

Proper planning, adaptability key to farming successfully in volatile times

According to Standard Bank Senior Manager: Agribusiness, MC Loock, price inelasticity of demand for agricultural products makes farmers intrinsically agile, which gives farmers a clear advantage in managing the increasing volatility in their industry. Loock says: “Farmers are used to adjusting their operations on a daily basis in order to manage variations in short-term weather events and longer-term climate patterns. They've always operated in an environment in which markets and prices shift continuously, often without warning. And they're accustomed to constantly reworking their finances, whether for inputs, equipment, or capital expenses.”



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The adaptability is borne out by the Department of Agriculture, Fisheries, and Forestry's Economic Review of 31 December 2016.

The review states that gross farming income from all agricultural products increased by 12.7% for the year that ended 31 December 2016. In spite of severe drought conditions and production volumes dropping by 2.8%, net farming income increased substantially by 26.6%. The main driver for this was prices received by farmers for agricultural products increased on average by 16.8% whilst overall prices for farming requisites including machinery and implements, material for fixed improvements, intermediate goods and services only increased by 6.0%. This resulted in the strengthening of domestic terms of trade by 9.5% from 1.05% in 2015 to 1.15% in 2016.

Formalising the resilience of farmers

“Although many factors contribute to these positive outcomes, one of the most fundamental is the resilience of farmers,” Loock says. Loock believes that farmers can – and should – formalise that resilience, thereby automatically embedding sustainability into their operations. According to the review, the value of capital assets in agriculture showed an increase of 8.5% and is estimated at R427,790m, compared to R394,385m at the end of December 2015.

The farm debt for the same period increased by 8,9% to R144,981m resulting in a marginal increase in

liabilities ratio from 33,7% to 33,9%. The farm debt divided by the net farming income declined from 1.75 in 2015 to 1.5 in 2016. It is really this improvement in the industry's ability to repay debt despite tough agricultural conditions, that excites us.

Managing volatility with proper planning

Prosperity should not only be dependent on the staying power of an individual, but also on how they manage future uncertainties. This, however, requires effective management of volatility, which starts with proper planning.

“The basis of good planning stems from understanding your costs. If you know how much you must spend to get your product to market, then you automatically know what price you cannot afford to accept. In turn, this tells you for what market to plant,” says Loock.

With proper planning, a livestock operation will, for instance, be able to prepare for changes in the prices of inputs such as feedstock. Should the prices of the feedstock (maize) decrease and that of beef increase, effective planning will assist the farmer in making sensible decisions about the expansion of the cattle or to consider a different livestock enterprise. Of course in an ideal world, the farmer would be farming with cattle and maize in order to save on feedstock cost, take advantage of the different cost and profitability cycles and be able to absorb price shocks across the value chain.

For many farmers, price discovery for inputs takes place at least nine months ahead of the sale of a product, apparently making budgeting for profitability difficult.

Fix costs, fix income

“In actual fact, planning assists because it enables you to fix costs upfront and reduce them when the need arises,” says Loock. He further advises farmers to buy their inputs at the end rather than at the beginning of the season, to access lowest possible input prices and have a very precise idea of the lowest price you can accept for your product should the coming season be difficult.

Loock also recommends shopping around for the best end of season prices. “Don't simply buy from your usual supplier without comparing prices. The more competition you create among suppliers, the more likely you will be able to manage costs down,” he says. The review shows that prices paid for fencing material (5,7%), packaging material, animal health and crop protection (5,4%), fuel (4,7%), repairs and maintenance (4%), and fertilisers (3%) during 2016 all increased below the inflation rate for farm requisites.

Once farmers have fixed as many of their costs as possible and as early as possible, they should set about fixing their own income via contracts or use hedging to cover any outstanding variables.

Contracts give you the comfort of knowing before you plant that your prices will exceed your costs and that there will be profit. It also makes it easier to get production finance. It's important, however, to reserve some of your product for selling well into the next season. With the current grain surplus, it is inevitable that prices will remain bearish until the next production season, which bodes well for the livestock industry. Input prices for fuel and feedstock, as well as other factors such as the exchange rate cannot be predicted far in advance, but they can be hedged. A good hedging strategy will, therefore, consolidate your profitability.

Build in triggers to positively manage uncertainty

Weather patterns, too, are becoming increasingly unpredictable and extreme.

Loock says that it is possible to manage this kind of uncertainty positively. He advises that farmers should, in their planning phase, create a wide range of different scenarios that include all possible variables that could impact their business. Build in trigger or price levels at which they will need to reconsider their production plan in time to mitigate negative results. This process will also give them insight into ways in which they should be diversifying their business so that, in any given circumstance, they have the means to be sustainable.

He further advises farmers to be careful, though, of using price signals as the only trigger for randomly changing their production plan. Just because the price of potatoes soars this month does not mean it will stay at that level until you've had a chance to plant and harvest a crop.

Controlling supply costs

A recent but profoundly effective means of reducing the effects of volatility at farm level is the use of renewable energy and eco-intensive agriculture. It is important to take control of your own energy supply cost while increasing your independence of external organisations. Also, using natural inputs sourced from your own farm or your community lowers costs, improves your control over your operations, massively boosts your product's credibility with an increasingly environmentally aware consumer base, and positions you to fulfill your innate role as an environmental custodian.

At the moment, as statistics indicate, farming is still a generally profitable business to be in. By doing some planning and being prepared to innovate, you can ensure that, in your particular case, it remains so.

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