



## [ASK] - Always Seeking Knowledge Selected Back Issues – May 2010, No 5

### Resilience - can you handle resource, price or production constraints?

#### More on Change and Direction

I wrote one time before about Dr Spencer Johnson's great little book, "*Who Moved My Cheese?*" In part I wrote, "*Who Moved My Cheese* is about how we react when somebody changes the rules on us."

We should always be getting our businesses ready for an imminent 'cheese move'. Every so often instrumentalities such as the Australian Bureau of Agricultural Resource Economics (ABARE) or, in America, the USDA (and every country has an equivalent) announce that farmers are about to experience an economic downturn. For instance, in 2002 ABARE told us that farmers will experience a 40% downturn in farm receipts during 2002/03, and that they expect almost every major commodity to be effected.

My question is, when it occurs (not 'if' it occurs) what will a 'cheese move' do to you and your business? I have some good news. Everyone who has participated in one of our 'Wealth Generation' modules already knows that they have the tools required to handle this situation. They have already encountered this problem and found a solution. A characteristic is that people 'kick and squeal' for a while, complaining at the difficulty of the problem, but then collectively they come up with a way forward. Almost invariably (admittedly with a deep breath and a strong dose of courage) the options that people come up with are found to be 'do-able'.

That word, '**courage**', is really important. Many will recall me once before recounting the late American commentator, Earle Nightingale, who in a marvelous radio broadcast made the point that '*the opposite of courage is not cowardice, but CONFORMITY*'. People tend to conform to

current practices and beliefs, usually until they are forced to change. Think about that for a while. When commodity prices drop, change is invariably under way again.

If you are doing your holistic wealth generation planning, make sure that it incorporates all of the ingredients of Holistic Financial Planning.

These are:

- Have a holistic goal for your whole
- Look for log jams that are stopping you making change (a log jam will almost certainly be related to the behaviors and practices of 'people')
- Check the Gross Profit (GP) of current enterprises
- Brainstorm potential new enterprises (do them for Good, Average and Poor situations and vary the Income factor you have the least control over, and the Expense factor that you have the least control over)
- Select only new and existing enterprises that have a high GP
- Pass all selected enterprises through the remaining testing guidelines
- After doing this, decide your enterprises for the next year
- Allocate your WIM expenses, and brainstorm ways to cut them (remember that your Wealth Generation ('W') Expenses will probably include some Quality of Life items as well – you should test this for yourself)
- Create the plan, setting a profit that is 'difficult but achievable'

Make sure all of the decision makers in your whole are involved. This is critical, and you should do whatever is necessary to make this



happen. Without the buy-in of all decision makers your plan will eventually fail. Use the green Holistic Financial Planning Aide. Follow it through, step by step. **If you need help in creating a Wealth Generation Plan, call someone. My number is +61 2 9929 5568.**

Others can help you as well - and we are happy to give you their numbers. A few dollars of time will look pretty cheap compared to say, a 40% drop in your turnover. Remember this: the effect of a 40% drop is OPTIONAL. You get to choose. You can either be reactive after the event, or pro-active and committed to your holisticgoal. Either way, you should always expect your cheese will be moved and plan for it to happen!

I am really excited by the new and different things people are doing. I am impressed by the way people are addressing their Weak Link. Some really good marketing ideas are showing up. In addition, more and more people are recognizing the basic truth attached to the statement: "*Profit is a function of ones Cost of Production, not the Sale Price of our products*". It is a pretty good starting point for dealing with a cheese move, I have observed.

### **Pulling through the drought - getting grazing planning right**

*This article was written in December 2002. That was the year that much of Eastern Australia was plunged into drought, and it caught many people unawares.*

My apologies to our city friends. This section, this month, is very rural. People are hurting, and in the process may make some decisions they later regret. The principles apply just as much to city based decisions, however. When the chips are down it is natural but dangerous to revert to usual practice. The next few months are likely to be challenging for many people. There are two scenarios, depending on location. In the winter rainfall areas - eg southern WA and Victoria, (and some parts of NZ - although perhaps not applicable this year, yet), the die is cast. The season is over. How much feed you have now is how much feed you have available, and you must plan this out till the next break. For some it is an abundance, for many it is a shortfall. Regardless, you must do your planning!

Get out in the paddock and do your feed assessment (and remember, the animals will soon tell you if your assessments are right or wrong, so don't worry about being an expert at this stage). Do the calculations. If you have abundance, you have CHOICE. You can choose between feeding the soil microbes now (and making a deposit in the soil bank for next year) or feeding more stock now, and making more money this year. Test the decision toward your holisticgoal. If you have a shortfall, then you have even more CHOICES.

