The Business Of Farming – Red Flags

It is not the situation but what you do about it that determines the future

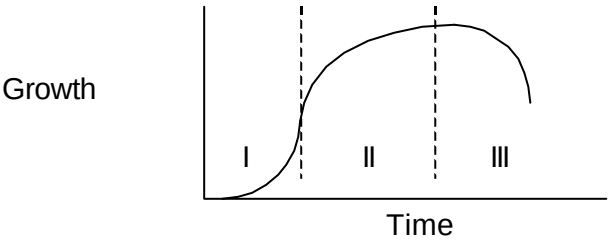
By S. D. Parsons

I imagine that like everyone else I take note when I walk on to a farm, especially one that I haven't visited before. The buildings, veld, fences, machinery, crops and livestock all tell a tale. Over the years I have developed an inventory of 'Red Flags', warning signs that indicate potential problems. Richard Winkfield tells me that the first impression tells him a great deal about the level of management. I have no doubt that we reach similar conclusions in some of our observations. But I am also certain that he will see things I don't see and vice-versa.

It should come as no surprise that the first thing that strikes me is over-capitalisation. Excess buildings – frequently abandoned - heaps of expensive machinery, more cars than there are drivers and so on. All of these suggest that overhead expenses are high. It also suggests that capital has been invested in things we mean to keep rather than things we mean to sell – a dangerous practice especially when the business depends on borrowed money and even more so when interest rates reach exorbitant levels.

As I said in my first article, cutting overheads is one way to improve profit. More importantly, the careful manager is the one who does not incur that unnecessary expense in the first place.

I hear all kinds of objections. After all what is the point of farming if we can't indulge a bit. True, but that depends upon the state of your business and its position in the growth curve. Growth curve? Of course. Like a living thing businesses are conceived, grow, mature and eventually become moribund and die. The growth curve of all living things -plants and animals – follows a pattern known as a Sigmoid, or S-shaped curve. Relating business growth to the growth of a tree the pattern would look something like this:



During Phase I the newly germinated tree (and the new start-up business) is very vulnerable to risks of all kinds – drought, a fire, downturn in the market and so on. At this stage the tree is trapping very little sunlight energy and is highly dependent upon start-up capital (the energy in the seed). The mistake here is to invest in things we mean to keep. Surviving this phase it grows into Phase II, a period during which it is trapping more than it expends to stay alive. This is the happy period that all business strive for, but then age sets in and we start accumulating deadwood – assets, and management practices that give a very low return on investment.

Once again the tree and the ageing business are highly vulnerable. A storm, fire, drought or other external force can cause this once magnificent structure to come

crashing down. An interesting statistic – a high percentage of businesses do not last longer than 40 years. If you have an opportunity take a look at the Farmer, or newspapers of the 50's and 60's. You may be surprised to find that many of the heavy hitters of those days are no longer with us.

Of course in a business like farming a great deal of that fixed asset capital expenditure is employed to fight against nature – irrigation systems, machinery to remove unwanted vegetation and to make conserved hay or silage for livestock, spray equipment to kill weeds, ticks and other pests. No, don't object, I know those things are essential if we want to stay in business, but I want to make a point. Every time we reach for a 'technical' solution to overcome problems it involves energy – fossil fuel energy, and that costs money.

I don't have figures for Zimbabwe, but I bet there is not much difference between our commercial farms and American farms where every kilojoule of food energy produced requires between nine and eleven kilojoules of input to produce it. One can hardly call that efficient. As fossil fuel becomes more expensive or less available (as in our current situation) so the need to search for more efficient forms of production becomes paramount.

Contrary to the research paradigm we are more familiar with, we need to find ways to work with nature and not against her so as to avoid this heavy dependence on fossil fuel and its associated high capital costs. But that is not easy. Some of the world's largest companies have enormous vested interests in a world highly dependent upon the use of chemicals and machinery. They fund the universities and conventional research. If you haven't noticed, the carrot they dangle before the producer is yield maximisation – not profit and not ecological sustainability. With that attitude they are part of the problem and not part of the solution. The difference may be subtle but it is very real.

In the next article I will explore some of the ways we can work with nature rather than against her.

Dr. Parsons who developed the Ranching For Profit School is in the business of putting profit into agriculture and small businesses. His latest book is called "If You Want To Be a Cowboy, Get a Job". For more information visit www.ranchmanagement.com *or phone 707/429-2292*