



Financials in Focus

Designing for Profit

Workshop Handbook



Graeme Hand



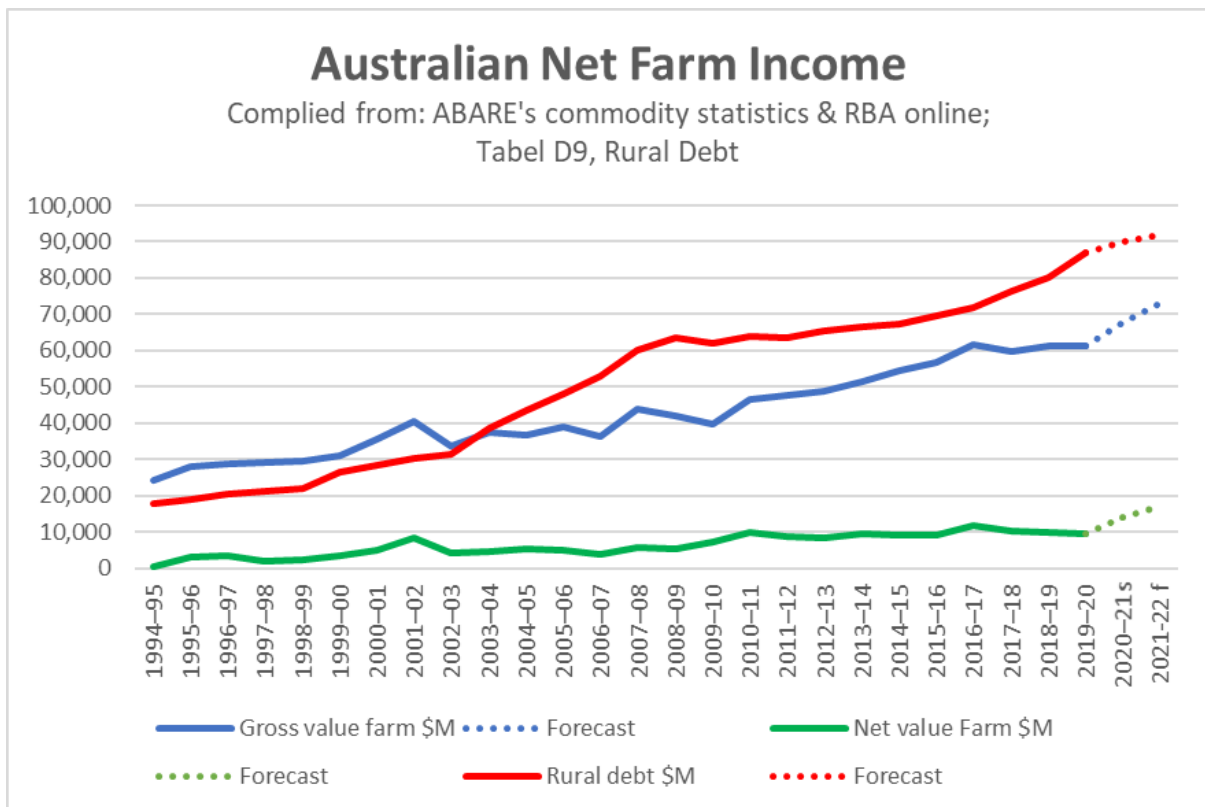
“Financials in Focus - Designing for Profit”

