

Improving Farm Profitability Within a Certification Framework

Bart Davidson

Kerry Lonergan:

Our next speaker Bart Davidson is a Soil Scientist. Bart has 15 years experience as a leader in the field of farming systems management in Australia. His primary expertise is the integration of production data into improved management decisions to do with grazing pressure, soil and crop nutrition processes. The focus of Bart's professional career has been on empowering growers to better manage their agricultural ecosystems. Please make welcome Bart Davidson.

Bart Davidson:

Thanks very much. So where do I fit in? I've had a few chapters in my career but basically I get paid to learn. I'm an ecologist by training but that doesn't pay the bills, so I ended up spending my time looking at soil and plant nutrition. And my DNA is maths, to be honest, and that's what keeps on coming through. And that's what I love about agriculture, even though I have a lot of trouble convincing people at times, but maths runs agriculture—and that's why I love it, right. I guess that might come through here, but essentially there is a thread that runs through everything and it's almost always people and numbers.

“Everything comes back to energy...And profitability.”

So, a couple of those numbers. I can't help myself but to give a bit of context. In terms of energy, everything comes back to energy—when we're growing grass, when we're growing crops, when we're trying to finish an animal. It doesn't matter what it is, we're talking about energy. Plus a bit of mineral, plus a bit of protein, plus a bit of electrolyte at times, but it's ultimately energy, right. So my old mate here with his nice house back in 1940. A thousand calories goes into that system, from start to finish. And what came out at the other end was that 80-kilo man's daily requirement of energy, about two and a half thousand calories. So we've put a thousand calories in and we've got two and a half thousand calories out, of the agricultural system. Now that sounds like a good deal. You could take that to the bank. Times have changed and we have had a big shift in the value of energy and the price of energy and the use of energy in agriculture, let alone the rest of the world. What do you reckon it is now? It is twenty five thousand (25,000) calories in and two and a half thousand calories out. It doesn't really matter what the number (exactly) is, it's just not a good number, it's a bad number. All right, so it just means that we've got a system where we talk about profitability and all the things that are coming up time and time and time again, but ultimately that's in a position where we're actually using more energy than we're producing. And any eco system, any ecologist will tell you that you can't do that for long.

So Profitability in the Certification Framework was the heading of my talk. Profitability—why mention that? Well, for a start there's not a lot of it, okay. So just a generic little graph there—the red line is net profit, the dashed line is break even, the line above it is farm income from ABARES. And essentially, no one's making any money. Okay, so in a good year, 60 grand net profit and on the whole we're talking about a break even industry. If you talk to farmers, which I do quite a bit, they'll give you—and I'm saying this with respect because I'm in a room with a few farmers—you'll get a lot of reasons why there's not profitability in farming, okay. There are all sorts. And they're very good, strong, reasons; I mean, they are valid reasons, right. We've got shocking terms of trade; we've got, probably

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Bruce excepted, frustrations with the government at times—it depends on the political cycle but you'll always hear that the government is somewhere in the mix in terms of who we're going to whinge about; the strength of the dollar; and then there's the weather.

Basically, every conversation, if I don't stop it, will touch on one of those things. And, to be honest, I'm not interested. I want to know what it is that drives profitability. I want to talk to the guys who are making money, and I want to learn from them. And then I want to work out how to strengthen that for everybody else. That's my gig; that's basically how I've been fortunate to make my living for the last little while. And I think—that's what I want to just run through now: What are the common denominators to those people, some of whom are in the room - and a great deal of them are out there right now—in CLM and outside of CLM as well.

But basically, I just want to run through quickly what that means to me. And it's really not that hard; it's really not that difficult because we're going to get a lot more value in this whole discussion if we work out how to really thrive and survive, give ourselves the chance to give to others so that we can just drag them along behind us, we can really lead this thing versus cap in hand, open for a hand-out. If I think about the things that are common to the businesses that are making money, this is basically what I come up with: that is, they make good decisions. And more often than not it's avoiding those two, three, four per cent decisions that cost the money. So it's not the 90 per cent that cumulatively keep them busy and keep things going along, it's the rare decisions that don't blow their left foot off. Like going into a dry spell we just have and not making a good call early enough, or any number of things, right.

