SmartCane Principles of Farm Business Management
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by

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“The SmartCane booklets will serve as a reference for growers and their advisors. They will also be used to demonstrate the commitment of the industry to profitable, yet sustainable sugarcane production.”
2. GLOSSARY OF TECHNICAL TERMS

Accrual method of accounting: Income and expenses are recorded when they are earned/accrued regardless of when the cash is received/paid.

Annuity: A series of uniform regular payments.

Balance sheet: A financial statement that summarises the assets, liabilities and net worth at a set date.

Benchmarking (or comparative analysis): The practice of analysing a business and comparing it to similar businesses whose records have been analysed the same way.

Book value: The depreciated value of an asset as recorded for tax or management purposes.

Break-even point: The level of production at which income equals expenses.

Budget: A cash flow budget is a statement showing forecast income and cash expenses. A profit and loss budget shows changes in net worth.

Capital expenditure: Payments made for assets above a minimum value ($300 for tax purposes) which will be used for more than 1 year.

Cash book: A book to record income and payments as they are received or made.

Cash method of accounting: Income and expenses are recorded as they are received or paid.

Current assets: Assets that will be used up within the next year, e.g. fertiliser on hand.

Current liabilities: Liabilities due within the next 12 months.

Depreciation: A non-cash expense that recognises the decrease in value of an asset due to age and/or wear and tear.

Discounting: Determining the value today of money that will be paid some time in the future.

Double entry accounting: A book keeping system where every transaction is recorded as a debit in one account and a credit in another account.

EBIT: Earnings Before Interest and Tax.

Equity: The owner’s ‘share’ of the business. Also called ‘net worth’.

Farm management deposits: A deposit scheme that allows farmers to set aside pre-tax income in good years for use in low income years.

Fixed costs: Costs that do not vary with the level of production.

Gross margin: Gross income less variable costs.

Inventory: A list of assets used for production and produce on hand, e.g. standover cane.

Market value: What an asset would bring if sold in a fair market.

Net worth: Total assets less total liabilities.

Non-cash costs: Costs which do not involve cash payment, e.g. depreciation.

Opportunity cost: The cost of using a resource based on the return from the next best alternative use of that resource.

Overhead costs: Costs that relate to the business as a whole and cannot be attributed to specific activities.

Owner’s labour: The value of work done by the owner of a farm or business.

Profit: In simple terms it is income minus expenses.

Replacement cost: The value of an asset based on the cost of replacing it.

Resource: Something used in the production cycle.

Risk: The chance of an unfavourable result.

ROI: Return on investment.

Salvage value: The value of an asset at the end of its useable life.

Share farming: When a farmer grows crops on another person’s land and shares the profit.

Total cost: Overhead costs plus variable costs.

Variable costs: Costs that change directly with production.

Working capital: Current assets less current liabilities.
3. INTRODUCTION

Farmers are multi-skilled; they need to be. As farm managers, they make daily decisions about what to plant, when to irrigate or spray, and how much fertiliser to apply. As farm business managers, they also make decisions such as ‘Should I buy or lease a new tractor? How many ratoons will maximise my profits? Have I sufficient reserves to withstand a period of low prices? Should I expand? When and how do I hand over to the next generation?’

Cane farms represent a large capital investment, often with a turnover of several hundred thousand dollars. Research shows that the most profitable farms often have similar costs per hectare to less profitable farms. What difference does good management make?

Farm business management has become increasingly important since deregulation of the sugar industry. It is about having the skills and information to make the best decisions. Information comes from financial and technical advisers and from the farmer’s own records and experience. Whether good decisions turn out to be right decisions often depend on factors outside the farmer’s control, such as weather or interest rates. However, sound farm business management will minimise the adverse effects of these external factors.

During the 20th century, many cane growers were able to rely on expansion to increase or maintain profits. The 21st century is different. Expansion is now not happening. Farm business management is one way for farmers to maintain profitability by fine-tuning their farming business. There are, however, restrictions on what a farmer can do and requirements for what a farmer must do. The Queensland Law Society Legal Guide for Primary Producers (available on the internet) seeks to give growers a broad understanding of the various State and Commonwealth laws that provide, in effect, a regulatory regime for farmers. The Queensland Government has recently imposed further regulation through the Great Barrier Reef Protection Amendment Act 2009. The implications of this are discussed in Section 16.

In Queensland it is necessary to have an agreement with the sugar mill so that the grower can supply sugarcane to the mill and to allow the mill to crush and to pay the grower for that sugarcane – this is known as the Cane Supply and Processing Agreement. In Queensland, this requirement is specified in the Sugar Industry Act 1999 as amended that says that a written agreement is required between a sugarcane grower and a sugar mill. Bargaining representatives are allowed and individual or collective agreements can be developed. This Cane Supply and Processing Agreement can be negotiated individually by you with the sugar mill, or groups such as CANEGROWERS can be your bargaining agent and provide aftercare and support for your agreement with the sugar mill.

In New South Wales, all cane suppliers must be members of the New South Wales Sugar Milling Co-operative Ltd and sign a Memorandum of Agreement (MoA). The MoA spells out the obligations of the supplier and the miller.

Also, a contract or agreement should be made and documented in writing for any people who do contract work on the farm. This includes harvesting contractors, contract planters, contract sprayers, etc. Contact a solicitor for more information.
4. MEASURING AND CHANGING PROFIT

In simple terms, profit is defined as income minus expenses; it is what is left after paying the bills. While there are more complicated definitions of profit, for the purposes of this booklet we will keep it simple.

Income is relatively straightforward, but expenses fall into one of three categories: overhead, variable or capital expenses. While many expenses have both an overhead component and a variable component (e.g. fuel for the farm ute is an overhead; fuel used by the tractor is a variable cost), it is easiest to classify them according to their major effect on profit.

Overhead expenses

Overhead expenses do not vary greatly with the level of production. They are sometimes called ‘fixed’ expenses. However, ‘fixed’ implies that they cannot be changed. Adding a second telephone line for a computer connection increases overheads, so obviously they are not ‘fixed’. Some examples of overhead expenses are insurance, rates, lease payments, interest, office expenses (including telephone, fax and computer), and permanent labour including the owner’s salary.

Overhead expenses also include the non-cash expense of depreciation. Depreciation is usually a major cost in farming. Depreciable items on a typical cane farm include sheds, tractors, implements, irrigation plant and farm vehicles. For an investment in equipment with a market value of $150,000, depreciation may be $10,000 to $15,000 per year. Depreciation allowed for taxation purposes may be higher.

Variable expenses

Variable expenses are those expenses that vary with the level of production. For example, doubling the area under cane means that fertiliser costs will double. Variable expenses include harvesting, levies, fuel, electricity for irrigation pumping, fertiliser, repairs and maintenance, pesticides, and casual labour.

Capital expenses

Capital expenses include purchasing land or machinery and major farm improvements, such as earth moving and clearing. These items are not included when calculating profit and loss as they add to the capital value of the farm.

Determining profit

Profit = Income - variable costs - overhead costs which include owner’s labour.

Using these definitions we can calculate any profit or loss from running the sugar business.

Which of these things (income, variable costs or overheads) affects profit most? The answer is, of course, ‘It depends’. For a farm with very high overheads (large lease payments, depreciation or interest payments), reducing overheads will have a large impact on profit. If variable costs are high, increasing production will only increase profit by a small amount. The following examples show the relationship between income, cost type and profits in one particular case.

The Toilers

Tom and Mary Toiler grow 8,000 tonnes of cane in North Queensland with a CCS of 13.5. Their costs of growing cane are:

- Overhead expenses of $80,000 per year including owner’s labour, depreciation and financing costs.
- Variable expenses of $20 per tonne (includes harvesting and all growing costs).

At a sugar price of $400/t and CCS of 13.5 their cane price is $34.78 per tonne and the profit is $38,240. Other costs and income that are not related to sugarcane should be ignored as they do not ‘belong’ to the sugar business.
If Tom and Mary grew no cane for a year they would still have to pay overhead costs (including owner’s labour, depreciation and financing costs) so the loss would be $80,000. If they grew 5,413 tonnes they would break even. So their ‘break even point’ is 5,413 tonnes. Each tonne produced above 5,413 tonnes results in $14.78 of profit (price of $34.78 - $20 costs).

**Increasing cane price by 5%**
- Overhead expenses of $80,000, including owners’ labour.
- Variable expenses of $20 per tonne.
- **Cane price = $36.52.**

When overheads are relatively small compared to gross income (29% of gross income in this case) reducing overheads will not have a dramatic effect on profit.

