

CHAPTER 1 : INTRODUCTION

CREATIVE IDEAS FOR PROFITABLE FARMING

The world is changing faster than ever, particularly the introduction of new technologies, and there are implications for every industry, including farming. If you are to be successful in farming today, and into the future, you must learn to adapt to these changes. The way to succeed today will be different from the way to succeed in the past, just as the way to succeed in the future will be different from the way you might succeed today. And while it is still important to learn from the “way we’ve always done things”, it is even more important to both face up to new challenges, and to embrace new opportunities.

Growing good produce was sufficient for most farmers to make a profitable living - but not any more. Catch phrases such as value adding and multi-skilling are common to us all now, but what exactly do they mean? And what about just being good at one thing, or the concept of creating a core business? All of these things are important to the success or failure of business today. Some businesses, no all, that have gone down the track of specialising to some degree have actually failed due to exactly that reason. The farm business, just like any other, must learn to take calculated risks. But risk taking should always be based on thorough knowledge, thorough planning and thorough preparation.

To look at what range of business opportunities are available, we must first look at where rural industries have been and where they are going.

WHAT HAS CHANGED

In the past, a farmers market was frequently local, with most competition coming from the local area or state, or perhaps within the country. Markets are now international, competition can come from anywhere in the world, including from places where labour costs are very low. But just as competition has increased, so have opportunities. It is no longer unrealistic to look at overseas, as well as still cater for local markets.

People in developed countries are eating foods, and using other produce which they previously did not use. Even foods that seem so common place now, such as asian vegetables and herbs, were not readily available on the market 20 years ago. These changes in the market are not only occurring at our own back door, but overseas as well.

Keeping abreast of what is occurring, both financially and socially, in overseas markets is important to the successful farming operation. If your country appears to be “flavour of the month” to the people in another country, what opportunities for your products or services could be found there? Expanding economies and increasingly higher standards of living in other countries are also creating new markets all the time. The market possibilities in a particular country may be short-lived, but who is to say that yet another country will not be interested in what you produce in later years. Making a high profit for a short period is also a good way to finance other, longer term ventures.

Many people are well aware of the opportunities in overseas markets, but find the prospect of getting contacts, organising the logistics, etc. unfathomable. Remember that not everything has to be done alone. Options include creating a co-operative with other similar producers, supplying a larger producer who already has the overseas markets, or working through an agent, who specialises in creating and catering to markets overseas. Government agencies may also provide excellent advice and even financial assistance to help you establish overseas markets.

Scale of production, as well as market opportunities, has also changed. It is cheaper to produce large quantities on large farms. Because the markets set the price on commodities, rather than the producers themselves, it is often unrealistic, or unprofitable, to enter such a market on a small scale. But that does not rule out being in a similar market. By creating a differentiation in your product, such as organic or high quality, you may in fact be able to enter a market that is more profitable.

For instance, wheat is produced on a large scale, so it is not cost effective to produce wheat on a small scale. But alternative markets may include organically grown wheat. While production costs for organic wheat would be higher, so is the market price, and potentially, the demand.

While large scale production is most economical in terms of return, the long term effects on land, water use, etc. can be costly. Rather than strive for the highest return in the short term, a good farming enterprise must always be looking to the future. While fallow land may be unproductive land, the money lost in short term production may benefit the farm in the longer term. As less and less land is available to provide farm produce for more and more people, it becomes increasingly important that the land be kept productive. Land care issues should always form part of the long term management of a property. Just as a good factory must be maintained to ensure long term productivity, so should the land and other natural resources, such as water, of the farm.

Production methods have also become more sophisticated. Using technology, mechanisation, biochemical products, biotechnology, and a myriad of other techniques, production has changed a great deal. It is more than the average person could hope to keep up with, especially one who is already working hard to maintain a business. Seek advice, use the service of experts. Don’t let high technology be daunting, but don’t expect to know everything about it. Learning just enough to see how it could fit into your business, and experimenting with new ways can lead to changes that will benefit the farm overall.