You may have to make big decisions now, if you haven't already made them. If you elect to de-stock, remember, the longer you wait, the more animals you have to sell. It is simply a mathematical thing. Your task is to get the animals that remain in your care, safely to an end point. If you are unsure about all of this, call us, and we will give you the names of people who have done this all before, who have made the adjustments early, and marched on to success.

For the rest of us. I am starting to hear some stories that frighten me. For instance, of people going back to old ways and just 'opening the gates'. I am sure that the intention is good, but I wonder if the action was ever seriously tested towards a holisticgoal.

I suspect that people have fallen prey to well meaning but misinformed external advisers such as doubting family members, or stock and station agents. Over the years many people have fallen back to conventional decision making when the pressure is on. Please believe me, the time people most need holistic decision making is the time other people will be encouraging you to forget it. If you have opened all the gates, the question is - what are you going to do when you get SOME rain??

Droughts are low rainfall, not no rainfall. In the next few months there is a high probability of storms - and some rain. I would suggest that you really test towards your holisticgoal the action of keeping the remaining stock on a graze plan, however slowly you have to move them, in order to look after your grasses and soil surface. When it rains in the summer growing regions, FEED IS GOING TO GROW.

If your remaining stock are in one mob, then every day, every square metre of pasture that is not exposed to stock today, will be growing. The next day it will double its growth, and the next day it will double again. If the gates are open, every plant in every paddock is at risk of overgrazing (a second bite before the plant has fully recovered from a previous bite).

There are two consequences – IMMEDIATELY there will be decreased grass production when you MOST need it, and probably, plant deaths. Read the sections in your manual on drought strategies. Read the textbook. Make phone calls to people who have dealt with drought using new decision making. A strategy that works in practice is to keep the stock moving every day, even several times a day. Give them fresh dirt if needs be. Remember the story I told previously, that at the end of the day droughts are not about lack of feed – or lack of money. They are about lack of hope! Moving your stock every day gives them hope, too! I am not saying that opening the gates is all wrong, although I confess that I cannot personally conceive of any situation where it would be an option for me, ever again.

If the action tests as the highest marginal reaction towards your holistic goal, then unequivocally, that is what you should do. Remember, the process of holistic management does not make value judgments for you – it is simply a framework that allows you to make a judgment for yourself in the light of your highest values. My concern is whether people are abandoning it in the time of greatest need.

## Who you are

*This article was written in June 2005*

Over the last couple of years, even under difficult seasonal conditions (and in the case of both wool and venison producers, difficult market conditions as well), the people who have had the most "success" are those who have made the difficult decisions, early. During the Armidale conference (if you were unable to attend, you missed something very special), Charlotte Gundry described the agony whilst her family were making the decision to sell their entire cow-herd last year.

Through deep analysis over several months, it became crystal clear to the entire Gundry family that their business was not to be a "cattle producer" or any similar title, but very simply, that their business was production of their shared holistic goal.

The cattle were simply a tool, and if retained under the seasonal conditions they were experiencing, the herd could quite possibly take out or severely damage all three factors underpinning long term success for the family. The Gundry family risked environmental damage to their land that would take years to recover from (there is evidence that it takes at least ten years to fully recover from just one year of severe litter removal), their equity in the herd would be severely compromised if they fed them, leading to financial unsoundness, and all of the above risked severe social disruption, as they spent hours every day slaving over the animals.

Anybody can take your hard-won marketing advantage away from you, but only you can make the decisions required to give away your low cost of production.

Since that time, seasonal conditions have validated the Gundry's original decision. It is still very dry today. It is quite staggering how much of Eastern Australia has had less than 150mm of rain over the last six months or more. Since selling the cattle the Gundry's have been able to profitably trade some stock. That strategy has allowed them to retain 100% cover over the place, and to conduct a successful financial plan.

Over the last few years many other people have also made the difficult decision to quit their stock early, rather than risk their biological and financial resource base. One family has seriously reduced stock at least twice in the last four years. Not an animal has been fed, and not a patch of soil has been exposed; yet a previously debilitating debt is all but gone. In another case, an entire breeding herd has gone, replaced by a trading operation that is more flexible.

There are increasing numbers of grain producers who are taking a serious look at their businesses, and making choices to downsize or even completely quit cropping. In some cases these people are totally restructuring how they do things, so that they have greater flexibility, in order to sit out poor markets and seasons.