“I want to know what it is that drives profitability.”

It's about decision-making processes. And essentially doing more of what works and less of what doesn't. That's easy to say. So I want to know then, righto: What do you need to make good decisions? And if I just think about decisions there for example, one of things that graziers will do is hope that it's going to rain. The best graziers will basically make a decision irrespective of whether they want it to rain, they know where they're at, they've got a set of numbers like that - so that's just a digital grazing chart that tells us, righto, we are in a dry time, back there in November 2013. It's time to do something. Right, there's no point looking at this in May of 2014 and saying, shit, it didn't rain. Right, it's maths, it's beautiful maths. It's also people and it's also management. And it's also decision-making. So it's about making good decisions early—it's common to those people making money.

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So if I can just click back to that. What people need to make good decisions is a whole heap of stuff, but one of the really key ones

is data. There is no shortage of data in agriculture; it is everywhere—from the conversations about the weather, to the price of wheat, to the US hedge numbers, it's basically everywhere but very little of it is meaningful. And what I mean by that is, in my role and I'm sure others in the room, I'm constantly exposed to data that has cost money to generate, that often the government has paid to generate too, let alone any number of other industries. But most of it is actually not valuable because something's missing. So what's missing? Well, process. Like, these are my words and there's no book on this, but this is my experience.

And basically, the guys that get the good data and the guys that I really want to spend time with and can learn from and learn with and then add to, have data that means something. And it can be as simple as: How many animals are in the paddock. What the cumulative long-term rainfall is. What the cumulative rainfall is for the last 365 days. What it costs us to grow a kilo of grass, and what that kilo of grass is worth to us. That's all pretty simple calculations. Right now there's a hell of a lot of pain in grazing land just out that way, because a lot of people actually don't know what it costs them to grow a kilo of grass, and

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that's worth to them in the gross margin of the stock that they're running. So you've got the situation where right now—I was talking to people yesterday, they're spending literally 25 cents a kilo to feed an animal that owes them five cents a kilo, day in day out. So the only blokes making money there are the blokes selling the feed. And we've got an animal that's going to go and get its head cut off that's lost 20 cents every single kilo that went down its throat. Because we didn't know those numbers, and they're not hard numbers to work out.

So, the data. In terms of process, Jock mentioned it, I'll mention it, heaps of people have mentioned it—right, when you get down to creating data, if there's no process you've got a mess. And farmers aren't dentists, right. Dentists do what you tell them to do, or they listen to people—I'm sure there's a head dentist somewhere and he says this is how you do it. And all the other dentists just go and do it. But farmers are one of the most autonomous, freethinking, difficult individuals to work within the gene pool of humanity in a country where we are anti-authoritarian to start with, right. Australians hate authoritarianism. Farmers, within that, you've got a difficult, difficult time saying to them: This is how you do it. Could you please do it every single time the same way? It doesn't happen.

“We've got to have some structured process.”

So we've got to have some structured process so that when we take a soil test, when we have a monitoring site, when we measure a, b, c, d or e or f, we actually know that there was a bit of a rationale, there was a bit of a methodology, there was a bit of brain cells going into it so that when we come back around it actually means something to us. So that we've thought about—you know, this isn't rocket science, this is just simple—and I'm not really a scientist, right, I haven't got the patience for it—but the truth is there is such a lack of thought in what the question that we're asking is. And that exercise before lunch was a great example of it. We all ran into it, but we weren't really clear on what the question we're trying to answer is.

And that happens a hell of a lot when it comes to generating data to make good decisions to hopefully make a profit. And what I mean by that is doing the right thing at the right time. And it's absolutely fundamental to the people that I see making a profit. And, you know, to me, what's why I'm into CLM, right. It's as simple as that. Tony got me in to talk there a few years ago and I just got it. Right, like I said, the duck's guts because it's continuous improvement. The detail doesn't really matter. It does to some people, but at the end of the day CLM actually represents everything I've just said before then. Now that isn't CLM; CLM means a lot of things to other people as well, as you've heard through the day. But for me, that was it. Righto, put a structure around that. People do what they say they're going to do.