In this case a 5% rise in the price of cane ($1.74 per tonne) gives a large increase in profit. This is because all of the increase in income is reflected in profit while costs remain the same. (A decrease in price has an equally dramatic effect.) The break even point is now 4,843 tonnes with each tonne above this contributing a profit of $16.52.

The price of sugar is generally outside the control of growers, although in Queensland, sugarcane growers can participate in some forward pricing as part of price risk management, (see Appendix on page 32).

Even without forward pricing, growers can influence the price paid for their cane by maximising sugar content. At a sugar price of $400, an increase of one unit of CCS is worth an additional $3.60 per tonne of cane under the Queensland cane payment formula. One quarter of a unit will increase the price by 90c per tonne.

**Reducing overhead costs by 5%**
- Overhead expenses of $76,000 per year, including owners’ labour.
- Variable expenses of $20 per tonne.
- **Cane price = $34.78.**
Reducing variable costs by 5%
- Overhead expenses of $80,000 per year, including owners’ labour.
- Variable expenses of $19.00 per tonne.
- Cane price = $34.78.

Decreasing variable costs by a small amount has a significant effect on profit. In this example the break even point has reduced to 5,070 tonnes with each tonne over that contributing $15.78 to profit. In the original example variable costs account for 58% of income so even a small saving in input costs has a large effect on profit. Similarly a small rise in variable costs will have a large negative effect on profit.

Increasing productivity by 5%
- Overhead expenses of $80,000 per year, including owners’ labour.
- Variable expenses of $19.43 per tonne.
- Cane price = $34.78.
- Production: 8,400 tonnes (no increase in area).

If the Toilers increase productivity by 5% they will incur extra harvesting costs. However, if the per hectare costs such as irrigation, fuel and herbicides remain the same, then total variable costs are ‘shared’ by more tonnes resulting in a lower cost for each tonne. The result here is a 28% increase in profit.

The increase in profit is only 28% because harvesting costs and levies ($8 per tonne) make up 40% of the variable costs. As production rises, so do harvesting costs, even though other variable costs remain the same. It is important to distinguish between costs which vary per hectare and those which vary per tonne.

How can farmers improve profits?

Profit can only be improved by increasing income (production and price) or by reducing costs (overheads and variable costs).

To increase income, improve yields by ensuring irrigation, drainage, weed control and crop nutrition are optimised. Select varieties to maximise sugar per hectare. Harvest varieties at the right time to maximise CCS, consider leasing/buying more land and consider contracting (if equipment and timing are appropriate), e.g. fertilising, ripping, planting.

To reduce overheads, ensure that the best interest rates are obtained for the situation, dispose of unnecessary equipment or share equipment with neighbours (or use a contractor).

To reduce variable costs, soil test to determine fertiliser needs, minimise tillage operations to reduce fuel and repair costs, and reduce herbicide rates by spraying weeds when they are small.
Costs per tonne or per ha?

Overhead costs are costs that relate to the whole farm. Expressing them on a per tonne basis makes little sense, as these ‘fixed’ costs will vary per tonne as production goes up or down. Showing them on a per hectare basis does allow comparison between farms.

Most variable costs are incurred on a per hectare basis and should be expressed this way.

Consider two neighbours:

<table>
<thead>
<tr>
<th></th>
<th>Smith</th>
<th>Jones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cane area (ha)</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Cane yield (t/ha)</td>
<td>110</td>
<td>80</td>
</tr>
<tr>
<td>Total growing costs</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Growing costs/ha</td>
<td>$1,000</td>
<td>$1,000</td>
</tr>
<tr>
<td>Growing costs/t</td>
<td>$9.09</td>
<td>$12.50</td>
</tr>
</tbody>
</table>

Is Jones’s problem high growing costs or low production? This example shows how expressing input costs on a per tonne basis can be misleading.

Harvesting costs are different. They are incurred per tonne so it makes sense to express them this way.

Which hectares - harvested or cultivated?

The area cultivated for cane is the basis for the cane business. That should also be the basis for reporting any profit by the cane business. Using the harvested area to report profit gives an inflated result and makes comparison between farms difficult.

Cultivated or harvested hectares?

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivated area (ha)</td>
<td>120</td>
</tr>
<tr>
<td>Area harvested (ha)</td>
<td>100</td>
</tr>
<tr>
<td>Yield (t/ha)</td>
<td>90</td>
</tr>
<tr>
<td>Total growing costs</td>
<td>$110,000</td>
</tr>
<tr>
<td>Overheads</td>
<td>80,000</td>
</tr>
<tr>
<td>Harvesting costs/t</td>
<td>8.00</td>
</tr>
<tr>
<td>Cane price</td>
<td>$34.00</td>
</tr>
</tbody>
</table>

Profit:

- $367 per cultivated ha
- $440 per harvested ha

Opportunity cost

Opportunity cost is the opportunity or return that is ‘sacrificed’ when making a purchase or investment. When buying a new tractor for $120,000, the opportunity cost is the return not received by investing that money in say, a long-term deposit. If the long-term deposit is returning 6% pa, then the opportunity cost in buying that tractor is $7,200 per year. That does not make the tractor any less essential, but it does add to the cost of owning and operating it.

If the stock market has given an average return of 12% for the past 5 years, is 12% the opportunity cost? Not really. Because a tractor is a ‘safe’ investment, it must be compared to investments with similar risk, e.g. long-term bank deposits or government bonds.
5. KEEPING RECORDS FOR THE FARM BUSINESS

Good records turn data into information. A good records system will provide the information necessary to make decisions that lead to better management and profitability. Preparing a budget for planning purposes or for a loan application is easier and more accurate, if it is based on existing records.

Adequate records need to be kept for tax purposes and to comply with Workplace Health and Safety Legislation and Queensland Government Great Barrier Reef Protection Legislation. If an accountant is provided with a clear and accurate financial statement for the farm, much of the mundane work involved in preparing a tax return is removed. This allows the accountant to act as an adviser and not just as a bookkeeper or tax agent.

Computer or manual records?

While manual records can provide adequate information, they require much more time to maintain and use. Good farm records can be kept on computers. Retrieving information in the form of reports is very much faster with a computer-based system and the arithmetic is always correct.

Suitable farm records provide the information to help answer the following questions: How much does it cost to grow a plant crop? How much does it cost to grow a ratoon crop? How much will minimum tillage save? How many ratoons should be grown to maximise net returns? What is the gross margin per hectare?

Financial records

There is a wide range of computer software available that is suitable for keeping farm financial records. The Quicken® program is an inexpensive computerised cashbook that is both simple to learn and use (Figure 1). MYOB® (Mind Your Own Business) is a full accounting package designed specifically for small business.

An accountant should be consulted before a program is set up. Among other things, your accountant can provide a ‘chart of accounts’ used in maintaining the records. The chart of accounts is a list of income and expense categories. For tax purposes, some expenses are grouped, e.g. fertiliser and chemicals. Most programs allow categories to be split into sub-categories so that records can meet the needs of both the farmer and the accountant.

When choosing a financial recording package, it is important to choose one that allows identification of income and expenses from different enterprises, e.g. cane and cattle.

Income and expense categories will vary from farm to farm but the list in Table 1 should be useful as a guide.

Financial records must be accurate. They are used to make management decisions and to prepare tax returns. The only way to ensure financial records are accurate is to reconcile them against bank statements. Records should be reconciled each month. All accounting and cash book programs provide a reconciliation facility.

When reconciling at the end of each month, farm records will show an account balance reflecting all the transactions that have been entered. The closing balance on a bank statement will show transactions that the bank has processed by the statement date. The two balances rarely agree. This is because the bank statement will have items not yet recorded (bank charges, interest) and records will have items which have not yet appeared on the bank statement (cheques not presented or cleared).
Physical records

Physical records, such as cane yield, number of ratoons, and CCS, will assist in selecting the most profitable varieties for the farm. Yield information can also indicate problems in certain fields. Keeping soil analysis records helps build up a picture of how well soil fertility is being maintained.

Essential records to keep are:
- Cultivated area.
- Harvested area.
- Block areas.
- Variety and crop class by block.
- Cane yield for each block.
- CCS for each block.
- Time of harvest.
- Mill CCS when each block is harvested.
- Fertiliser applied.
- Lime, mill mud, dunder, etc, applied.
- Herbicide and insecticide applications.
- Irrigation amount and timing.
- Soil and water analysis results.
- Capital works, e.g. land grading.

These records allow farmers to calculate and compare gross returns from each block. Recording the number of cultivations and the price of inputs such as fertiliser and herbicides allows calculation of a gross margin for each block. Gross margin shows how much each block and variety is contributing towards farm profitability.

The BSES Limited *Paddock Journal* allows farmers to record all of these physical records (see Figure 2).
Figure 2: The BSES Paddock Journal records inputs and returns for each block.