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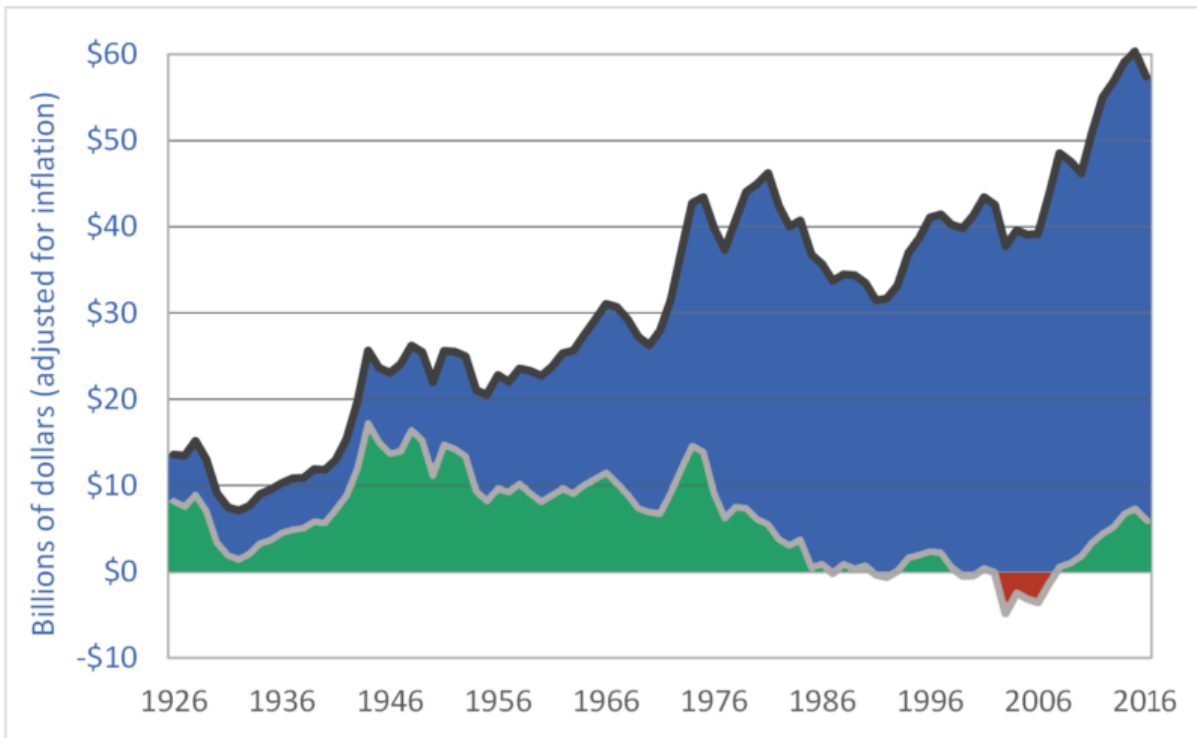
This graph highlights that farmers are receiving an ever decreasing share of their gross farm income. It also shows that the gap between gross farm income and farm profit is increasing at an unsustainable rate.

To paraphrase Charles Sturt University agricultural and social researcher, [Dr Tim Hutchings](#), if you live long enough you will go broke.

To overcome these declining terms of trade, new farming enterprises need to be designed to be low cost and low risk. The current economic model and design thinking do not allow this to happen.

