



Theme 2: Farm Business Fitness

Introduction

- This theme is about getting farm businesses “fit for purpose” – to deliver the long-term profitability and lifestyle that individuals want and the industry needs to support its future.
- It is not about a business that survives, but about building a business that is flexible and able to ride the waves of volatility over time to be capable of harvesting the positives and minimising harm from the negatives.
- The concept of “fitness” can be compared to athletes who, even at the elite level are constantly searching for the research and technology that will give them an edge. And they have trusted coaches and advisers to support them towards their performance goals.

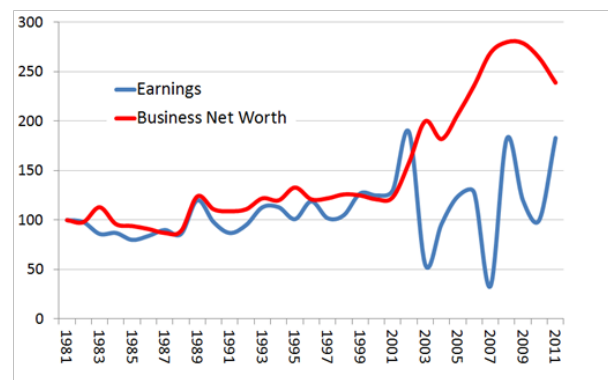
Where we have been

The majority of Australian dairy farm businesses have struggled over the past decade to manage volatility. Long term national data from the ABARES farm survey shows the increasing variability in farm cash incomes since 2000, reflecting increased market and climate volatility. There has also been an erosion in average dairy farmer wealth as land values in several dairying regions have stagnated or fallen.

The increase in volatility and uncertainty has led to a greater short-term view for farmers generally and an increased focus on price rather than margins.

Falling or stagnant milk production in exporting regions has led to increasing competition for suppliers – largely based on price, while manufacturers have sought to improve their own throughput and efficiency by including more incentives for farmers to flatten their supply. This has tended to increase farmers’ focus on choosing price options and the top line as the determinant of their profitability, and the basis for the confidence in the industry and its future. In some cases, the pursuit of flatter production incentives has built in additional fixed costs that have been difficult to manage volatility in returns.

Annual change in dairy enterprise performance, Australia 1991=100)



Source: ABARES

In fresh milk regions, the issues have been different, but the outcome has been similar. Climate-induced production losses and changes in processor ownership have led to the loss of manufacturing infrastructure. Processor business models that are focussed on slow growing fresh milk markets with increasing volumes of private label product at tight margins (being increasingly squeezed by retailers) have offered farms in these

regions little opportunity for growth, while requiring higher cost year-round production to meet market requirements.

While there continues to be much discussion about the opportunity for the Australian dairy industry offered by increasing global dairy demand, farmers are arguably less confident than ever. The market opportunity and the on-farm reality are disconnected.

Where we are going

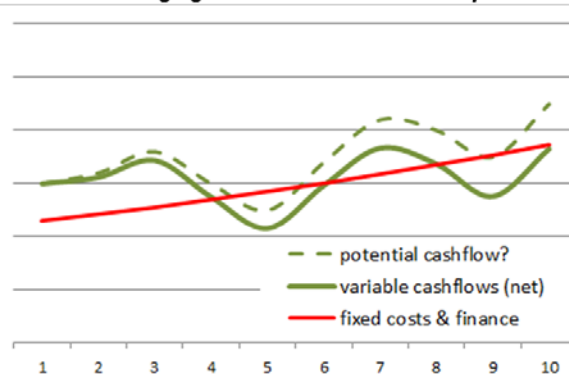
The Australian dairy industry is part of a global market, and will be in the future – whether our products are sold locally or overseas. For the majority of the industry, returns are influenced by the international market. As other dairying regions such as the EU and US seek to reform internal supports and engage with a growing export opportunity for their dairy products, prices paid to farmers around the world will continue to converge, as these regions increase their competitiveness. Commodity cycles are becoming shorter and sharper, as more dairy producers are exposed directly to international market signals and set themselves to respond.

It is inevitable that climate and market volatility will continue to be a feature of the Australian dairy industry into the future. In fact the likelihood is things will become more volatile – not less.

The challenge for the farm sector is to develop “fit” farm businesses that build wealth over time, and deliver a desirable lifestyle for families. The opportunity for the farm sector is that long-term global outlook and focus on food security will attract capital investment into food and dairy. This requires less of a short-term pre-occupation with prices and profitability year to year, but a longer term approach to managing the farm business margins and profitability over time.

To remain viable and grow into the future, farm businesses will need to be fit and flexible enough to manage both the highs of the commodity cycle and the downturns - to maximum value. Management decisions made during the inevitable market and climate downturns will need to be fit to minimise losses and provide a basis for a quick recovery. Increasing understanding of the key drivers of profit may assist in business fitness and flexibility.

Managing farm business for volatility



Questions for the workshop

1. What does “farm business fitness” success look like to you?
2. What are the most important farm business fitness issues for the industry?
3. How can we build the focus on farm business fitness on individual farms?
4. How can we build understanding of the key drivers for longer term margins for profitability?
5. What are the top 3 things the industry can do to develop fit farm businesses?