<table>
<thead>
<tr>
<th>Pest Control</th>
<th>Nutrition Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pesticides (Herbicide, Fungicide, Insecticide)</td>
<td>Date of last soil test / / Yield of previous cane crop t/ha and CCS Target yield for next crop t/ha and CCS</td>
</tr>
<tr>
<td>Date</td>
<td>Products used</td>
</tr>
<tr>
<td>Date</td>
<td>Products applied</td>
</tr>
<tr>
<td>Date</td>
<td>Products Applied</td>
</tr>
</tbody>
</table>

*To convert from bags per acre to kg of product per hectare multiply bags/acre x 123.08
6. BUDGETING FOR PROFIT

A cash flow budget is a forecast of income and expenses. It shows where the farm is going financially, how it will get there, and any cash flow problems that are likely to arise.

A well thought-out annual cash flow budget will show the anticipated cash position at the end of the 12-month period. Income and expenses with cane farming are ‘lumpy’; they do not occur evenly through the year. Budgeting on a monthly or quarterly basis (Figure 3) shows when cash reserves are highest and when an overdraft may be needed.

For planning major purchases (e.g. more land) or to know where the business is headed in the longer term, preparing a 5 or 7 year budget will help. Writing a plan often helps clarify ideas. It also provides a physical document to consult or review as appropriate.

Financial institutions insist on a budget to ensure that borrowers are able to meet their loan obligations. Having a good set of farm records and preparing a comprehensive budget with an accountant will help gain the confidence of the lender.

As loan interest rates vary according to the risk perceived by the lender, a well-prepared loan application will assist in obtaining a lower interest rate.

Figure 3: Quarterly and monthly budgets show cash flows through the year.

The budgeting process

Uncertainty is not an excuse to avoid preparing a budget. Yields or prices cannot be estimated precisely, and major machinery expenses can come without warning. However, most managers do have some idea of what these things are likely to be. If the unexpected happens, the budget should be revised. That will at least show how much the cash flow and profit will be affected. The following steps will help in preparing a cash flow budget.

1. Estimate income
   - Cane income = estimated tonnes × forecast price.
   - Add other farm income such as the diesel fuel rebate, sale of other crops or livestock.
   - Add off-farm income such as interest, dividends and rent.

2. Estimate expenses
   - Start with last year’s profit and loss statement. Ignore any ‘one-off’ expenses.
   - Unless farm practices are changing, costs per hectare will be similar to last year.
   - Add any major purchases or non-routine expenses.
   - Estimate the personal drawings needed.

3. Allocate these incomes and expenses to the month or quarter in which they are expected to fall.

The cash flow budget is complete. Now deduct an estimate of depreciation to prepare a profit and loss budget. Again, base this year’s depreciation on last year’s figure with adjustments for disposal of old equipment and purchases of new equipment.

Profit and loss budgets

Ending the year with more cash than at the start of the year does not mean the farm has made a profit. Depreciation must be deducted. Depreciation is another cost of operating the business, but it is a non-cash or hidden cost.

Deducting depreciation from the cash flow result will give a forecast profit. If no cash flow budget has been prepared, profit and loss budgets can be based on annual totals rather than monthly totals.
7. Basing Decisions on Returns

How do farmers decide whether to buy another tractor, implement or more land? Will it help increase or maintain profits?

The decision should be based on how the investment will affect the owner’s profit and lifestyle.

For simple investments, a partial budget will show whether the investment is more or less profitable than alternative uses of the funds.

**Preparing a Partial Budget**

**Example:** Decision to purchase a fertiliser box.

Tom Toiler needs to replace his old 2-row fertiliser box. He has been thinking about changing to minimum tillage. His BSES extension officer told him that minimum tillage will not affect his yields, but spray costs will increase by $60 per hectare and fuel usage will decrease. A 2-row conventional box will cost $22,000 and a 3-row stool splitter will cost $27,000.

With partial budgeting, only those costs which will change with the proposal need to be considered.

Taxation effects have not been included and no cost is allowed for owner’s labour.

<table>
<thead>
<tr>
<th>Annual Costs</th>
<th>2-row Conventional Box</th>
<th>3-row Stool Splitter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultivation costs $/ha</td>
<td>104.00</td>
<td>nil</td>
</tr>
<tr>
<td>Fertiliser application cost $/ha (includes repairs and tractor costs)</td>
<td>59.10</td>
<td>39.30</td>
</tr>
<tr>
<td>Additional herbicide costs $/ha</td>
<td>nil</td>
<td>75.00</td>
</tr>
<tr>
<td><strong>Total cost per ha</strong></td>
<td><strong>163.10</strong></td>
<td><strong>124.30</strong></td>
</tr>
<tr>
<td>Cost over 35 ha of ratoons</td>
<td>5,709</td>
<td>4,351</td>
</tr>
<tr>
<td>Depreciation per year (over 10 years)</td>
<td>1,980</td>
<td>2,430</td>
</tr>
<tr>
<td>Extra opportunity cost 6,000 at 6%</td>
<td>nil</td>
<td>360</td>
</tr>
<tr>
<td><strong>Farm total</strong></td>
<td><strong>7,689</strong></td>
<td><strong>7,141</strong></td>
</tr>
</tbody>
</table>

Buying the 3-row stool splitter and using minimum tillage will save Tom about $550 per year as well as saving time.

**Economic Analysis of Farming Systems**

Economic analysis of the whole farming system can be done using the Farm Economic Analysis Tool (FEAT) developed under the Queensland Government-BSES FutureCane initiative. FEAT is a computer-based program designed specifically for sugarcane growers and allows growers to undertake a whole-of-farm economic analysis or to compare the economics of various components of a new farming system.

The tool provides accurate economic analysis because of the detail of the information entered into the program. Variable costs are based on details such as rates of chemicals, amounts of fertiliser and machinery operations for each crop class. Machinery operating costs are based on tractor size, fuel consumption, implement speed, width, field efficiency and repairs and maintenance. FEAT also calculates the tractor labour required for each farming system based on the work rate for each operation.

A comparison between the costs of different farming systems can be made by applying the current input prices. The cost comparisons are generated on a per hectare basis.

**FEAT** calculates gross margin and profit across the whole farm.
Dealing with more complex decisions

Other techniques are available for more complex situations:

- Return on Investment from profit plus capital gain - suitable for investments that produce steady returns and generate capital gain.
- Internal Rate of Return - used where returns are uneven and more than one capital injection is needed.
- Growth in Net Worth - compares the balance sheets at the start and end of the proposed investment period.

An accountant will be able to assist with these more complex techniques.

Risk management

For major decisions, the outcomes usually cannot be guaranteed. Investing in new irrigation equipment may turn out to be the correct decision, if it is followed by 5 years of drought. If it is followed by 5 wet years, it may have been a wrong decision. External factors may dictate whether decisions are right or wrong. It is the farm manager’s job to make a good decision based on the information at hand. A ‘decision tree’ can help identify the risks involved in major decisions (see Figure 4).

Tom and Mary Toiler farm in an area where rainfall is marginal. They are thinking of buying a water allocation and installing equipment at a total cost of $120,000.

![Figure 4: Decision tree for an irrigation investment](image)
They can purchase 135 ML of water per year. In a dry year, they would use 135 ML of water and produce an extra 1,300 tonnes of cane; in an average year, 90 ML and 800 tonnes; in a wet year, 30 ML producing an extra 150 tonnes of cane. They must pay for their allocation whether they use it or not. Water costs $80 per ML and pumping costs are $40 per ML.

They are worried that cane prices could fall. They have been advised that there is a 30% chance of cane prices falling from $40 to $32. Harvesting costs plus levies are $9 per tonne. All other costs will remain the same. Tom and Mary could invest in long-term bonds at 5% pa.

In figure 4, the additional income is calculated by (cane price minus harvest and levies) multiplied by additional cane tonnes. The additional expenses are calculated by (additional water allocation multiplied by fixed water costs) plus (additional water used multiplied by water pumping costs).

A positive total means that the proposal is ‘most likely’ to show a profit. A negative total means the proposal will probably result in a loss. As the opportunity cost ($120,000 @ 5% = $6,000) is less than the return from irrigation the decision to proceed with the proposal would be a good one. Whether it is the right decision will depend on cane prices and the weather.