There are also a lot of niche industries available to service providers specialising in an area of technology or machinery. For instance, it is not cost effective for most small grape producers to own the harvest equipment necessary for picking grapes, yet machine harvesting may be cheaper than hand picking. The person that has invested in the harvesting machine will often have a solid market in running the harvester for other small producers. The same is done in all facets of areas of agriculture, including hay baling, wheat harvest and cotton harvest.

Aside from the increasing challenges of production, we operate in a different financial climate than we did in the past. There are more types of credit available, interest rates seem to go up and down with alarming regularity and finding the right type of credit, and a source that will provide it, is difficult. But you can take advantage of these differences, if you are prepared to look at all the options. Many private investors are always looking at ways of making money. And while most farmers would prefer to be a sole proprietor, there are methods of having it both ways. This could be achieved by the autonomy of your own business and the support of an investor, be it banks, private parties, or other sources. As with all other aspects of farming, though, you need to be prepared to do your homework, to ensure that you are legally covered and that the arrangement suits your needs. While everyone hates to pay the high price of legal and accounting advice, it is generally much better to part with the money and obtain good, sound advice, than to lose the business because of some type of 'fine print', or a lack of understanding on your part.

Today's farmer is expected to meet these higher and ever changing demands of production, marketing and finance while operating on tighter margins. One of the greatest difficulties that many farmers have is finding time to spend on budgeting and planning for the business. It is understandably difficult to justify looking over the books when there are fences to mend, animals to tend to and endless chores to complete. But as profit margins decrease, so increases the need to know exactly what your financial position is at all times, and what can be done about it. Keeping an eye on the markets, planning for both poor and productive years and knowing what you intend to do for 1, 5, 10 and 20 years are all very important, and very time consuming, aspects of successful farming.



Sheep

HOW TO ADAPT/SECRETS OF SUCCESS

There is no real secret to success. It is a combination of factors including hard work, tenacity, ongoing education, adapting to change, and **yes**, a certain amount of luck. But mostly, success in any field is about being aware and taking advantage of your own skills, resources and knowledge. Many highly successful people will tell you they were just "in the right place at the right time". Being in the right place, though, is often due to knowing what is happening and being there to take advantage when it does happen. Most successful farms are those that are:

Always prepared to change.

Routine, and doing things the way they've always been done, is comfortable. You know the procedure and in most instances the outcome. But many farms fail because, unbeknown to them, everything else is changing around them. This is not to say that old-fashioned ways are not good ways. In fact, many people are willing to pay extra for what they feel is extra service or extra quality. But that does not mean that change is not necessary.

A good example would be in providing farm fresh eggs. A small egg producer may have always managed chickens free range. Some people are willing to pay a premium to obtain free range eggs, and the cost of producing free range eggs is higher for the producer. What may have to change is the way the eggs are marketed. It is no longer good enough to sell the eggs as 'Farm Fresh'. The emphasis might be changed from that to 'Free Range'. So, the change here is small, but very effective.

Other changes may be more substantial, such as changing the overall production output of the farm. In the case of a farm raising wool sheep - is that the most effective use of all the land? Could the wool clip there be subsidised by growing a crop on part of the land? This would lessen the size of the wool flock, but may be more productive overall.

Know their strengths and weaknesses, both personally and professionally.

There is always an emphasis on knowledge in business. Know your market, know what is going on in the economy at large, know what your product and core business is, know your strengths and weaknesses. It can be quite overwhelming. But being able to identify your strengths and weaknesses is important to knowing all of these other aspects of your business.

Identify what your strengths are, both personally and professionally. Then look at your weaknesses, so that you can identify where you need to find support. The most successful people don't expect to know everything. What they do know is how to admit where they need help and where they can get it. Expert advice need not always be costly. Producers organisations are a great source of information. They often provide forums for discussion, both formally and informally, as well as current information relevant to your particular market. They also often act as a lobby group, acting on your behalf on government issues.