There's a structure and a trigger and a few benchmarks along the way or a few milestones along the way that say, hey, it's time to do this and this is how we did it last time. So, you know, because Bob's left the farm it doesn't get done differently, it actually gets done the same. The data that was generated still means something. The past still informs the future. That's worth a huge amount. Just imagine, between soil tests, feed tests, water tests, landscape assessments, monitoring sites, you've got masses, you've got mega-data, you literally have mega-data in agriculture. Let alone the weather. That is presently not able to talk to us because the linkages aren't there because the processes weren't there, because the methodologies were absolutely all over the place because we had no structure on the whole. And a lot of money being spent in the process. And I've watched it, and it frustrates me.

“I'm into the CLM thing. Because people have to do what they say they're going to do.”

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This is why I'm into the CLM thing. Because people have to do what they say they're going to do. They don't have to put on a funny hat. They don't have to do a jig. You don't have to become evangelical. You just have to do what you say you're going to do. And that's a really simple, simple message for me, because so often people don't. So it means getting people in a room, you know, soils and plants are my thing, and animals. Getting people in a room really doesn't fit with that but we've got to do a bit of that to get the thread and the platform to be able to do and do it for real. So it's that connection there, that's what speaks to me, having that trigger to get people to stop, to get out of the busyness, to get some of their own numbers on their place, in the right way, to connect that to that beautiful stuff there that we're looking at Ebor.

So the two questions I always love to ask are: What's the story here? Can you tell me the story of this farm? You know, the family might have been here for 100 years, might have been there for three years. But you know what— I did a lot of due diligence in my early consulting—most farms can't tell the story that's behind the farm. If they could they'd extract a lot more value. So irrespective of whether you want to sell the joint or love it forever and do all the things we talk about, there is enormous value in that story and most farms can't tell it because of those things I talked about before. And I actually think it's an essential requisite for making money, both in the asset—as I think Bruce mentioned—and in the cash flow from year to year.

So in terms of thinking, you know, I guess in some people's minds - I'm actually an agronomist as well, and I see a lot of this. Righto, that's agriculture. We're got some strong bits and we've got some weak bits, we've got some people scratching their heads, and we basically have an industry that's sitting there waiting to help them, spend some cash, reduce their margin, and shoot themselves in the foot. Rather than stopping and saying, righto, Why? What's the story here? What have we done wrong? And, again, that's a simple discipline but it's one that CLM represents to me. And that's why I'm in. So, as I say, the problem is really complicated if you want it to be but it's really simple if you want it to be as well—and that is that we've just got to do simple things that link cause and effect. Right, we've not talking about building a NASA spaceship here, we're talking about growing grass, meeting the energy and mineral requirements of an animal, putting some starches and proteins and different forms of carbohydrates in a grain or a root crop. Which is a pretty complicated thing in itself, but at the end of the day we know how to do it but we fail to tell the story so much of the time.

So, for me, this is what it boils down to. A lot of people know where they want to go, right. Most of you, whether you've got a farm or not, you could tell me where you want to go. You've got this picture out here that says, righto, it's green, it's white, it's got beautiful things here and there's some nice stuff over there. But when you get down to it, most farms can't articulate where they are now. They've got a pretty fair idea of what it wants to be looking like. And I'm all for it, I share in people's vision for agriculture. I want it myself. When I make enough money, I'm going to have the best farm you've ever seen. But my point here is that most people actually can't articulate where they are right now. That's a part of the job of decisions, data, process, okay.