### Table 2: Choosing the right benchmark.

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Definition</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tonnes</strong></td>
<td><strong>sugar per ha</strong></td>
<td>‘Hard’ numbers simple to calculate.</td>
<td>‘Rewards’ farmers on good soil ignores all costs and capital investment.</td>
</tr>
<tr>
<td><strong>Gross margin</strong></td>
<td><strong>per ha</strong></td>
<td>‘Hard’ numbers fairly simple.</td>
<td>Ignores overheads and capital. Requires adequate cost records.</td>
</tr>
<tr>
<td><strong>EBIT per ha</strong></td>
<td><strong>Earnings Before Interest and Tax</strong></td>
<td>Considers production and all production costs. Allows for fairer comparisons among farms and different crops.</td>
<td>Does not consider opportunity cost.</td>
</tr>
<tr>
<td><strong>ROI</strong></td>
<td>Return on investment</td>
<td>True return on capital. Allows comparison between different business types and investments.</td>
<td>Asset valuation can be subjective.</td>
</tr>
</tbody>
</table>

8. **BENCHMARKING**

How well is a farm business performing? How does the use of resources (including owner’s labour) compare to other farmers? How do farm costs and profitability compare? The only way to answer these questions is by benchmarking against other farms.

Benchmarking or comparative analysis is the practice of analysing a business and comparing it to similar businesses whose records have been analysed the same way. Farmers make comparisons all the time. Who had the best CCS last week? Which farm produced the highest tonnes of sugar per hectare last year? Where did my farm rank?

These productivity comparisons are useful, but they do not reveal anything about a farm business. How do costs and practices compare? Knowing how a farm ranks for profitability per hectare is more useful than knowing how it ranks for productivity.

**Which benchmark to use?**

Which benchmark to use depends on personal choice and personal needs. If labour is critical on the farm, then tonnes of cane per person is an important benchmark. In reality, a number of different benchmarks need to be considered (Table 2).
Which of these farms is the best ‘performer’?

Case 1

<table>
<thead>
<tr>
<th></th>
<th>Farm A</th>
<th>Farm B</th>
<th>Farm C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area</td>
<td>100</td>
<td>100</td>
<td>133</td>
</tr>
<tr>
<td>Cane t/ha</td>
<td>100</td>
<td>95</td>
<td>90</td>
</tr>
<tr>
<td>CCS</td>
<td>14.0</td>
<td>14.3</td>
<td>14.4</td>
</tr>
</tbody>
</table>

Farm A has the highest production per hectare.

Simple benchmarks such as tonnes cane/ha or tonnes sugar/ha show productivity but do not allow fair comparisons across different soil types and districts. An average yield on cheaper cane land may give a better financial return.

Case 2

Additional information:

- Sugar price: $300/t.
- Farm A has $100,000 more invested in sheds and machinery than farms B and C.
- Farm C requires greater fertiliser input.

<table>
<thead>
<tr>
<th></th>
<th>Farm A</th>
<th>Farm B</th>
<th>Farm C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price per tonne</td>
<td>27.58</td>
<td>28.39</td>
<td>28.66</td>
</tr>
<tr>
<td>Gross $/ha</td>
<td>2,758</td>
<td>2,697</td>
<td>2,579</td>
</tr>
<tr>
<td>Growing + harvesting costs/ha</td>
<td>1,500</td>
<td>1,470</td>
<td>1,550</td>
</tr>
<tr>
<td>Gross margin/ha</td>
<td>1,258</td>
<td>1,227</td>
<td>1,029</td>
</tr>
<tr>
<td>Overheads</td>
<td>60,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>EBIT/ha</td>
<td>658</td>
<td>727</td>
<td>653</td>
</tr>
</tbody>
</table>

Farm B is the most profitable farm per hectare; it has the highest EBIT per hectare.

Publicly listed companies show EBIT in their profit and loss statements. EBIT considers all costs (except interest and tax) and is easily calculated for most farms. Excluding interest and tax expenses allows comparison between farms with loans and those without and between businesses with different tax arrangements.

Case 3

Additional information:

- Farms A and B have similar land values.
- Farm C is on slightly poorer land and further from town.

<table>
<thead>
<tr>
<th></th>
<th>Farm A</th>
<th>Farm B</th>
<th>Farm C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment per ha</td>
<td>12,000</td>
<td>11,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Return on Investment %</td>
<td>5.5</td>
<td>6.6</td>
<td>7.3</td>
</tr>
<tr>
<td>Farm value</td>
<td>1,200,000</td>
<td>1,100,000</td>
<td>1,200,000</td>
</tr>
</tbody>
</table>

Farm C is the best investment; it has the highest Return on investment (ROI).

The one thing EBIT does not consider is ‘How much did the business have to invest to obtain that income?’ ROI shows the net return of the business as a percent of the value of the business. It allows comparison of the return from the farming business to other businesses and to other investments. An ROI of 6% means the business is returning 6% after all costs. A farm is an investment. One of the most important things to know about any investment is: ‘How much is it returning?’.
9. GOOD TIMES, BAD TIMES

The good times

Advice on how to maximise the benefits of good returns is just as important as advice on minimising the impact of low returns. How to structure the farm business during periods of favourable returns will affect how the business performs during periods of low returns.

Advice should be sought from an accountant and investment adviser on accelerating loan repayments, expanding the business, investing in Farm Management Deposits (these deposits reduce tax liability in years of high income and provide reserves for low income years), other off-farm investments, and tax advice. Pre-payment of allowable expenses may reduce tax liability. *Remember, the aim is to maximise after-tax profitability, not just to minimise tax.*

The temptation to overcapitalise with farm machinery should be resisted, as every dollar spent today on new machinery will increase overhead costs for the next 10-15 years. Joint ownership of major items, such as large tractors, planting equipment, earthmoving equipment, and implements used for only short periods such as rippers and trash rakes, should be considered. Sharing with just one neighbour can give most of the benefits of ownership at only half the cost.

The bad times - surviving low prices

Sugar prices are cyclical. The most important thing in periods of low prices is to maintain production. Costs should be cut only where they will not affect production.

A 5-year study of cane farm financial records showed that six key cost areas made up 80% of the total costs. They were harvesting, fertiliser and chemicals, fuel, repairs and maintenance, overheads, and labour. The study showed that controlling short-term costs, while maximising tonnes of sugar per hectare, achieved the best economic performance.

Good management practices should not be reduced. Cutting back will save costs initially, but may result in reduced yields and a longer recovery time when prices do improve.

Productivity can be maintained by controlling short-term costs, and good management practices are the best strategy for coping with low prices. The farm fertiliser program should be based on soil testing and seeking local advice. Many cane-growing soils have good reserves of calcium, magnesium, phosphorus and potassium. It may be possible to reduce inputs for several seasons without affecting yields. Spraying weeds early reduces competition and may allow lower herbicide rates to be used.

Fuel operations that will not affect productivity should be eliminated; work only to the appropriate depth.

Unnecessary expenses should be eliminated. The best interest rate for the farm and the most competitive farm insurance policy should be obtained, and operations should be rescheduled or contracted to reduce hired labour.

Financial management to survive low prices should include the following steps:

- Keep good records to allow assessment of the situation. A cash flow budget shows if the business will make a cash surplus or deficit and indicates what the peak overdraft may be. If the budget shows a deficit, this should be discussed with an accountant or financial counsellor.

- In times of low sugar prices, it is natural to feel stressed. Knowing and understanding the farm’s financial position will help. Advice from an accountant and bank manager should be sought and restructuring your loans should be considered.

- Farm financial counsellors can analyse the farm’s financial position and help with applications to the Rural Adjustment Authority. The Australian government and state governments provide various assistance schemes – contact Centrelink and the Queensland Rural Adjustment Authority or New South Wales Rural Assistance Authority for more information. Farm business management training is offered by state agriculture departments, TAFE, BSES and private providers. Subsidies for training are often available.
10. STRATEGIES FOR THE FUTURE
(WHERE IS THE BUSINESS GOING?)

Somebody has to be average, but it does not have to be you. It is very difficult to stand back from the pressures of everyday work and see the bigger picture. People are often so busy working in the business that they do not take the time to work on the business and on achieving their personal aspirations.

What are the goals for the business and for each person and what can be done to achieve them should be decided. It is important to involve the whole family in this process. The following guide may help.

Decide what the goals are. Is production to be increased by 10%, is more time to be spent with the family, or will retirement be in 5 years? Goals are different from wishes. Winning ‘Gold Lotto’ is a wish, but investing $10,000 each year in the stock market for the next 10 years is a goal.

Goals should be SMART goals. SMART goals are:
- **Specific** - e.g. to increase production by 10%.
- **Measurable** - e.g. ‘being healthier’ is not measurable, but exercising three times a week is.
- **Agree** - Have other people directly affected by this goal agreed to it?
- **Realistic** - Can this goal be achieved realistically?
- **Time** - Set a time to achieve the goal by, e.g. retire in 5 years.