Support can also be found through outside professional services. This can be in the form of bookkeeping service, accounting and legal advice, or through government advisory services. For instance, the Bureau of Meteorology have a wealth of information on weather patterns, temperatures, rainfall, etc. Many farm management decisions must be made based on the weather. If you are not good at keeping weather records, or have not had the opportunity, they can enhance your knowledge.

Half the battle of addressing and providing for your strengths and weaknesses is knowing the 'lingo'. All areas of business have their own language, be they plant growers, bankers, chemical suppliers or equipment dealers. By having an awareness of the language, you are half way to having the knowledge. If you feel that lack of understanding is a weakness, first try learning the language. You will find in many cases that you know a lot more than your thought you did.

Plan ahead and always have contingency plans in place.

There is one thing that is sure about farming, that is that unexpected things will happen. You need to plan for things such as drought, fire, crop failure, animal diseases, etc. What arrangements, if any, do you have to cope with such problems. Could you plant fodder trees as windbreaks, that could be used as emergency stock food?. Do you have other sources of income (e.g. off farm investments, another job) that could support you through lean times on the farm? Have you invested profits from good years in new equipment, new dams, paying off loans ahead of schedule, etc? During a good season do you buy up large quantities of grass/lucerne, hay, etc; various grains when prices are low; molasses, etc. Do you alternate sources of feed for your stock in times of drought, such as road verges, timber plantations, public land, etc?

A contingency plan for dispersal of stock when drought is imminent from weather forecasters, etc, or dry spells are lengthened:

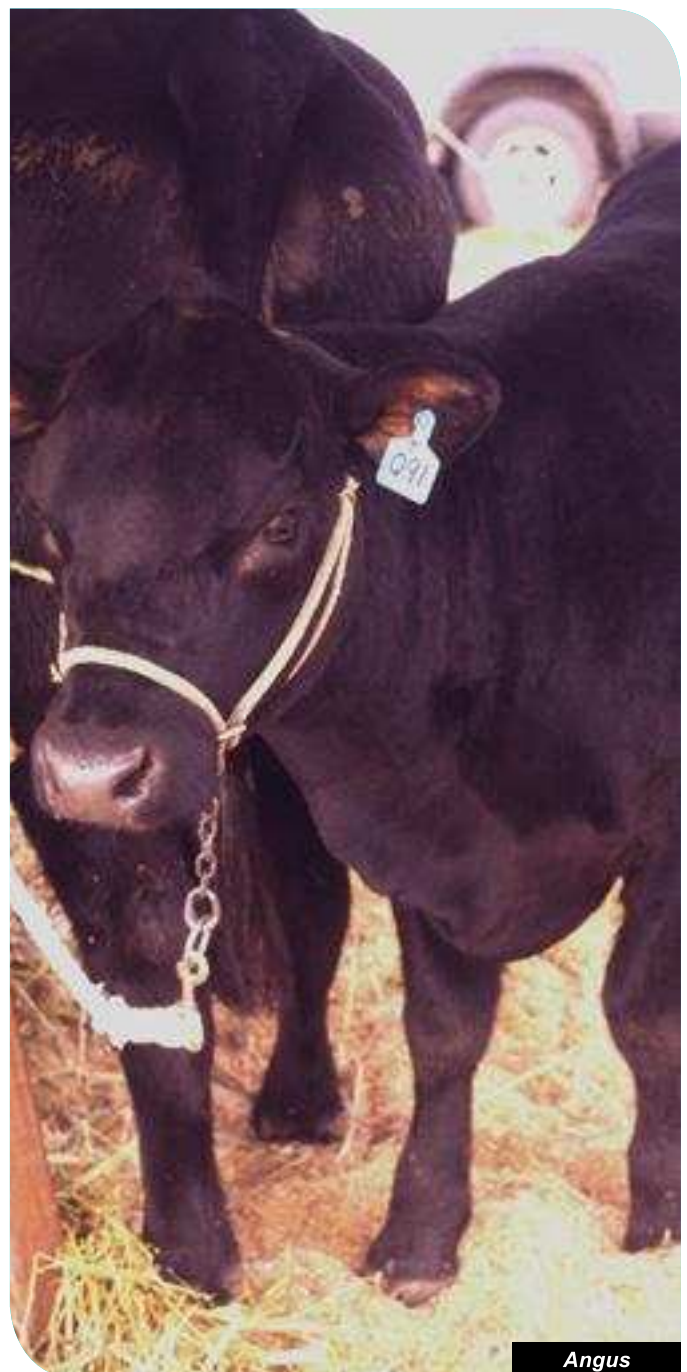
It is financially sound to take a slightly lower price at the beginning of a suspected drought than have to resort to shooting starving stock or watching them starve to death or die in bogs - neither of which is good husbandry practices.