It is never easy to stop seeing oneself as a 'wheat producer', 'wool grower' or 'cattle breeder', or even at the bigger level, as "a farmer". It is so much easier to remain attached to your past way of life, where people referred to you by what you did - "That's Fred over there. He's a prime lamb producer". People say that there is always the little voice in the back of their mind challenging them to stay true to "what you did". The little voice will say to their mind and to your mind: 'What if you cannot buy them back? What will my mates think?' 'What will the kids at school say to my kids - will they chant slogans to them, saying we have gone broke and that we are bad managers?' Doubt will be overcome by an owned holistic goal, because everything that you do want in life is included in it, and the things you don't want do not even get a mention.

If you have clarity about the life you wish to lead, and how the resource base underpinning you has to be, you will work out even the most difficult of situations in a way that is socially sound, ecologically enhancing and financially rewarding. Just don't expect people to turn around and say, "That's Fred over there. He produces his holistic goal, and this year he will use the combined tools of breeding cattle and winter cereal crops to achieve it". It won't happen that way!!

A couple of weeks ago in Christchurch, John King and Alison MacKenzie organised a great little conference to celebrate the arrival of winter! One speaker was Pita Alexander, a Christchurch based accountant who, over the years has had wide exposure to both New Zealand and Australian farmers and agribusiness people. You have probably seen some of his quotes in various magazines and newspapers, some of which are gems of wisdom. In particular, he warned the assembled people to "make sure you never lose the things that money can't buy". You can't buy love or relationships. You can't buy your health. In the end, you will discover that it is the things that money can't buy that are so important in your holistic goal.

### **Drought strategies**

It is now very clear that a good many people are in trouble in Australia because of drought on both the East and West coasts. Some people have a grass drought, whilst some have a stock

water drought. Some have both.

It might be helpful to recall a few points about drought strategies. For me, the number one thing to remember is:

### **1. At some stage, despite all of your planning and strategies...**

If it still doesn't rain ... and it still doesn't rain ... the situation may become so difficult that your stock simply have to go. If that happens to you, make the decision early enough that you can actually do it and not have a calving or lambing disaster.

Like King Canute, you cannot hold off the inevitable. Don't set unreasonable expectations, such as, "It can't happen to me". *It can happen to you!!*

### **Every day, recheck and ask yourself: should the decision be made to quit, today?**

Difficult as it may be to accept financially and even socially, at some stage you may have to make the decision, or risk animal deaths or negative performance. Worse still, hanging on might cost feed, and that erodes your equity in the animals.

Many people have been caught feeding till the value of the animals has been consumed in feed, and then the animals died anyway.

George Gundry and Brian Marshall, both Holistic Management Educators, have been through this scenario. For both of them it was a 100% de-stocking, and both of them say it was an experience they didn't enjoy but that they have come out the other side better than they expected.

### **2. Before you get to destocking though, there are some things you can do...**

- You can box mobs together. All other things being equal, the optimum number of mobs in a drought is ONE MOB. Get as close to that number of mobs as you can, and be creative about how you do it.
- Remember to PLAN for movement of your stock to be made as often as you practically can. Daily or more often is the optimum.

- Regular moves are important for ALL of the animals involved in the moves – it gives them "HOPE" and you "CONFIDENCE". Imagine how little hope there is in an animals' mind, if all it has to eat every day is a diminishing supply of feed that has been walked on, urinated on and dunged on for many days, or even for many weeks. There is not much joy in that for man or beast. Animals give up and die unnecessarily.
- In addition, with regular, preferably daily or more frequent moves, you will be staggered at what the animals can see available to them on the ground that we mere humans cannot see - eg freshly dropped twigs, leaves and branches.
- I have seen stock survive under very difficult conditions when their owners have adopted the philosophy of giving them access to "fresh new dirt **every day**".
- If you are in an annual-based pasture regime, you may have some juggling to do between damaging and not damaging little seedlings. In the event of some rain you may need to assess whether you can risk losing a germination of seedlings through moving faster than the recovery rate of the plants, simply to keep giving the animals some hope.
- If you are moving faster than the plant recovery rate you are in a vortex, and you **must** pull out of it as fast as possible, before there is real damage to the plants once there is a proper break.
- On the other hand if you have some land scheduled for cropping this year you can choose to create a vortex on that cropping land by deliberately moving faster than the recovery rate. You can also save some chemicals!

### 3. If push comes to shove, and you have to handle and feed animals through calving or lambing

I have talked with a number of farmers stuck in this dilemma. Here are some of the conclusions:

- Difficult though it may be, the way to grow grass both whilst it is droughty - and immediately after a fall of rain - is to continue to minimise the number of mobs.
- If you are feeding out hay or grain make

the trails as long as possible.

- Move the animals right on daybreak, whilst they are both up **and** mothered up
- Make the gateways as **W-I-D-E** as possible. Cut the fences if you need to! Thousands of sheep and lambs pouring through a 12 foot gate is an absolute recipe for disaster.