After setting goals, take stock of your present situation before deciding how to achieve those goals. A SWOT analysis is a good way to review your present situation. The SWOT analysis lists the strengths, weaknesses, opportunities and threats to the business (Table 3).

After identifying the strengths, weaknesses, opportunities and threats relating to the farm business, decisions can be made about each of these items. Not everything can be changed.

**Strengths**: Which of these strengths help achieve the goals? For example, if machinery and time are adequate, can more land be bought or leased to increase production?

**Weaknesses**: What can be done to overcome these weaknesses? For example, if the farm’s productivity is not in the top 25% for the soil type, what can be done to improve it?

**Opportunities**: What opportunities outside the farm can be taken advantage of? For example, can contract ripping or fertilising be provided to other farms in the district? Is there other land that can be leased or bought, or are there other off-farm investments?

**Threats**: What can be done to reduce exposure to threats outside the farmer’s control? For example, does the farm have reserves to carry it through periods of low price?

**Table 3**: SWOT analysis.

<table>
<thead>
<tr>
<th>Things within the business</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td><strong>Weaknesses</strong></td>
</tr>
<tr>
<td>What makes farmers and their farm business strong and competitive?</td>
<td>In what areas do the farmer and the farm perform poorly or below potential?</td>
</tr>
<tr>
<td>e.g. fertile soil, good production record</td>
<td>e.g. low production in dry years, overcapitalised</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Things from outside the business</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunities</strong></td>
<td><strong>Threats</strong></td>
</tr>
<tr>
<td>What opportunities exist to develop the farm business?</td>
<td>In what areas is the business vulnerable?</td>
</tr>
<tr>
<td>e.g. a nearby farm is for sale, adopting new technology</td>
<td>e.g. low prices, interest rates</td>
</tr>
</tbody>
</table>
This process details the current situation. Now goals need to be reviewed and decisions made on how to achieve them.

Goals probably will not be achieved by a single action. There may be several ways to achieving each goal. Each of these represent a strategy. If a goal is to increase income, possible strategies are to increase productivity and to farm more land.

Achieving each strategy will require a series of actions. For example, if a strategy is to increase profitability by buying more land, it may include the following actions:

- Discuss with an accountant whether the investment is worthwhile. If the answer is ‘Yes’:
  - Prepare a cash flow budget which includes costs and income from the new land.
  - Negotiate with the seller.
  - Prepare a loan application for your bank.

Prepare a plan of action for each strategy. The following framework may be useful.

Management is about setting goals and making and implementing decisions to achieve them. Goals are not just about profits and acquisitions. Personal and family goals are even more important. The difference between ambition and happiness needs to be considered. Ambition is getting what you want. Happiness is liking what you get.

Goal:
e.g. To increase profitability.

Strategy:
e.g. Purchase a nearby farm which is for sale.

Action Plan:

<table>
<thead>
<tr>
<th>Action</th>
<th>Date to complete by</th>
<th>Person responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
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<td>4</td>
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<tr>
<td>5</td>
<td></td>
<td></td>
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<tr>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Making best-practice decisions

Deciding which farming practices are best management is not easy. Information can be gained from many sources, but what is needed are individualised recommendations for each farming enterprise that help improve productivity, profitability and sustainability.

BSES’s Farm Productivity Assessment (FPA) program is an on-line tool that brings cane growers and extension officers together to develop a personalised farm management plan. It works through seven steps:

1. **Documentation of current farming practices.** This requires the grower to answer a series of questions on 10 areas of crop production: productivity, planting, irrigation and drainage, nutrition, weed control, pests and diseases, varieties, harvesting, farming systems and sustainability.

2. **Data entry.** Done on-line by the extension officer and produces a draft report.

3. **Farm visit.** The extension officer visits the grower’s farm, providing the opportunity for the grower to showcase the farm and any problem areas. It also allows the extension officer to collect further information and clarify any questions, as well as discussing the draft report with the grower.

4. **Final report.** Completed by the extension officer.

5. **Presentation of recommendations.** The extension officer presents the report and discusses the recommendations with the grower. Together, they develop an action plan.

6. **Ongoing assistance.** Extension officers are often called upon to explain recommendations, help the grower locate appropriate equipment, or give advice on evaluating outcomes of the changes.

7. **Follow-up.** The entire process should be repeated once the recommendations have been implemented. It allows for analysis of the impact of the changes and provides further direction for improvements to farming practices.

FPA comes with an inbuilt benchmarking tool that compares all growers in the region. This does not identify individual growers or farms, ensuring that all information remains confidential.
11. BORROWING

Capital is just one of the resources every farming business needs. If there is a shortage of a resource such as labour, one solution is to hire more labour. If there is a shortage of capital resources, the answer may be to hire capital. ‘Hired’ capital is a loan; the interest rate is the hire fee.

Farmers borrow for a number of reasons: to improve the efficiency of the business, e.g. installing irrigation equipment; to continue operating in difficult times; to expand the business, e.g. buying more land.

Borrowed funds need to generate extra cash flow or net worth for the business.

Whether a loan is justified depends on how much extra income and expense will be generated. Preparing a long-term budget will help answer this question.

To borrow or not to borrow?

A large loan is an added responsibility. In favourable times, financial gearing is likely to increase returns. In adverse times, it may have the opposite effect. If a large loan is being considered, the following steps may help in deciding whether to borrow and how much to borrow.

(1) **Determine the current financial position.**
Prepare a Statement of Assets and Liabilities and a Cash Flow Statement. These statements will show the current debt status and how well a business can meet its present obligations.

(2) **Determine the tax implications of the loan.** Seek advice from an accountant. Do not confuse tax deductions with tax saved. Remember the goal should be to maximise profits, not minimise tax.

(3) **Decide if the investment justifies the loan.**
See section 7 on page 12 on ‘Basing decisions on returns’.

(4) **Work out the risks.** Can the farm still meet loan repayments if the price drops by 20% or if crop yields drop 20%? What if both yield and price drop? Preparing a budget on a suitable computer program makes it easy to answer these ‘what if’ questions.

(5) **Decide on the term and type of loan.**
Do not use short-term financing, e.g. overdrafts, to finance long-term projects. The life of the project should determine the term of the loan. The bank manager can advise on the types of loans available.

**Getting the best interest rate**

Applying for a loan is like putting a business proposition to a potential partner (the bank). Any proposition (application) has to be considered from the bank’s point of view. How well the case is made will determine whether the loan is approved and what interest rate is charged. When assessing farm loan applications, lenders consider the following:

- What will the loan be used for?
- Is the borrower someone with whom they want to do business?
- How risky is the industry? Irrigated sugarcane or dryland wheat?
- How risky is the business? Is the farm viable with a sound history of production and financial responsibility?
- How easily can the business repay the loan?
- What security is offered against the loan?

The interest rate charged will be the bank’s basic lending rate plus a premium for the risk perceived by the bank. What premium is charged depends largely on the farm’s situation and how well the case is presented. If additional land or equipment is being bought, the additional costs as well as the additional income that will be generated needs to be spelt out. An accountant should be consulted before the bank manager.
12. TRANSFERRING THE FARM TO THE NEXT GENERATION

Farming is mostly a family business. There is often a strong desire to ‘keep the farm in the family’ as one generation retires and the next generation takes over. Despite the best of intentions, the issue of ‘handing over the farm’ can cause great friction between family members if not handled the correct way. This is because each family member will have different expectations and concerns. Other family members are often not aware of these expectations and concerns.

The keys to successful farm transfers are good communication between family members, respect for each other’s expectations, and a willingness to work through the issue together. Fifty per cent of communication is listening.

“We’ve never spelt it out but everyone understands what will happen when we decide to retire.”

These words should ring alarm bells, loudly. What does everyone understand? Does ‘when we retire’ mean at age 90? If the whole family has not discussed this together, then some family meetings are needed.

Someone who will be seen as neutral should be asked to facilitate the meeting. An accountant, solicitor or a professional mediator would be a suitable person. At the meeting/s, each person should describe their expectations about how the farm will be passed on. This includes the following questions: Who wants to remain on the farm in the long term? Who wants a career outside the farm? Who has contributed to the farm through unpaid or low-paid work? What does everyone see as their ‘stake’ in the farm? When would the present generation like to retire? When would the next generation like to assume control?

Hearing the answers to these questions may produce some surprises, particularly if farm transfer has not been discussed before. It is usually a good idea to let everyone ‘digest’ what has been said at the meeting before getting together again. It may be that no one wants to remain on the farm.

The aim of the second meeting is to develop and explore some options together on what can be achieved and how it might be done.