It is not what you have (money, facilities, assets etc), it is how you use it.

You might, for example, produce a wheat crop year in, year out, because that is what you, and your father, etc. have always done. Is this the most effective return for your time, money, equipment and material inputs? In many cases farmers often get little or no return from all their efforts and inputs - they would have been better off not growing a crop at all, instead of utilising their resources to do something else, or saving them for better conditions, and the land may be better off in the long term after a year of rest. Usually it is better to expend more time and effort in those areas where you get the most returns, or look at alternative enterprises with potential higher returns.

Always be different - try to think laterally.

Just because everyone else in your area, and previous generations have all grown the same crops, or raised the same animals, doesn't mean you have to do the same things. Many of our farming enterprises, and production systems are based on those the early settlers brought with them from Europe. They may have been suitable for European conditions, but Australia is a lot different, particularly our generally low fertility soils, and lower average rainfall over much of the country. Why not look at other countries with similar climates? What crops are they growing successfully? What production methods are they using? What crops or animals are they experimenting with? What about crops or methods being used successfully elsewhere in this country? Are their crops or animal products that Australia imports, that could be readily grown here? Could you experiment on a small scale, without having to initially spend a lot of time and resources?



Angus

Look at ways to add value before your product hits the market

Each step in processing a product, can significantly increase its value. For example milling wheat to produce flour, will see an increase in value. Converting that flour into products such as pasta or bread will see another increase in value, as will further processing those products into a cooked meal (e.g. sandwiches, pasta dishes). Could you readily process your products in some way 'on farm' to get a significant increase in value. This may not require a significant investment in processing equipment, or the returns from purchasing or building such equipment may make such investments well worthwhile in only a few years. Further examples of value adding are discussed in the chapter on Alternatives.

Know what your business is.

Be sure you know what you are doing, or aim to do. Don't try and be all things to everyone. You will generally get better results concentrating your resources (time, money, equipment, etc.) on one, or perhaps two or three enterprises, than on many enterprises, otherwise you will find yourself running from one to another, and not doing justice to any of them. You might find yourself literally a jack-of-all-trades and master of none. Customers will generally prefer to deal with someone who is an expert in their particular field or enterprise.

YOU NEED TO GIVE PEOPLE A REASON TO SPEND MONEY WITH YOU RATHER THAN WITH SOMEONE ELSE.

Your product or service needs to be sufficiently different, or of better quality, be better marketed (e.g. attractive packaging), or you provide better service (e.g. follow ups, transport, advice, etc) than what competitors may provide to ensure customers choose you to provide the service or product.

Taking Risks

The old saying that "you can't make an omelette without breaking eggs" holds true when considering new enterprises. If new enterprises were easy, or didn't take a lot of time, effort and research then lots of people would try them. Be prepared to take risks, but make sure they are calculated risks. Ensure that you have done as much research as possible into any proposed enterprises, and that you are as aware as possible of things that could go wrong. Learn from other people's mistakes in the same or similar industries.

If possible have fall back plans. Could you use equipment, materials, etc. you have purchased for other things, rather than wasting them if the enterprise you are trying is not successful? It is generally a good idea to experiment at first. Try things in a small way, and see if you strike any problems, if so, can they be easily overcome. When you feel confident with what you are doing, only then consider expanding. This may be a step by step process, rather than jumping in feet first, spending a lot of time and money, only to fail.



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