

# Farmers should balance careful consideration with experimentation in 2017

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Following seven consecutive quarters of negative growth, the agricultural industry should be able to get back to near normal production levels if normal to above normal rainfall persists.



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This will give consumers a breather down the line, in terms of food prices moving sideways rather than continuously upward as depicted in the Dec16 food inflation index which peaked at 11.7%.

It will also give farmers an opportunity to break out of what has been an all-consuming focus on surviving the drought and begin to look at ways to increase revenues while spreading their risk by diversifying their operations. The drought will have drained producers' financial resources. So, it's important that farmers now carefully consider their business plans, ring-fencing their income from what looks to be a positive year, in most subsectors, in order to reduce or settle debt. Knowing that yields are likely to be good this season gives one the confidence and the luxury of time to plan for farming activities that will add revenue streams one at a time.

At the back of positive market movements, there is a trend developing among more producers towards investing in longer term crops such as nuts (and avo's and citrus, area permitting).

## Export orientated producers

On the demand side, growing export markets (Asia and the East) with supply side pressures such as limited availability of additional arable land in established production areas across the globe are driving the expansion of local production in SA. It seems that export orientated producers are reaping the benefits under these circumstances.

Horticulture is another such example. According to the Department of Agriculture's 2015-2016 Economic Review, the total gross value of agricultural production increased by 9.1%. The increase is attributed mostly to an increase in the value of horticultural products. Gross farming income from all agricultural products increased by 4.9% for the year ended 30 June 2016. Gross income from horticulture increased by 15.2%. Part of the reason for horticulture's good performance is that it has a strong presence in export markets.

## Entering new markets

Consumers are also increasingly demanding healthy foods and, in particular, are switching from a high carbohydrate to a high-fat diet. Such an obvious shift in consumer behaviour is a good guide as to which new crops or livestock options to invest in.

However, farmers aspiring to enter relatively new markets or those deemed to be niche markets need to ensure that they understand the depth of these markets, how price discovery works in them and what the unfamiliar logistics and marketing/sales requirements might be. For instance, commercial nut production only takes effect after five to seven years. Markets can change significantly in that time. You need to work closely with relevant industry bodies to be sure that the markets you're interested in continue to be developed and, therefore, that your investment is safe. Collaboration and collective action are key to modern agriculture.

## Thorough assessments needed in terms of resources

Also, taking an incremental approach, by putting just enough hectares under a new crop, will position a farmer to benefit from new ventures without risking his entire livelihood. It is, therefore, advisable for a producer to take cognizance of his current financial depth and free cash situation, by means of a proper financial assessment and modeling, in need with the assistance of an expert.

In a water-scarce country like South Africa, very few, if any, farmers can count on unrestricted access to water or on the ability to irrigate. It is, therefore, advisable that any diversification into new crops or livestock ventures is preceded by a thorough assessment on the availability of water and the quality/sustainability of the source.

In general, not just limited to new or diversification strategies, it is essential that individual farmers need to find ways to increase their ability to store and recycle water to make the most of the available water.

Finding a balance between the careful consideration of existing business plans on the one side and exploring new opportunities in other industries or markets on the other side, are not just a means to secure long-term sustainability, but it also contributes, in a broader stability sense, to job creation. Agriculture has made good progress in the past six years, despite the drought causing a contraction of 5% in the past quarter, increasing the number of jobs by 18% over the longer period.

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