different ways in which land can be managed is important, as is a greater tolerance for new ideas and approaches.

From what we have seen to date there are many land managers who are putting into practice some exciting and innovative land management approaches, using different "tools" and with a GOAL driven approach.

These approaches can have significant profitability benefits, and at the same time build up the farm ecosystem.