Long Term Planning for 2012 and beyond

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Pipfruit production in Australia and in fact many parts of the world is a challenging, risky and often rewarding business. The Australian pipfruit industry predict there could be a paradigm shift in the pipfruit business environment as the Australian market opens and becomes part of the global apple trade. The magnitude of any change is hard to predict but will require close monitoring and response by growers.

This presentation aims to give growers some guidelines to help individual pipfruit businesses make the best decisions for their individual needs. This planning presentation covers both "Long Term" and "Short Term" planning

Currently Australia has the following statistics. What will the industry look like in 10 years time?

Table 1: Australian Industry Trend

Year	Apple Planted Area (ha)	Pear Planted Area (ha)	Total production (tonnes)	Yield (t/ha)	No growers/enterprises
2000	12,000	6,000	450,000	25	2082
2008	12,264	4,393	392,479	23	1109
2020 F	**?**	**?**		**40**	**?**

The issues that Australian growers face are not dissimilar to the issues faced by NZ growers over the past decade when their industry was deregulated. Is Australia likely to follow a similar pattern?

Table 2: NZ Industry Trend

Year	Apple Planted Area (ha)	Pear Planted Area (ha)	Total production (tonnes)	Yield (t/ha)	No growers/enterprises
2000	14,114	958	594,000	39	1600
2009	8,484	412	490,584	55	400
2020 F	**7-10,000 ?**	**400?**	**385-550,000?**	**55?**	**200 ?**

Long Term Planning

The first decision is to try and ascertain your Long Term Plan. In business circles, this process is called a Business Plan. As each business considers their business plan, we think each pipfruit business is likely to fall into three general categories.

1. Committed to a long term involvement in pipfruit production
2. Unsure on long term but want to continue short term
3. Decided to exit

The characteristics of each group are likely to be as follows:

Committed to a Long Term Involvement

- The drive, motivation, and passion for pipfruit growing is available in truckloads
- The Demographic is right
- Good production and packout
- Permanent and casual labour can be supplied and at an efficient cost structure
- Good understanding of costs of production right through to market
- The variety mix is well positioned for the microclimate and market
- Good marketing outlets are in place
- Climate risks have been sufficiently well managed (drought, hail, frost, heat stress)
- There is a plan to remove non performing blocks
- The grower has orders in place for new blocks (variety, rootstock and system is confirmed)

Unsure on Long Term but want to continue Short term

- There is an exit strategy in the medium term but looking to keep farming for a few more years yet.
- Profitable blocks have been identified and there is a plan to remove those blocks that are not at least contributing to overheads.
- I have a handle on my costs and am planning some structural changes to improve my costs of production.
- The crop will be optimised for each block of trees that is farmed to make sure it delivers the best net result possible.
- I will align with one or a couple of packer/marketers that can maximise my orchard gate return from each variety.
- I have a monitoring system in place that gives me good up to date market intelligence. If there is a paradigm shift in the market that negatively impacts on my business, I will enact my exit strategy quickly. It will be better for me to try and predict this in advance if possible.
- I will be limiting any new investment unless I can gain a short term return.

Exit

- I plan to exit the business of pipfruit production over the next 1-3 years.
- My passion and motivation for growing has waned.
- My current profitability is insufficient and I have no confidence in an improvement.
- Maybe I'm close to retirement and there is no obvious succession plan.
- I no longer want to ride the large risk/reward roller coaster that is "fruit growing"
- My best exit strategy has been defined will be one of the following ~ sell, lease, JV
- If my option is to sell or lease the orchard as a going concern, I will maintain the property until exit date.
- There will be no new capital investment.

We now want to use three actual Australian case studies to demonstrate the type of decision making process needed to be made. On the following page, Table 3 shows the base data of 3 pipfruit businesses compared against the industry average and upper quartile. The data came from the 2008 " Orchard Business Analysis."

Grower Case Study Analysis

		Grower 1	Grower 2	Grower 3	*Avg*	*UQ*
production and packout						
	Planted Area	18.8	10.2	27.6	*30.3*	*19.5*
	Gross Production (kg/ha)	35600	21465	21089	*34915*	*42692*
	Average Packout	82%	63%	82%	*74%*	*79%*
variety mix						
	Variety Mix > $2.00 / class 1 kg	80%	67%	50%	*52%*	*72%*
	Variety Mix $1.70-2.00 /class 1 kg	20%	33%	24%	*21%*	*15%*
	Variety Mix <1.70 / class 1 kg	0%	0%	26%	*27%*	*13%*
per ha analysis						
	Income	$ 84,309	$ 33,880	$ 40,131	*$ 52,648*	*$ 82,900*
	Expenditure	$ 45,695	$ 22,958	$ 41,940	*$ 39,138*	*$ 46,098*
	COS	$ 38,613	$ 10,921	-$ 1,809	*$ 13,510*	*$ 36,802*
	Interest, Lease, Depr	$ 2,306	$ 3,813	$ 6,262	*$ 4,255*	*$ 3,452*
	Profit	$ 36,308	$ 7,108	-$ 8,071	*$ 9,255*	*$ 33,350*
per kg analysis						
	Income	$ 2.37	$ 1.58	$ 1.90	*$ 1.46*	*$ 1.91*
	Expenditure	$ 1.28	$ 1.07	$ 1.99	*$ 1.08*	*$ 1.06*
	COS	$ 1.08	$ 0.51	-$ 0.09	*$ 0.37*	*$ 0.85*
	Interest, Lease, Depr	$ 0.06	$ 0.18	$ 0.30	*$ 0.11*	*$ 0.08*
	Profit	$ 1.02	$ 0.33	-$ 0.39	*$ 0.26*	*$ 0.77*
expenditure analysis						
	Wages	$ 0.32	$ 0.24	$ 0.77	*$ 0.33*	*$ 0.38*
	Post harvest	$ 0.74	$ 0.59	$ 0.67	*$ 0.52*	*$ 0.44*
	Operating	$ 0.18	$ 0.16	$ 0.36	*$ 0.17*	*$ 0.18*
	admin	$ 0.05	$ 0.09	$ 0.18	*$ 0.07*	*$ 0.07*