After working out some broad strategies, it is time to talk to an accountant. Capital gains tax can have an effect similar to death duties. Without proper financial planning, the next generation could inherit a substantial debt along with the farm. At the next meeting, the accountant should describe the financial and tax implications of the different options the family is considering. The issues here include: What is the most tax effective way to hand over the farm? This should consider family members who do not wish to remain on the farm. How can the retiring generation best use superannuation to provide income during their retirement?

The family must now decide on an agreed plan and work out how and when to implement it. As circumstances change in the future (e.g. marriage of a son or daughter), it may be necessary to modify the plan.
13. BUSINESS STRUCTURES

Farm business entities fall under two main options:

1. Unincorporated entities, such as sole traders, partnerships, some joint ventures and trusts.
2. Incorporated entities, such as proprietary companies, public companies, cooperatives and incorporated associations.

Which type is most appropriate depends on the type of business, the size of the business, the intended ownership structure, the anticipated capital and financing needs of the business, taxation and other practical issues. Legal advice should always be obtained before attempting to establish any business entity.

There are major benefits from incorporation as a company, including:

- Separate existence – the company has its own rights and obligations separate from those of its directors or owners. This generally removes personal responsibility for the company’s obligations from the directors and owners.
- Perpetual succession or existence – the owners may change, but the company continues to exist as a legal entity until it is liquidated.
- Limited liability – corporate debts and obligations are those of the company, and the shareholders or members are liable only to the extent of their fully paid-up shares or to the amount they have guaranteed to the company.

A sole trader is the simplest form of business entity and is typically chosen when the person who runs the business owns the business and makes all of the decisions. However, the personal liability for debts of the company is unlimited, the business is taxed at the marginal income tax rate, and the entity does not survive the death of the individual.

Partnerships exist when two or more persons or entities carry on a business together. Partners generally share equal personal liability for all debts of the partnership, and state legislation outlines the scope of the partners’ obligations and liabilities to each other (Partnership Act 1891 in Queensland).

Joint ventures are typically ‘one-off’ business ventures where parties enter into an agreement to carry-on a specific business enterprise. Control and management will usually be stipulated in a joint-venture agreement.

Trusts enable property to be held by a person or company, the ‘trustee’, for the benefit of another person or entity, the ‘beneficiary’. The trustee is responsible for the management of the trust and must act in good faith and in accordance with the trust document for the benefit of the beneficiaries and the trust business.

Proprietary companies are private companies suitable for small to medium sized businesses. They have no more than 50 shareholders, have restricted rights to transfer shares, and have no ability to make capital raisings. They do not have to hold annual general meetings and may pass resolutions without meeting.

Public companies can be of unlimited size, there is no restriction on the right to transfer shares, and can issue shares, debentures or other instruments to the public to raise capital. They may be listed on the stock exchange or unlisted, but must comply with the fundraising provisions of the federal Corporations Act 2001.

Cooperatives are suitable for businesses that provide services to their shareholders as members, rather than operating to distribute profit to them. Nonetheless, members benefit financially as a result of the services provided. Cooperatives are governed by state laws (Cooperatives Act 1997 in Queensland, Cooperatives Act 1992 in NSW) and have a set of rules designed for each cooperative rather than a constitution.
Share farming and leasing

For many Australian cane farmers a second job is simply taking on the farm next door or down the road. Their ‘second job’ is share farming or leasing another farm. Both are ways of growing more cane without taking on the expense of buying extra land or machinery, and allow growers to spread their risks over different soil types, rainfall areas, etc.

Three different arrangements are used:
(1) Rent is based on a percentage of the gross income.
(2) Rent is based on a percentage of net income after harvesting.
(3) Fixed rent per hectare.

BSES extension officers have developed a spreadsheet that calculates returns across different yields, costs and income splits. This can be used to compare different arrangements.

With most arrangements the lessee or share farmer takes on most of the risk associated with low prices and poor seasons. There are several ways of spreading that risk. One method is to have a sliding ‘rent’ scale that varies with the sugar price, say 8% in low-price years to 15% when the price of sugar is high. Splitting income after growing and harvesting costs gives more protection to lessees and sharefarmers in low-price years and provides landholders with a better return in good years.

For landholders some of the advantages to leasing out the farm or taking on a sharefarmer are:

- Maintains productivity, which maintains the value of the farm.
- Keeps the owner’s options open, e.g. a child may return to the farm.
- Reduced local government rates on agricultural land (important for rural lifestyle blocks).
- No GST payable on the sale of agricultural land.
- Capital gains concession on agricultural land.
- Land tax concessions on agricultural land in Queensland.
- Cane supply to mills is maintained.

14. INSURANCE

Farmers are making daily decisions about their business operations. Cane farms represent a large capital investment with assets and liabilities that need to be protected for the continuing viability of the business.

The purchase of insurance is the means by which a cane farmer can spread the risks that he/she can’t absorb in the normal course of business. The loss of an uninsured asset or incurring a liability for injury or damage to a third party could have catastrophic financial consequences.

Insurance is a business expense through which the payment of a premium to an insurer takes place in return for the transfer of the risk from the cane farmer to the insurer with respect to specified assets or liabilities in the situation where certain insured events take place.

As with other decisions related to the cane farming operation, identifying the risk is the most important step in risk management. This is a crucial area of activity and responsibility for the farmer to identify the major risks and then to evaluate which of these risks need to be minimised through the strategic and structured purchase of insurance protection.

Cane farmers may wish to consider accidental fire insurance to cover the cane crop. Such insurance cover, depending upon the level of indemnity selected, would either underpin the costs incurred to establish the crop or the estimated income that such cane would provide on successful delivery to the mill for processing.

Consideration should be given to property insurance to cover the risk of property loss with respect to farm dwellings and contents, farm buildings, machinery, plant and equipment. Motor vehicle insurance for cane harvesting, cane haulage vehicles, tractors, farm machinery and implements, utilities and farm trucks is essential. Issues of particular importance relate to whether the farm vehicle, machinery or plant is being purchased by lease or hire purchase arrangement which will require the financier to be recorded on the insurance policy for their respective rights and interests.
15. **MANAGING FARM SAFETY**

Australian agriculture has one of the highest rates of workplace injuries. Occupational Health and Safety (OHS) Acts and Regulations are similar in both Queensland and New South Wales in that they lay down the responsibilities of key parties involved in reducing risk of injury and illness associated with work.

Responsibilities of employers include:

- Consultation with employees to implement an OHS program.
- Provision of a safe working environment.
- Organisation of safe systems of work.
- Maintenance of work areas, machinery and equipment in a safe condition.
- Ensuring safe use, handling, storage and transport of machinery and hazardous substances.
- Assessment of health and safety risks to employees and others in the workplace, and institution of effective risk control measures.
- Provision of adequate information, induction, instruction, training and supervision to employees.
- Provision of adequate facilities for the welfare of employees.

Employees also have responsibilities. Employees must take reasonable care of the health and safety of themselves and others, and cooperate with management in its efforts to comply with OHS requirements. Employees and self-employed people must ensure the health and safety of people visiting or working at their places of work, who are not employees, by not exposing them to risk. This responsibility includes contractors.

The key steps that must be set in place to manage OHS risks are:

- **Consult with employees** – There must be systems for employees to participate in the OHS program of your business.
- **Identify hazards** – Safety hazards must be identified in a systematic way.

Farm liability insurance will protect the business owner in the event of a liability to a third party who has suffered a personal injury or damage to property as a consequence of negligence on the part of the farmer.

Cane farmers with employees must ensure that the business has a workers’ compensation cover to protect the employees in the event of bodily injury or disease arising out of and in the course of employment. Workers’ compensation insurance protects the employer’s liability for medical costs to treat the injured employee, payment of wages during the employee’s incapacity and costs associated with rehabilitation activities. Workers’ Compensation provides for death benefits and lump sum benefits in particular circumstances.

CANEGROWERS specialises in solutions for cane farmers’ insurance needs through the Canepol Insurance Scheme. This on-farm service through a preferred insurer model combines group purchasing of insurance for on and off-farm assets and liabilities. Canepol provides insurance policies affording broad coverage at competitive premium costs and is supported by a personalised claim service. Obligation free advice from salaried insurance professionals is available to cane farmers.

For more information simply contact your local CANEGROWERS office.
• **Assess risk** – Risks associated with safety hazards must be assessed.

• **Control risk** – Risks must be controlled to prevent injury.

• **Keep records** – Records of the above processes must be kept.

One of the most important hazards is the use of farm chemicals. The *Rural Chemicals Code* for the use of chemicals on farms was released in January 1994. This Code provides growers with the flexibility to continue to use agricultural chemicals in a safe and reasonable manner without undue bureaucratic regulation. It also gives the general public the legislation they have been seeking to assure them that chemicals are being used safely.