And, as I keep rabbiting on about, CLM, for me, fits the bill. So that we can actually say, righto, we are here. We're going over there. Whether it be to the government who have helped us along the way, or if it's to industry who've helped us along the way, or if it's to an investor in our property along the way, or if it's to the kids—this is where we are, this is where we're going and this is how we got there. Rather than what I do see a hell of a lot is that we start ... we work out where we are, we take a number of different avenues, we follow different rabbit warrens, we try different products, we try different philosophies, we put different hats on, we dance different ways, and ultimately we actually don't know where we are. Or even worse, because then someone comes along, we pay them—the consultant I'm

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talking about—and we can't actually explain to him why we are where we are now because we're not where we were and we're nowhere near where we want to be.

Because there's no thread that runs through it. And the thread is almost always numbers in farming, okay. So I'm not sure if I've lost half of you there, but ecologically there is always numbers in the job and the weather is all numbers—I don't want to harp on the numbers thing, but basically, simple, simple records help you tell a story. And the goal, and we start it in our Farm Ecology module in CLM, is to build a thread between the soil, the plant and the animal. And then ultimately the product, ultimately the consumer. And that to me is pretty sexy; that's our gift, that's the bit that we can do that other industries can't do. You can walk into an engineering shop—that's not a very sexy story. This is a sexy story. Right, we've got a lot there that we can sell, but we've got to make those threads.

So what we do in the farm ecology part of the deal is to say, righto, let's go to the basics, let's look at photosynthesis and the carbon story and the whole plant cycling thing, and it's a pretty neat little story in itself. But I did a few years of that theoretically and it taught me that it just doesn't work, people go home and they forget. Unless it's their numbers. So as Jock alluded to early on, this is their numbers, it's their soil. And I have a vision for when it's their plants, their animals, their ... the thread runs through the whole job, now we've just got to walk before we can run. But that's basically what we're seeing.

So that there's context for the growers. It's one thing to have a single set of numbers, but what I find really empowers growers is when they can see where are in the room because they're often too busy and they don't literally have an awareness or a consciousness of the great differences that exist within 100kms. And it can be a massive difference between 100kms one side of town and 200kms the other side of town in terms of the response to weather, the response to the environment, and the things that they have to contend with. Yet the products, the management, are often the same and generic. Which means there's a lot of upside.

So we spend time looking at that, to see where the context is, where are they in the room, in the group, in the region. And then there's real power in that because you can start to put this accumulating data together by industry, by enterprise, by group. And today I'm hearing CLM and I'm thinking what a magical situation you could have where the data that is within, the Ebor guys could be talking to the guys at Mitchell and Wallumbilla as a part of the deal. It's just a powerful thing because the data has a rationale from start to finish, methodology, process, so that there's confidence in the decisions.

And I won't rabbit on about the numbers but basically what we're doing here is saying, okay, where are you? Where are you where you're really good? Where are you where you're really poor? What's the difference? What is it that makes the best better? So even soil science - I've spent lots of time trying to work out what it is that makes good production tick, and you can get lost in that. It's a big book. But ultimately, if we just keep it simple and we think about it from a good farmer's perspective or a good grazier's perspective, we work out what works in an environment, in a landscape, in a place—it might be a paddock, it might be a valley, it might be a big old area. But at the end of the day we look at what's working, what's the best, what's common to that, and then build on it. And the lights go on. And it's a great thing when the lights go on.

And not only that, we get a sense of benchmarking, we get a sense of change, we get a sense of (again) the story. And carbon's always topical. But ultimately you could look at this a hundred different ways, but ultimately it's just trying to find out what it is that the growers are spending money on, or not accentuating an improvement in, and how we tell that story. And if it's done right—and, again, CLM fits the bill because if you say you're going to do it you do it, you do it the same way; it's not a piece of paper on top of the fridge that someone has to pull out, it's actually part of the deal. Then chances are, it's actually going to be pretty meaningful.

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So, in practice, we then get to a position where we can be, conceptually, this is the job. This is what the graziers, without going into the cropping, have to contend with—prioritising, intensity, time, where, what. But that comes out of data; it doesn't come out of throwing a dart at the board. So ultimately the goal of that is to have context, as I said. There's a lot of power in the benchmarking. It's been sort of touched on today, but this CLM thing, you could have a huge, innovative leap within the group, a growing group, let alone with other groups. It all leads back to management, which is what this is all about ultimately as well. But linking management to some metrics and some practices and some outcomes.