When we consider the GOALS and OBJECTIVEs of these three businesses it helps to go through a pipfruit checklist

- Succession Plan
- Risk Mitigation
- Scale
- Post harvest and marketing structure
- Variety Mix and Redevelopment plan
- Productivity and Class 1 Packout
- Cost structure
- Debt levels
- Growth Plans

Grower 1

Good risk mitigation, 80% net, frost free land, 4 MEG/ha water guaranteed every year. Succession plan is sorted as a son is lining up. Although an individual medium scale grower, is a member of a successful packing and marketing coop with good marketing channels.

Upper Quartile grower, Income per ha and per kg are very high even although production per ha is below UQ..Variety mix is extremely good. Expenditure per kg is OK. Post harvest costs are high per gross kg but this is probably due to the high packouts.

Debt servicing costs are very low.

Recommended action:

We could just suggest, he keeps doing the same, however if returns were to drop , to maintain profitability the obvious focus should be to try and lift productivity closer to 50 t/ha. A grower with this much skill and low debt, may also consider growth, perhaps through purchase or lease of a neighbouring block. Any growth should ensure climate risks are manageable and debt levels are kept at a sensible level.

Grower 2

Poor risk mitigation, 20% net, no frost protection, poor water storage. Succession plan is sorted, also with a keen son in line. Although a small scale grower, is a member of a successful packing and marketing coop with good marketing channels.

Yield and packout are poor due to some hail losses and drought in the monitored year. Variety mix is OK. Income per ha is low, however so are costs delivering an average COS/ha. Income per kg is low due to poor packout. Expenditure per kg is average with wages per kg very low due to the owner being able to carry out a lot of the work himself.

Recommended action:

Must address risk mitigation over the next 3-5 years. A lack of water storage and hail are the two largest risks to manage.

Scale of the property is limited, particularly when the son wants to become involved. Leasing additional land is probably the sensible option when this happens. Keep an eye on opportunities in the mean-time. Any leased land needs to have good water storage and hail net in place.

Risk Mitigation and good orchard management must jointly aim to achieve sustainable yields of 45 t/ha and PO avg of 70%. Variety mix needs attention with the poorer blocks gradually removed and new intensive block planted in their place. New plantings should only be made with good risk management in place.

Grower 3

Grower 3 has some challenges. Yield is poor, variety mix is relatively poor, and cost structure is very high. There is no succession opportunity and grower 3 is five years away from retirement (and is looking forward to that). Grower 3 plans to exit orcharding in 5 years time in the best equity position he/she can manage.

For Grower 3 to be confident about orcharding in the next 5 years he/she needs to have confidence that the limiting factors can be changed. If they can't, then grower 3 should consider bringing the exit forward.

Some of the things Grower 3 is doing:

- He's talked to local real estate agents about possible sale and has spoken to 2-3 targeted neighbours and discussed the possibility of lease in 3-5 years time.
- Each block of trees performance and profitability has been calculated. Those blocks not at least contributing to overheads are being pulled this winter and will either be left fallow or planted in an annual crop. The ones he's considering are fresh beans and melons as he can grow these with existing gear and he has the markets already sorted.
- Every other pipfruit block has clear objectives set to ensure they optimise yield and PO. He's employed a good consultant to help with this. He's very aware that the most important line is the income line (production, packout and price)
- He's benchmarked his costs and identified that wages are out of control. He's had to make one permanent position redundant and is moving away from hourly work to more piece rate work using a trustworthy, cost effective contractor. Even permanents are being paid per tree to prune, a real shock to the system for one of them.
- He's changed post harvest/marketing service provider.
- All costs (on orchard and personal) will be closely scrutinised.

In summary, all three growers demonstrate the type of planning that is required by businesses on an on-going basis. With the potential of the Australian market opening up, the magnitude of change may be faster. As with any rural business, some business's will grow and prosper and others will exit. Life will go on, no matter what the outcome, but good decision making and planning along the way will help proactively manage the best outcome.

Some tips to help in this business planning role include

1. Write it down
2. Objectives need to be defined and time bound
3. Get good advice and get it early
4. Make sure you monitor the key drivers of your orchard business
5. Implement good market feedback systems
6. Back your decisions and make sure you follow them through
7. A business plan is a living document, refine it annually, the growing and marketing environment will change, that is a certainty.