The *Workplace Health and Safety Act 1995*, under which the Code was written, says that in going about your business you must do what is ‘reasonable’ to protect the health and safety of yourself, your workers and the general public. Deciding what is reasonable is the sort of thing that you do all the time.

When using agricultural chemicals, the local environment, the weather and the chemicals being used are all part of your decision whether or not to spray and the manner in which spraying takes place.

The *Rural Chemicals Code* contains guidelines to determine what is reasonable. But in the end it is the decision that you make by which it will be judged if your actions are reasonable or not.

This is where records come in. If you record your spraying decisions at the time you are making them it will be a lot easier, if there is a problem later on, to explain what you did and why you believed it was a reasonable course of action at the time. Keeping records of chemical applications may not be the most pleasant job on the farm, but if there is a complaint about the use of chemicals you will be very glad you have a set of records which are complete, were filled out at the time of application, and which demonstrate that you thought carefully about the job before you started spraying. Of course a good set of records is always an invaluable aid to memory too and is required under the recent Reef Regulations.

The sugar industry has worked with OHS experts to develop a hazards checklist. This is available at www.canegrowers.com.au. The package assists in managing health and safety for the most important agricultural resource, those people who work and live on Australian farms.
16. OBLIGATIONS UNDER THE REEF LEGISLATION

In late 2009, the Queensland Parliament passed the Great Barrier Reef Protection Amendment Act 2009 that targets improved water quality in streams flowing into the Great Barrier Reef lagoon. This has significant implications for cane growing in the three priority catchments – Mackay-Whitsunday, Burdekin Dry Tropics and Wet Tropics (areas from Sarina north). Cane farming in these catchments is deemed to be an Environmentally Relevant Activity (ERA). This means that growers in those catchments must:

1. Not use or prepare a registered ERA product (agricultural chemical) for carrying out an agricultural ERA other than in a way that complies with the prescribed ERA conditions for the product.

2. Not apply nitrogen or phosphorous in excess of the optimum amount based on soil testing and a calculation using the Government approved method.

3. Keep all records relating to agricultural chemicals, fertilisers and soil ameliorants for at least 5 years and produce these records when requested by Government. There are fines for not producing or keeping these records.

In addition, if a Cane Production Area (CPA) for sugarcane is 70 hectares and above in the Wet Tropics, the grower must develop an Environmental Risk Management Plan (ERMP) that at least:

1. States the person who prepared the plan, the agricultural ERA that is the subject of the plan, the person carrying out the ERA, a description of the relevant agricultural property, and the period for which the ERMP applies.

2. Identifies any hazards of the property that may cause the movement of contaminants (especially fertiliser or agricultural chemicals) into water entering the Reef.

3. Includes measurable targets and performance indicators for improving the quality of water being discharged from the property.

4. Includes a management plan for the application of agricultural chemicals, nutrients and sediment loss.

5. Provides for any matter that is reasonably necessary to reduce the impact of the agricultural ERA on the quality of water entering the Reef.

ERMPs must be accredited by the Department of Environment and Resource Management (DERM) and the grower must comply with the management plan. The grower must provide an annual report about the implementation of the ERMP. There are substantial fines for non-compliance. Further information about the process and requirements is available on the website www.reefwisefarming.qld.gov.au and from DERM (www.derm.qld.gov.au) and in the legislation (www.legislation.qld.gov.au/LEGISLTN/ACTS/2009/09AC042.pdf).

CANEGROWERS and BSES have developed a number of useful tools to help growers undertake best management practice. Additionally, these tools also comply with the requirements of the reef regulations. These tools include:

- CANEGROWERS Farm Chemical Record Book – for keeping records of chemicals used.
- BSES Integrated Weed Management.
- BSES Weed Management Plan.
- BSES nutrient calculator for Six Easy Steps (available on the internet).
- BSES Six Easy Steps booklets and training courses.
- CANEGROWERS/ Ravensdown Analytical Research Laboratories (ARL) Sugarcane Soil Sampling Kit.
- CANEGROWERS Farm Nutrient Record Book – for keeping records of nutrients applied.
17. TRAINING AND TOOLS

Education is about improving experience and skills. It comes from many sources, not just formal courses and training. Field days, farm bus tours and seminars are valuable learning opportunities. They should be used to advantage.

Farm business management training is offered by state agriculture departments, TAFE and private providers. Subsidies for training are often available. Farmers should make use of training when it is offered. The following topics may be useful: FEAT, pesticide application, herbicide management, GrubPlan canegrub control, Six Easy Steps nutrient management program, basic computer training, farm record keeping, budgeting, understanding and making use of weather forecasts, developing a farm plan, preparing a business plan, and environmental management.

Many tools have been developed to assist growers in making good business decisions in hand with good management decisions that minimise off-site impacts.

**Nutrient management** guidelines for sugarcane production in Australia have been modified over the past 10 years. The need for change occurred with a realisation that nutrient management should no longer only target sugarcane yields, but should be aimed at sustainability. Research has led to a better understanding of soil types and appropriate nutrient application rates, resulting in the nutrient management guidelines being more soil-specific by taking into account basic soil attributes such as colour, texture, position in the landscape, and chemical properties. These modified guidelines have been incorporated by BSES into a grower friendly nutrient management program the SIX EASY STEPS approach:

1. Knowing and understanding your soils.
2. Understanding and managing nutrient process and losses.
3. Regular soil testing.
5. Checking on the adequacy of nutrient inputs (e.g. leaf analyses).
6. Keeping good records to modify nutrient inputs when and where necessary.

BSES regularly runs Six Easy Steps workshops for growers to help them develop appropriate nutrient-management programs.

**GrubPlan** is a coordinated approach to training growers and advisory staff in the management of greyback canegrub by integrating all control options. BSES’ *GrubPlan* booklet presents various ‘pillars for grub management’, including insecticide and management controls. These are supported by information on identification, monitoring, risk assessment and decision making. A similar program is available for southern species of canegrubs that differ in their behaviours and biologies.

**QCANESelect™** is a web-based variety information resource and variety decision-support tool developed by BSES. It contains the most up-to-date information on sugarcane varieties and diseases. By clicking a soil class, diseases of concern, preferred seasonal sugar and management issues, a grower can obtain a list of varieties suited to the nominated situation. The tool also has a facility to develop whole-farm plans that allow growers to reduce on-farm risks associated with diseases and other threats. **QCANESelect™** is available through the BSES website (bses.com.au).

**ChemCert** is a course designed to help cane growers to easily receive valuable knowledge and accreditation in the use of registered chemicals, and is nationally recognised and widely endorsed by agricultural organisations, including the National Farmers Federation. It is designed to help growers by a self-assessment workbook. The aim of the program is to help individual participants improve their farm business - financially and environmentally.

**COMPASS** workbooks enable growers to rate farm performance against established standards and identify areas in their business that may need improving. This process helps participants to make targeted plans that maximise farm profitability and minimise off-site environmental
impacts. It is available through the BSES website (bses.com.au).

**Farm Productivity Assessment** or FPA is a farm improvement toolkit developed by BSES for use by extension officers in partnership with the grower. It audits business processes (farming practices), through an easy question and answer exchange and event and action process. The result is a comprehensive assessment of farm practices and an individualised and tailored productivity improvement plan. FPA focuses on farming practices where there is a potential for productivity gain.

These include:

- Varieties.
- Planting methods.
- Soil conditioners and ameliorants.
- Weed control.
- Pests and diseases.
- Harvesting.
- Irrigation and drainage.
- Farming systems change.
- Fertiliser use.
- Sustainability considerations

FPA does three things:

1. It helps sugarcane growers to identify and improve farm practices and increase productivity and profit.
2. It uses innovative technology to monitor and measure the improvement over time.
3. It shows to the wider community that we in the sugar industry are committed to responsible and sustainable farming.

**Farm Economics Analysis Tool** (FEAT) was developed by the Queensland Government to help sugarcane growers assess the profitability of changes to their farming system. The spreadsheet is simple to use and is available from Department of Employment, Economic Development and Innovation (DEEDI).

**CANEGROWERS Driver Work Record Time Sheet** booklet is an easy to use booklet to help manage driver fatigue, manage farm safety and keep records. This is available by contacting CANEGROWERS. This booklet also complies with Queensland Government’s transport fatigue management regulations.

**Water Quality Monitoring in the Australian Sugar Industry Field Guide** is an easy to use field guide to show some ways to test the quality of water. This is available on the CANEGROWERS website www.canegrowers.com.au or by contacting CANEGROWERS.

**Safety Guidelines for Harvesting and In-field Transport of Sugarcane** – a booklet and DVD for safety issues associated with harvesting and siding management.