Canadian Net Farm Income



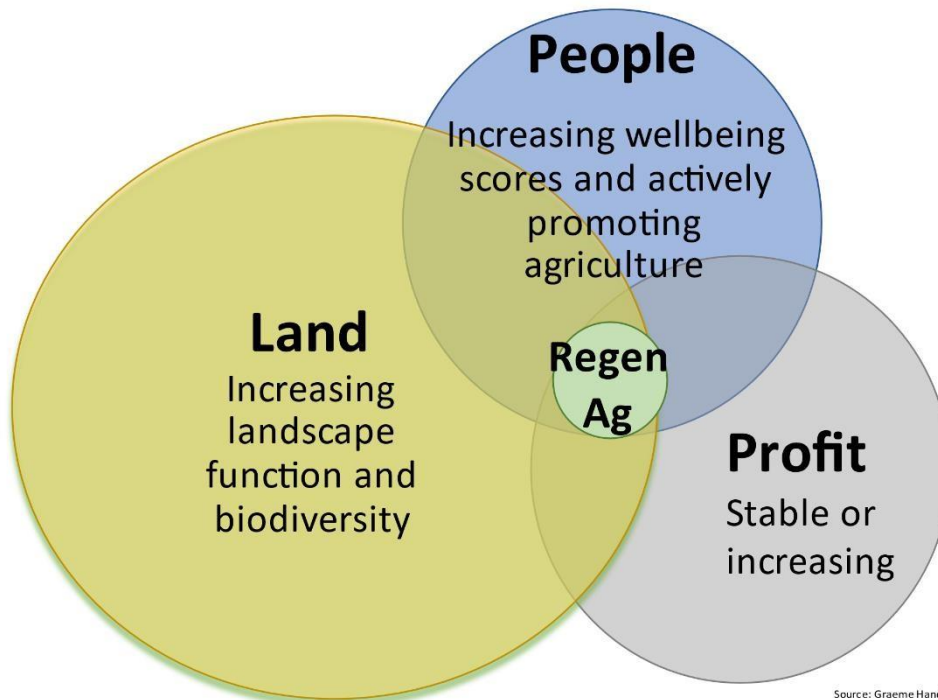


Canadian net farm income and gross revenue, inflation adjusted, net of government payments, 1926–2016. (Blue area – gross revenue Green area - net farm income)
<http://www.darrinqualman.com/canadian-net-farm-income/>

These declining terms of trade and unsustainable increase in expenses is worldwide



Regenerative Agriculture Definition



My definition of regenerative agriculture is:

- Land health must be increasing
- Profit must be increasing
- People's wellbeing must be increasing.

Only by using a process that designs for low costs, low inputs and declining risks, can farmers be truly regenerative.

Increasing Profit

Design parameters that allow you to increase profit while lowering the risk:



- Design a low cost, low risk operation – minimal inputs
- Eliminate/minimise supplementary feeding
- Make time for planning, monitoring and taking corrective action
- Design a process that works for you
- Collect evidence and data
- Other – what jumps out for you?

Barriers to Adoption

Barriers	Tools
Lack of Motivation	Commitment Norms Incentives
Forget to Act	Prompts
Lack of Social Pressure	Norms
Lack of Knowledge	Communication Social Diffusion
Structural Barriers	Convenience

Source: www.CBSM.com

Getting Profit Back on Track

- Profit clearly planned in budget
- Actuals able to be obtained first few days of the month
- Variation to budget reported
- Corrective action form completed
- Corrective action taken and profit achieved



Monthly Corrective Action

Financial Monitoring and Corrective Action Form

Date _____

Item	Amount of variation to budget	Cause of Variation	Action to return to plan	Who

Adapted From Holistic Management® by Graeme Hand

This is Allan Savory's monthly corrective action form.

A point to highlight is that whoever spent adverse to plan , is also responsible for the corrective action to bring the budget back on track.



Key habit - Profit Back on Track

Financial Monitoring and Corrective Action Form

Date 5/9/2016

Item	Amount of variation to budget	Cause of Variation	Action to return to plan	Who
1	-\$9,600	Too wet to get truck to yards	Load of crushed rock ordered. Send end of Sept store sale	Graeme

Adapted From Holistic Management® by Graeme Hand

An e xample of putting the profit plan back on track



Steps Involved in Planning a Profit:

1. Determine the level of profit you require
2. Is there a logjam stopping progress in making a profit?
3. Analyse the profitability and the risk of your current enterprises
4. Identify new sources of income if required
5. Select profitable, simple and low risk enterprises
6. Determine the weak link in each enterprise, and how it will be addressed
7. Categorise expenses into wealth, inescapable and maintenance
8. Plan your profit - pay yourself first
9. Plan the whole of farm cash flow, then check for any variance monthly



Planning a Profit

One of the key steps to planning a profit is to determine the scale of the required profit.

This simple form from quick and easy way of determining that scale (source -Vanguard Business Services)



Very Simple Potential Profit Target

\$

Wage (drawings).

This is the amount which you would ideally like to live on from the business over 12 months. This is your living costs, including holidays.