And then—I keep coming back to this because it keeps coming up time and time again for me—being able to communicate that downstream. I'm thinking there of a quick side topic, a conversation with a client who, you know, he's pretty good at growing spuds; he grows a lot of spuds—four out of every five spuds goes into Woolies from this guy, and I've had this conversation with him over a couple of years and we generate lots of data and we generate lots of noise and lots of stuff. But ultimately, we've worked out how to grow spuds really, really well. And that's not why he's interested in CLM; he's interested in CLM because it's not enough to be a really good grower—and he'd be in the top two per cent, right, he's very good. What he needs is to be able to sell the story. Being good is not enough. Having a story is the next part of the equation to be, actually not just good, but viable and a business that can be pretty exciting to be involved in.

So—and I think there's internal value and external—you know, it's very empowering for managers to be able to talk the same language with their shareholders, their investors and their guys on-farm or between farms, or between farms and networks or between networks and consumers. So back to our mate Damian there, they tell a story. The same thing, everything I've just talked about. In their case, it's a grazing operation, some beautiful cattle. We take that through to a branded beef, boxed beef, a cryovac job that goes in there for 50 bucks a kilo in Brisbane and Melbourne and whatever else. And it's everything I've just talked about, and they're one of the guys that saw this pretty early on. I don't know what number they were, but they get this, this CLM thing. And I look at them and I think why doesn't everyone get that? But I understand that it's easier when you've got a branded product because you can control it, you can do what was mentioned before about making people line up rather than trying to flog yourself. But you get the principle.

“This farm ecology job in CLM is that we're talking about their numbers, 'their' being the farmers.”

So the outcome of all that for me is that—and of this farm ecology job in CLM is that we're talking about their numbers, 'their' being the farmers. You know, it's very different to go and have another field day, another workshop, another bloody day in a classroom talking about theoreticals versus what really lights people's fires is their own numbers, you know: How am I going? Where do I fit? And even when it's really crap, it's still enthusing for most people because there's an understanding, there are some linkages that get made. Because at a gut level, without fail, farmers understand their country. It's how they articulate that and how they communicate that that is often very difficult.

So prioritising, I mentioned that, and the record of change which is probably where CLM is strongest, but because there is this demonstrable progress that can be shown, whether it's in carbon or in salinity or pH or whatever you like; there's all sorts of metrics that can be pulled out of it there. But most often, in the broader farming community I'm telling you it's not. So again, a big opportunity. So simple does work. I've spent a life trying to complicate things and I've come to the conclusion that simple really is the best solution. Continuity, the discipline to not just do it, but to also take the time to learn from it. And that's something that farmers aren't naturally good at. So, again, I'll keep going back to it, CLM actually builds that in and that's really why it appeals to me.

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So I'll finish. I'm not sure what sort of a little ride I've just taken you on but basically it was trying to give you an insight into the farm ecology component of CLM, why we're doing it, where it might go, and one of the motivators for me is that I was told a long time ago—and I've actually been a broke farmer too—it's not good enough to be average. Right. The average farmer is going to go broke. It might take a while but it's going to happen. You've got to be better than average. And that's what we're talking about here. And I love this one because it's true. I'm a consultant; you can take it as fact. Profit always has a story to tell, and it's not something that we should shirk from, we should be proud of it. If there's no profit, we're gone. I'm gone. We're all gone. We've got to have some profitability and we've got to be proud of it and we've got to make it happen. And I think CLM has a role to play. And we should be proud of that too. In we go. All right.

So I just realised again—I've come over the border last night and I often forget to speak a little bit slower, so I'll take a little bit of the relaxation in the room that I can see at the moment to be the post-lunch thing as well as the I don't know what he just said thing. But, and I've got no concept of time either so I don't know if I'm on time or off time, but if there's time for questions now otherwise I'm out of here and I thank you for listening.