**Fair Work Information Booklet for Agricultural Producers** was produced by the National Farmers Federation to provide information for primary producers who wish to employ workers. This is available on the internet including on the CANEGROWERS website.

There is a range of information on sugarcane wages and employment awards available on the CANEGROWERS website www.canegrowers.com.au.

CANEGROWERS also has available Time Sheets and Time and Wages Records as well as contracts for employment for employees and grower harvesters.
18. THE FARM OFFICE

A farm office allows processing of accounts and recording, storing and retrieving the information needed to run the farm effectively. The basic requirements for a good office are a sizeable desk, laminated farm map, telephone, filing cabinet, and a computer with a printer and internet connection. Equipment such as a fax machine and a photocopier are also worthwhile.

A well set-up office allows managers to make office work quicker and easier. It allows farmers to print cheques after recording the details on the computer (cheques suitable for office printers are available from most banks), use internet or phone banking where possible, and pay bills directly using Electronic Funds Transfer. Home and small business accounting packages are available with these features.

Farm management information is available over the internet (e.g. bses.com.au) and on CD-ROM. The farm office is the link to these services.

19. SELF EVALUATION

Farm management differs from person to person and from farm to farm. A single ‘recipe’ for all situations is not possible. However, some growers are closer to best management than others. This self-evaluation is aimed at identifying your perceptions of best-management practice and where improvements can be made in adopting best-management principles and strategies.

In undertaking this self-evaluation it is important to distinguish between your attitude to a particular principle or strategy, and the actual adoption on-farm. For example, you may fully support the idea of best management practice and give it a rating of 5 (strongly agree), but you may only give it a rating of 3 in terms of compliance or adoption on your farm.
Table 4: Self evaluation for identifying best practice.

Rate each of these statements according to the scale of 1 to 5 in terms of attitude and on-farm adoption

1 = strongly disagree or non compliance
5 = strongly agree or full compliance

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>The concept of best management practice incorporates the idea that farm business management practices are continually improving.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
<td></td>
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<tr>
<td>Best management practice requires that all aspects of the farm business should be assessed to identify where improvements can be made.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Keeping good records of farm activities, productivity, expenses and returns helps the farm run more efficiently.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
<td></td>
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<tr>
<td>Preparing a budget is useful for planning ahead.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
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<tr>
<td>Attending field days, information meetings and training courses is a good way of improving skills and knowledge.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
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<tr>
<td>Discussing with family what will happen to the farm when the present generation retires helps avoid conflict.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
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<tr>
<td>Farmers can improve their chances of coping with unfavourable weather by understanding and using weather and climate forecasts.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
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<tr>
<td>Attending a Farmsafe course (or similar) will help to create a safer work environment.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
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<tr>
<td>New workers or contractors should be given instruction on how to carry out their duties safely.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
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</tr>
<tr>
<td>Safety equipment (e.g. hearing protection) and first aid supplies should be readily available.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>It is important to be aware of quarantine regulations that apply to the movement of soil, sugarcane and machinery and to adhere to those regulations.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Emulating successful farmers is a useful way to improve profitability.</td>
<td>Attitude</td>
<td>Adoption</td>
<td></td>
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</tr>
</tbody>
</table>
20. FURTHER READING

The material covered in this booklet includes information drawn from various sources. This expertise and knowledge is gratefully acknowledged, particularly in relation to the following publications and/or reports. The list also provides details of some further reading.

Printed material


Milford, B and Males, W. Futures based pricing for Australian sugarcane growers, Proceedings of International Society for Sugarcane Technologists, Vol 27, 2010


Internet sites

Australian farm commodities outlook: www.abareconomics.com/publications

British Columbia Business Management Information: www.agf.gov.bc.ca/busmgmt

BSES Limited: www.bses.com.au

Canadian Farm Business Management Program: www.farmcentre.com

CANEGROWERS: www.canegrowers.com.au

Cash flow planning and financial tools: www.farmdoc.uiuc.edu/fasttools/index.asp

Department of Agriculture, Forestry and Fisheries - Australia: www.affa.gov.au

Farming and agricultural directory: www.fatcow.com.au

Farm Management 500: www.fm500.com.au


www.canegrowers.com.au contains a gst cane booklet

Iowa State University extension: www.exnet.iastate.edu

NSW Agriculture: www.agric.nsw.gov.au

Primary Industries South Australia: www.pir.sa.gov.au


Quicken Australia: www.quicken.com.au

Rural Industries Research & Development Corporation: www.rirdc.gov.au

Saltbush Software: saltbush.une.edu.au


Washington State University Extension: www.ses.wsu.edu/extension

Women in Agriculture, Australia: www.awia.org.au
Price Risk Management - Futures pricing for Australian Sugarcane Growers (source: Milford and Males 2010)

Australian cane growers in Queensland can now access futures based pricing for their sugarcane. Direct access to futures market pricing has long been available to growers of commodities such as grains, cattle, cotton and others. Some sugar processors have had access to these mechanisms but, in situations where cane growing and processing are separate, cane growers have traditionally been unable to hedge the price they receive for their product as unprocessed sugarcane is not deliverable against a futures contract. In Australia, many growers have recently commenced using futures based pricing mechanisms through new cane supply contracts with their sugar mills.

Mill owners have likewise made available to growers a range of futures price risk management mechanisms. These can be generally classified as target price pools, call pools and grower managed pools.

**Target price pools** are the most popular. They allow growers to amalgamate their positions to bring trades up to minimum tonnages. Typically, mills offer growers the opportunity to price at a range of price targets set at increments of around US$ 15 per tonne of sugar, expressed in AU$ terms. Growers nominate a quantity of sugar that they wish to commit at each level and, if there is sufficient sugar to meet the minimum tonnages set, the pricing order is placed. When and if the sugar price reaches this target, the contracts are priced and the sugar is hedged. Target pricing allows amalgamation of commitments so that problems with minimum tonnages can be overcome.

A ‘**Call pool**’ is another mechanism some mills offer. Growers nominate a tonnage of sugar that corresponds to a multiple of the minimum number of contracts available for each contract month. They then undertake to notify the mill to price each of these contracts at a time of their choosing over the period within which these contracts are open. This allows the growers great flexibility in managing their price risks in relation to the market. This type of arrangement is subject to the minimum cane tonnages discussed above and therefore is available only to growers producing large quantities of cane.

**Alternative pools** are offered by some mills. These provide growers with the opportunity to join a collective pool with a different pricing philosophy to that of the QSL Seasonal Pool.
In some mill areas, growers have an opportunity to access QSL’s Aggressive Pool. Some groups have engaged independent brokers to undertake pricing on growers’ behalf, based on agreed pricing rules. In other mill areas, representatives of growers set transparent targets relating to tonnage and price for a growers’ collective pool. A pool manager undertakes pricing when these targets are achieved. In these cases, target pricing is backed up by index pricing (pricing the same amount of sugar at regular intervals) over a defined period.

A new, more commercial culture is emerging as producers exercise greater management of their profitability by taking greater control of both their revenue and cost flows.

Longer-term cane supply contracts have been developed. In the previous regulated environment, cane supply arrangements could change annually. As noted above, growers now contract to supply over periods from 3 to 5 years; many of these are ‘evergreen’, rolling contracts that require 3-year’s notice for their termination. As well as enabling forward pricing, the agreements put a contractual underpinning to district production, enabling both parties to plan ahead, knowing that cane is contracted for supply and the mill contracted to crush into the future. This provides an important basis for planning and development of infrastructure within a region. It has also allowed growers better access to finance; banks are more willing to lend for expansion if it can be demonstrated that a proportion of the farmer’s returns can be assured.

A further positive outcome of the availability of futures pricing for growers is the fundamental benefit of being able to manage their pricing decisions in light of their knowledge of growing costs. When prices are high, an understanding of the market fundamentals and drivers of future price movements will assist a grower in determining a suitable time to price their product. In times of intermediate prices, a grower’s understanding of his or her costs will inform profitable pricing decisions. Even if it were felt that the market may move higher, some might choose to cover a proportion of production at prices seen as remunerative, in case price movements were not as expected. In a low price environment, the use of the pricing mechanisms may help manage expected income levels, which may help capture profitable opportunities and ameliorate any losses.

Contact your sugar mill or your district CANEGROWERS to find out what price risk management products are available in your district (presently available in Queensland only).
Not just driving out to see you. Having the right conversation when we get there.

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With over 100 years experience in the industry and dedicated Agribusiness specialists who live and work in your area, Suncorp Bank has the right people to help you choose the most appropriate banking options for your land. Think of it as Agribusiness banking with a more hands on approach.

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