Debt reduction (allowance)

How long would you like to take to reduce this, and to what level?
Divide the total debt figure which you would like to reduce, by the number of years you would like to reduce it over to get a rough target for debt reduction per year eg to reduce debt by \$250 000 over 10 years gives an approximate target of \$25 000 pa.

Re-investment "on farm"

How much would you like to allocate per year, on average, to on farm improvements (not R & M)

Longer term savings eg education, super

How much would you like to allocate, on average, to any savings plans, such as super, education etc..

TOTAL

This is a very simple worksheet aimed at getting people to think of their profit expectations from their business. For more detailed and accurate estimates, we suggest you contact a Financial Planner, or your accountant, who will also assist you with taxation implications.



Logjams in your Business



- Book keeping – employ help if you can't get it done monthly
- Take the time to plan a profit
- Meetings – meet with your team at least monthly
- Infrastructure – plan and implement infrastructure to ensure your operations are convenient, safe and profitable
- Patterns – are behavioural habits or patterns getting in the way?

The idea of running your mind over the whole business looking for blockages was first seen in Allan Savory's work.

Taking a high-level view allows you to see which issues need to be addressed first.

Selecting Low Risk, Profitable Enterprises

- **Analyse your current enterprises** ◦ What is/was their success over 10 years?



- What is the \$/hr or limiting resource? ○
What is their risk, and what risk strategy?
- Are they regenerating the land? ○ Do I
have a manageable workload?
- Am I enjoying them?

- **Research any new enterprises for risk and profit** ○ What will their success be over 10 years?
 - What is the \$/hr or limiting resource? ○
What is the risk, and what risk strategy?
 - Will they regenerate the land? ○ Will I
have a manageable workload?
 - Will I enjoy them?

- **Trial any new enterprises or changes** ○ Put in trials ○ Start small, low cost, low risk

A process of selecting low risk profitable enterprises is required to shift away from the conventional thinking that results in declining terms of trade with high debt, rainfall and market price risk.

A key criterion for success is to look at what you can do successfully, rather than rely on data presented from research and agribusiness. If everyone could achieve the figures quoted from agribusiness and research stations, then everyone would be highly profitable. My experience working with the Victorian Department of Primary Industries showed that a lot of the failures were not included in the data.



Inverary Case Study Financial Planning Sheet

15-9-2016

Activity	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2016	Oct 2016	Nov 2016	Dec 16	Total
Joining							↔						
Calving				↔									
Marking							↔						
Weaning												↔	
Holidays	↔												
Income													
Calves	20@ \$650												
Cows & Calves									6@ \$1000				
Dry Cows									2@ \$900				
Yearlings									2@ \$900		1@ \$1000		
Bulls											2@ \$1500		
Total	\$13,000								\$9,600		\$4,000		\$26,600
Profit @ 50%	\$6,500								\$4,800		\$2,000		\$13,300
Expenses													
AI (M)								\$2000					\$2,000
Fuel/ Fence (M)	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$2,400
Water (M)	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$200	\$2,400
Bull (M)													
Stock Purchase (W)				5@ \$1,300	\$6,500								\$6,500
Total													\$13,300
Balance													\$0

Above is an example of a simple form showing profit planned.



New Sources of Income

If new sources of income are required, allocate a large amount of time to determining if the new income stream:

- Is a fit for your current operation?
- Has a manageable risk profile?
- Suitable for your business model?

Steps to take in assessing a new source of income:

- Audit of your resources and skills
- Brainstorm new sources (with your family/team/group?)
- Research possibilities in detail
- Check if the addition or change is in context for you

New Enterprise Checklist

Does the new enterprise:

- Lower costs?
- Lower risks – Debt, rainfall and market price?
- Increase landscape function?
- Still require inputs such as fertilizer, fossil fuel, purchased feed?

Important considerations:

- Do you enjoy doing it?
- Do you have time available to do it?
- Does the product or service have a market available?
- Is my land suitable land for the enterprise?
- Is there the ability and capacity to put in infrastructure?



