

# Financial Management for



# AGRIBUSINESS



WESLEY J OBST

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# Foreword

Owning a farm in Australia remains the goal for many who don't currently have a farm, and the all-consuming passion for those who do have farms and who want to keep them even in uncertain and challenging times.

It is an overused cliché that farming is now a business rather than a lifestyle; but clearly many farmers continue farming for reasons other than the accumulation of wealth. What has become clear is that if farmers want to enjoy the lifestyle, they have to become much more business oriented.

This book covers, in considerable detail, all the elements needed to develop a plan for your existing farm, for your next farm acquisition or for your agribusiness investment.

It provides the grounds on which sound decisions can be made.

If you work methodically through to the end, you will find that it is an excellent reference book that can assist you with your rural business challenges.

For students of agribusiness, this book will become an essential text. It is very readable but also contains sufficient detail to satisfy the needs of a serious agribusiness scholar.

As traditional farming and its associated industries struggle under the pressures of a strengthening Australian dollar, liberalisation of international markets, the challenges of corporate farming and a problematic climate, the need to understand the business of farming has become at least as important as being able to do the 'sweat on the brow' part.

There is no doubt that successful farmers of the future will have both the business and the practical skills.

This text is a major aid to the achievement of this essential business acumen.

I congratulate its authors for their foresight and tenacity and I commend this book to all success-oriented people of the land.

Graham McConnell

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# 1

## **Agribusiness management: an overview**

Agribusiness has long been recognised as an important component of the Australian economy, especially for the sector's contribution to export earnings. As with other business sectors, agribusiness fights to overcome the impact of declining terms of trade where rising costs are not matched with rising prices. Although the agribusiness sector has many practical and technical differences from other business sectors, there is little to be gained by treating it differently. In fact, there are considerable advantages in recognising the similarities of agribusiness and the business world at large. Acknowledging these similarities will reduce the myths proffered about agribusiness in the past, and will assist management in viewing their role as efficient and effective managers of valuable and limited resources.

### **The agribusiness sector**

Agribusiness is the sector involved in the production, processing and distribution of agricultural goods and services, and it includes all related activities. Defining agribusiness more narrowly ignores the industry sector that has responded to market forces and has moved away from traditional primary production into manufacturing and distribution activities. For example, the broiler chicken industry has responded to consumer demands by providing lean, tender, disease-free and chemical-free chicken pieces. This industry has moved positively towards meeting consumer demands by controlling the production and manufacturing processes. Producers have little or no direct involvement with the final consumer; however, each producer is focused on the physical and financial demands placed on each subset within their industry. Some operators, for example, the day-old chick producers, would only deal with growers and are therefore only involved in business-to-business transactions. All operators have to

produce a quality product at a competitive cost, which means they must take a business approach to management in order to be profitable and remain in business.

This book provides the business management tools needed to improve the financial management of all types and sizes of agribusiness, including large outback properties, traditional farming activities, small hobby farms, on-farm factories, vineyards, horticultural enterprises and any other business involving agricultural production. The common factor in all cases is that agribusiness managers are involved in a business activity and, therefore, should apply sound business management principles in order to achieve their objectives in a constantly changing business environment.

## **Changes impacting on agribusiness**

In addition to general economic factors that impact on all businesses, agribusiness managers have the added burden of uncertain weather conditions and fluctuating international and domestic market prices. Management practices also have to take account of social and economic changes in Australia and internationally. For example, some people are concerned about the impact of agricultural activity due to land-clearing and its effects on greenhouse gas levels, rising salinity in the river-systems and continued land degradation. Consumers may be concerned about methods of production, and issues such as animal welfare, chemical residues, biodiversity, genetic engineering and food quality. Changes in the nature of work and the family are changing dietary requirements and eating habits. This is illustrated by the increase in prepared meals and the increase in the number of meals eaten away from the family home. Consequently, changing societal attitudes and values impact directly upon agribusiness production processes and decision making.

Agribusiness is also experiencing a reduction in available resources due to urbanisation of food production areas. This means that as the world's population increases, greater pressure is placed on the food production sector to increase output within social constraints and with diminishing resources. Added problems arise because the relative contribution of primary production to the economy is declining, which in turn has eroded the political influence of the sector. The globalisation of the Australian economy and the liberalisation of international trade have increased the transparency and volatility in export markets. Further to these changes, the rapid development in computer technology and communication systems has increased the amount of information and the rate at which it is processed. All of these changes impact to some degree on agribusiness management.

## **How do these factors impact on management?**

Rapid social and economic changes make it necessary for managers to understand their economic environment and the implications of local and international decisions on their business. In order to adapt to these changes, managers must constantly gather, assimilate and process information that is relevant, accurate and timely to their industry. They need to focus on customer demands and quality assurance. This requires a shift in thinking from a production driven focus to a customer and marketing one. Managers