



# Look diligently at new crops

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## IN A NUTSHELL

- Crop diversification options are many for the Riverina but a decision to establish a new enterprise requires detailed homework so the impact of the new crop on business and management is fully understood.

*The irrigation zones of the Riverina have a reputation as a melting pot of agricultural produce. Aside from sugarcane, tropical fruits and tropical nuts there are not too many crops that cannot be grown with success in the Mediterranean climate of the area.*

In a changing production and market environment, irrigators continue to look at alternatives to the traditional crops of the region such as wine grapes, oranges and rice.

When taking on a new enterprise it is imperative that you understand the risks and do your due diligence. Crops such as cotton, vegetables, pomegranates, tree nuts and specialty stone fruits offer higher returns ... but with increased risk.

### Plan with a balance sheet

Diversifying is good practice but it must be done within the capacity of the balance sheet (capital resource) of a business.

The balance sheet of your business should never lay idle. The business balance sheet summarises your assets and liabilities at a specific date and calculates your equity (what you own). In reality if you are running a farm business your balance sheet fluctuates constantly within stages of the season, but in practice it is normally calculated on a specified date each year.

It is important to review your balance sheet when planning ahead and reflecting on performance. Best management planning and performance monitoring requires opening as

well as closing balance sheets to support cash flow budgets. Whilst cash and liquidity are extremely important, the inclusion of management-effective balance sheets ensures a seemingly good cash flow is not hiding a declining net worth. Similarly, when the relationships between cash flows and balance sheet/s are well understood, informed decisions are made and relationships with financiers can be enhanced.

### Annual crops

The cotton industry is expected to grow significantly in southern NSW with sound results in recent years and good prices providing potential returns per hectare and per megalitre unmatched by other broadacre irrigated crops. The level of technical expertise (especially agronomy) and cost of production are much higher than most alternatives. Irrigators should seek sound agronomic advice and undertake rigorous budgeting with assumption testing (sensitivity analysis) to ensure the technical and financial risks are understood and best managed.

### Vegetable crops

Progressive broadacre producers are looking at higher value annual crops such as vegetables. The Riverina produces numerous types including onions, pumpkins, rockmelons, watermelons, potatoes, lettuce and broccoli. Returns from \$500/ML to \$1500/ML (and more) are possible. Adaptive technical skills and sufficient financial resources are necessary to undertake vegetable production.



*Pomegranates are growing in profile as an enterprise option because of their recognised health benefits.*



*Cotton offers high returns but is expensive and challenging to grow.*

Farmers have three key components to work with when striving for returns, these being yield, price and costs. Broadacre irrigated vegetable production often offers little control over price; hence irrigators must focus on optimising yield and costs. With sound technical support irrigators can grow high yielding vegetables for a reasonable cost. Retail sales of vegetables are driven by the two major supermarkets and often there is no buyer of last resort. Achieving quality and managing relationships is critical to success.

The business must have capacity to absorb the shock of fluctuating prices at harvest, as quality and supply/demand can significantly influence farm gate price to levels below cost of production or alternatively to lucrative highs. The key to success (and risk management) is most often supplier relationship management.

### Permanent plantings

Secure access to water is critical for permanent plantings. This has been affirmed over the past 10 years in the Murray-Darling Basin. Groundwater and Murrumbidgee high security water have proven to be extremely reliable water sources. Low returns, government water market intervention and uncertainty over future government policy has led to permanent water values declining over the past year. This creates opportunities for those interested in taking a strategic position in water.

Permanent plantings share many similarities with vegetable crops such as high potential returns, higher risks and the need to manage end user relationships. Permanent plantings require significant capital for entry, and much longer lead times to achieve returns. These crops also lack the flexibility of annual crops to be able to react as the season and market dictates.

Some producers are erecting shade structures over permanent plantings: these protect high value crops, increase quality and often increase yield. They are very expensive though! These structures can cost up to three times the cost of the orchard and irrigation system. Despite many benefits the shade structures provide, the increased capital cost increases the risk.



Vegetables can achieve high returns but supplier off-take agreements and supplier management are critical to success.

Business cycles often create hurdles when the initial honeymoon period of entry capital is exhausted and cash flow humps are encountered in years three to five of a permanent planting project. The balance sheet benefits of planting permanent crops at present are limited, with only modest land value recognition of established permanent plantings. Coupled with this, are uncertain water markets.


Most producers (with support) can manage the technical challenges of permanent crops. Managing costs, finances and supplier relationships can be more challenging and is critical to success.

Returns on permanent crops need to be assessed over the lifecycle of the investment (10 to 20 years) so an Internal Rate of Return (IRR) is more appropriate than comparing returns per megalitre. Managing finance (and financiers) when upfront costs are high and returns are low in the early years is challenging.

An IRR calculation allows you to determine the level of risk involved in the venture by assessing the level of capital required, the cash flow generated by the business and the capital values on your balance sheet at the end of the investment period. Acceptable IRR in agricultural pursuits is often greater than 15% rate of return.

### Do your homework!

When making decisions about new crop options that will significantly impact on both your balance sheet and cash flow for many years to come, there are no "back of the envelope" calculations that can be reliably applied.

Do your homework, understand the risks and make strategic use of independent third party input into your decision making process. Keep your financier and other business advisors in the loop. 

### Further information

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Sizeable areas of tree nut crops are now well established in the MIA, and the establishment of supporting infrastructure is following on.