Critical steps:

- Spend 80% of your time on research - road trips etc to inspect others already doing
- Do a small safe to trial practice area on production and marketing before starting

Financial Weak Link



A key step in planning and producing a profit, is to determine which part of the business to focus on each year.

This technique is proven to be very successful in increasing people's profitability, rather than continuing with the same model.

Financial Weak Link

Enterprise: Organic Dairy Date: 15/09/2016 Weak Link: ■

Resource Issues	Product Issues	Marketing Issues
Feed costs	Dairy needs update	Unable to access market information
Low landscape function	Vat too small	Locked into factory
Ongoing fertilizer	Time to milk too long	Poor relationship with factory extension staff
Pasture longevity especially in short springs	MUN and BMCC	
Cow health	Fertility falling	
Capeweed and thistles	Milking all year around	

Adapted from HMI material by Graeme Hand

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(This slide is clearer when zoomed in on)

Above is a completed example of listing all the issues under the different categories:

- Capturing sunlight
- Turning it into a product
- Marketing it to produce dollars.

The weak link addressed in this year will bring new money into the business.



Financial Weak Link

Enterprise: Cow/ Calf Date: 15/09/2016 Weak Link: ■

Resource Issues	Product Issues	Marketing Issues
Water set up – piping not all buried and hydrants not attached securely Reliant on windmill	20% of cow phenotype not suited to non-selective grazing and no feeding Too many bulls	Stock trailer Selling high quality, organic, animals into commodity market Unable to use yards when wet
Some further subdivision – shifting tapes and water time consuming Landscape function moderate		
Perennial grass species mix low in a few paddocks Stocking rate too high not enabling recoveries to be met		

Adapted from HMI material by Graeme Hand

(This slide is clearer when zoomed in on)

Use Gross Margins Carefully

- Because overhead costs are excluded, it is advisable to **only make comparisons of gross margins between enterprises which use similar resources.**
- For example, wheat and barley



Leading economists have shown that there is much wrong with conventional agricultural financial planning and budgeting.

One of the big issues is to rely on information from gross margins.

Gross margins are only a valid comparison when the enterprises use the same resources. It is not valid to compare grazing with wheat or barley. This comparison does not take into account the different risk profiles and the different overhead costs

Planning a profit

To overcome the tendency of expenses rising to the level of the anticipated profit, plan the profit before budgeting for expenses.

$$\text{Income} - \text{Profit} = \text{Expenses}$$

Prioritising Expenses - WIM

- **W**ealth Generating – expenses that produce new income above the previous year's level (this will be targeted at the weak link analysis)
- **I**nescapable – expenses that you are morally or legally obliged to pay
- **M**aintenance – all other expenses, including wages and living expenses.

Another simple idea from Allan Savory. It prioritises expenses, with the majority going into the maintenance category. By naming most expenses as maintenance it allows people to reduce this category.



Reducing Maintenance Expenses

- Work hard on reducing maintenance expenses
 - Redesign – An example could be redesigning grazing to increase landscape function to eliminate your fertilizer expense
 - Eliminate – An example could be increasing recovery so that thistles are no longer a problem eliminating herbicide
 - Substitution – An example could be selecting animals that perform on recovered grass so that hay making is no longer required
 - Efficiency – An example could be automating animal moves to reduce trips to shift
- Check that shifting savings to Wealth expenses increases the whole of business profit (ie money at bank).

These are the steps reducing maintenance expenses that ensure major reductions. Starting with efficiency only results in small changes.

Putting the Plan on Paper

- Use a monthly planning sheet (each enterprise)
- Plan each enterprise income by month
- Plan the profit by month
- Plan variable expense by month
- Categorize expenses as **W**ealth, **I**nescapable & **M**aintenance

After completing the previous steps, it is now time to put the plan on paper. Plan each enterprise separately to ensure that weak links and the impact on the overall profit of the business is obvious.



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