### 4. Finally

This may particularly apply in WA: If it hasn't rained in the next 6 weeks then the unpalatable truth is you may have to consider sacrificing the lamb crop in order to keep your ewes alive. Feed is becoming scarce and impossible to buy at ANY price. Calves may need to be weaned and put into a feedlot. The next period of time is both critical and potentially unpleasant for many people.

### Dealing with the 'known'

*This article was published in March, 2008*

In my last issue I suggested that in agriculture, "anybody can take away your marketing advantage, but only you can decide to give away your low cost of production". Judging by the phone and email response I received, that resonated with a lot of people. In this issue I want to extend that thinking, and discuss dealing with the known.

Over the last eight months I have been simultaneously shocked and heartened by events in the agricultural sector. I have spent weeks working with families in nearly every region of Australia. Many lost their winter cereal crops last season. For them this was the crop they needed in order to get back into the saddle. Like all non-irrigated crops, the 2007 crop was planted without prior knowledge of the season, nor, as it turned out, real knowledge of the price they might receive for their crop. Now of course, with record grain prices many people are yet again pinning their hopes on the "next crop".

The 2008 "next crop" is unquestionably a valid opportunity for some people. But contrary to conventional wisdom, a great many others have identified that the risk is too great for them, because there are simply too many unknowns. These unknowns begin with the risk of seasonal failure, and in some regions there is no certainty that things have changed from the

recent patterns. I especially think of the mid-west of Western Australia, and perhaps South Australia and parts of Victoria. Who knows? That's part of the unknown! These regions have long been some of the safest wheat producing areas in Australia – with low, but relatively reliable rainfall. Over the last seven years the rainfall has become low and unreliable. That has wiped out vast areas of crops.

Of course many of these people also raise livestock, and they have not grown too much green feed either. That has been a real double whammy. They have repeatedly invested their money in crop failures, and at the same time have chosen to pay agistment or feeding costs for their stock, perhaps because they could make no other practical choice.

Farmers in these areas, whether specialist livestock or mixed crop and stock producers, often coincide their calving and lambing (the most vulnerable time of their livestock biological year from a feed demand, and flexibility of livestock movement, standpoint) to near the time that is usually expected to deliver the autumn/winter break. When the break is late, what feed they have (often none) is of very poor quality. It's also getting progressively colder all the time, meaning that the later the break, the longer it is until there is fresh new feed, and the higher the supplementation costs.

This model effectively means they have chosen to give away some or even much of their low cost of production when a blip occurs. All round, both cropping and livestock as now practiced have become a bigger game of Russian Roulette in these days of global climate change. The areas I have identified are also the areas that are projected to be most adversely effected in future years by changes in seasonal conditions.

Of course, there are a few other unknowns as well. Cost of inputs for instance. It's funny how these always go up when grain prices rise. The cynic would suggest that input costs are related to capacity of the market to pay rather than to the cost of producing the product. And they'd be right. And then, the price received is a bit of an unknown as well. It becomes a rather nasty mess when one pays for the inputs, locks in a fantastic price, and the crop fails.

Last season I met dozens of people who ended up paying between \$100,000 and \$1.0m to buy their way out of forward contracts, and I expect more will get caught this year as well. If farmers borrow to pay for the adverse outcomes of these marketing decisions, the future profitability of the business is reduced. If the payment comes by using ones own cash, it is no longer available for other income earning activities. Whilst the producer can, in various ways, mitigate for all these unknown factors (by adjusting inputs, special tillage techniques to assist yield outcomes, and market manipulations to protect price received), the outcomes each year are still essentially outside their direct control. Here's the thing: despite their best efforts these farmers are still largely dealing with the unknown!!

So what can be done? Well, some of the most effective changes I have seen so far revolve around two things:

1. Choosing the most flexible enterprises possible
2. Changing ones position within the market from price-taker to profit-maker

I have seen that the people who have moved away from excessive reliance on their breeding herd or flock have become both more flexible and profitable. One set of numbers I recently saw suggested that after reducing the number of breeders and increasing the dry stock component, the flexibility gained has positively impacted the profitability of the business, on a year in – year out basis, by more than 400%.

Some former grain growers have re-jigged their businesses, and cashed in their machinery in the over-hot scramble for gear. Some have converted their cost of machinery ownership into a variable cost, by developing robust contractual arrangements with specialist contractors. Others have reinvested the funds raised into livestock and abandoned cropping. By rigorously using proper trading principles they are already taking profits multiple times per year. The great thing about these proper trading principles is that they work regardless of markets being "high" or "low". Caveat: You need proper training in this process, and it requires doing some homework ON your business as well as being out there working IN your business.