



Western Australia Vegetable Industry Benchmarks

2016–2017 Financial Year

Prepared by
vegetablesWA and Planfarm Pty Ltd



Department of
Primary Industries and
Regional Development

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KEY INSIGHTS

The vegetablesWA & Planfarm benchmarks is Western Australia's first ever annual report into the financial and production performance of vegetable grower businesses.

The 2016–17 financial year has been a positive, if not challenging year.

Key insights are:

- There were generally very positive outcomes however wide range of results.
- The best growers produced more income and controlled operating costs, focusing on growing vegetables.
- The WA vegetable industry can generate very positive returns comparable with any industry.
- There are easy changes to improve profits for those with lower results.
- The overall industry average numbers will change as the benchmarks evolve to include more businesses and we develop the measures used to benefit the industry.

ABOUT THIS RESEARCH

This report is published for the benefit of Western Australian vegetable growers and those involved in the Western Australian vegetable industry. The 2016–17 vegetablesWA & Planfarm benchmarks are derived from a number of businesses positioned across Western Australia.

The result of this benchmarking initiative is producing an industry report and an individual grower report. The industry report aims to take a snapshot of where the vegetable industry in WA is positioned. The grower report drills down into the individual growers information, highlighting the strengths and weaknesses of an individual business producing a number of vegetable lines, comparing productivity and profitability measures back against the average and providing feedback to help drive the individual growers performance over the short and long term.

For more information about the vegetable benchmarking or any other products offered by vegetablesWA or Planfarm and any questions related to this report, please contact us.

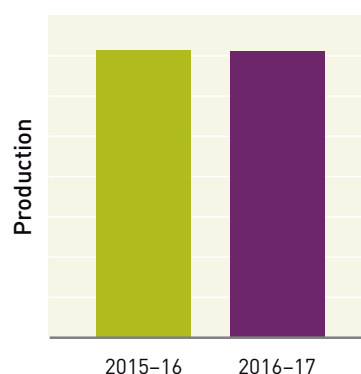
PRESENTATION OF FINANCIAL RESULTS

This report only includes the analysis of the 2016–17 financial year results.

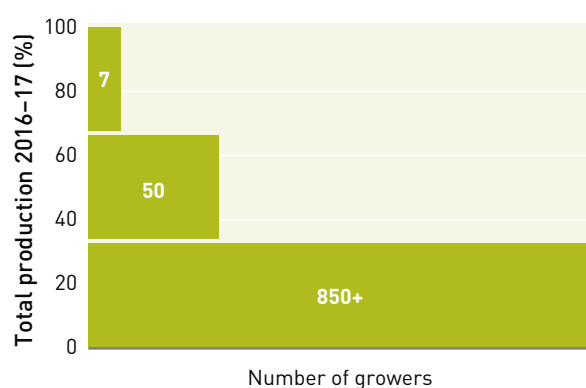
For the 2016–17 benchmarking the growers were ranked on their vegetable operating profit per hectare. Vegetable operating profit per hectare is calculated by taking vegetable operating costs away from vegetable enterprise income so it ignores other enterprise expenses and income.

Throughout this report you will see results being presented for the whole dataset, the top ranked 25% and the bottom ranked 25%. The average is the average of the whole dataset while the top 25% and the bottom 25% results are the average of the top ranked 25% and bottom ranked 25%.

VEGETABLE INDUSTRY PRODUCTION INFORMATION



The level of production was the same between 2015–16 and 2016–17

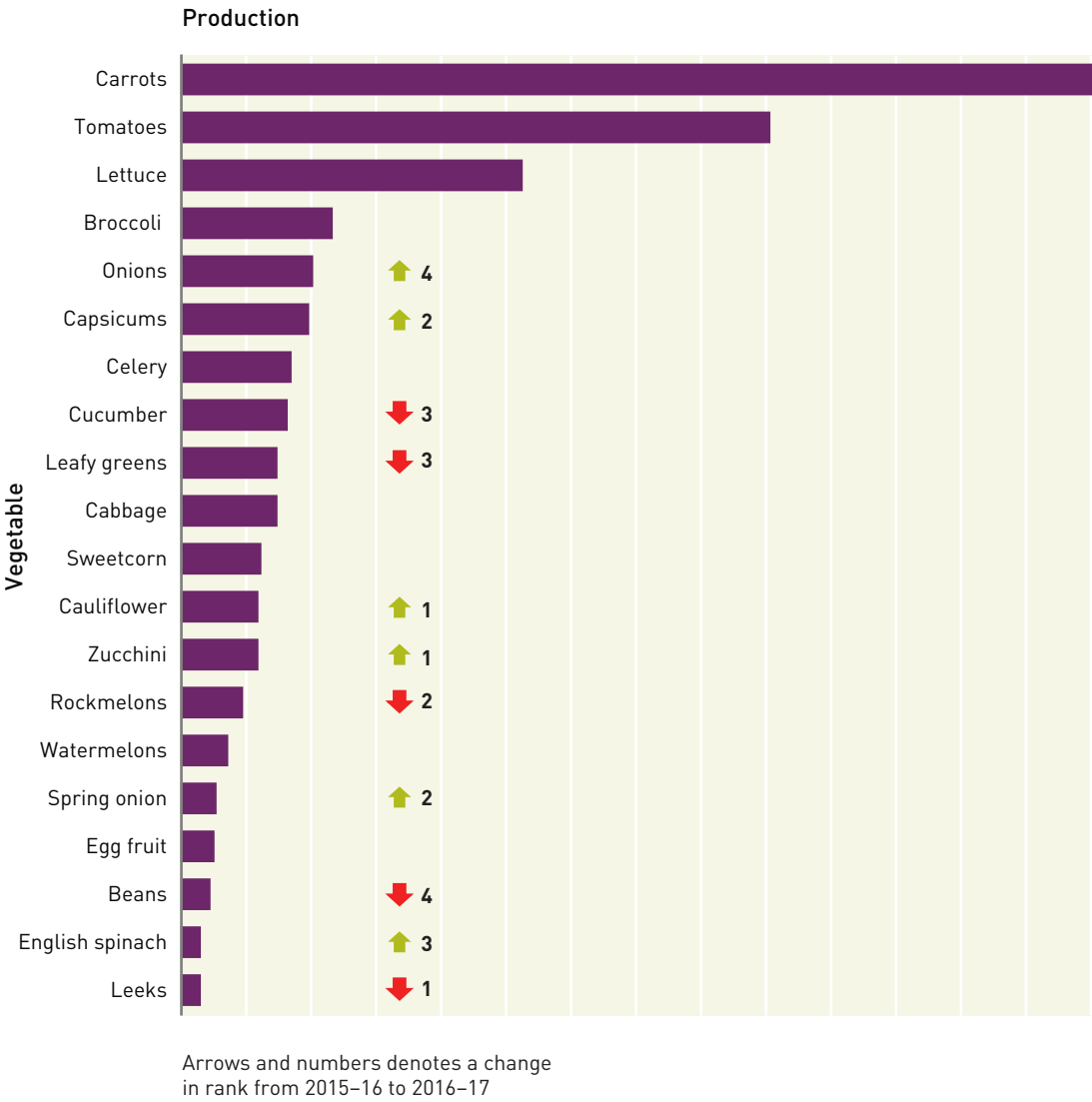


Growers have been ranked in terms of production in 2016–17:

- the first third of total production was produced by the seven largest producers
- the second third of total production was produced by the next 50 producers
- the last third of total production was produced by the remaining 850+ growers

The insights are provided from analysis and assumptions drawn from the Agricultural Produce Commission Vegetable Producers Committee fee for service data

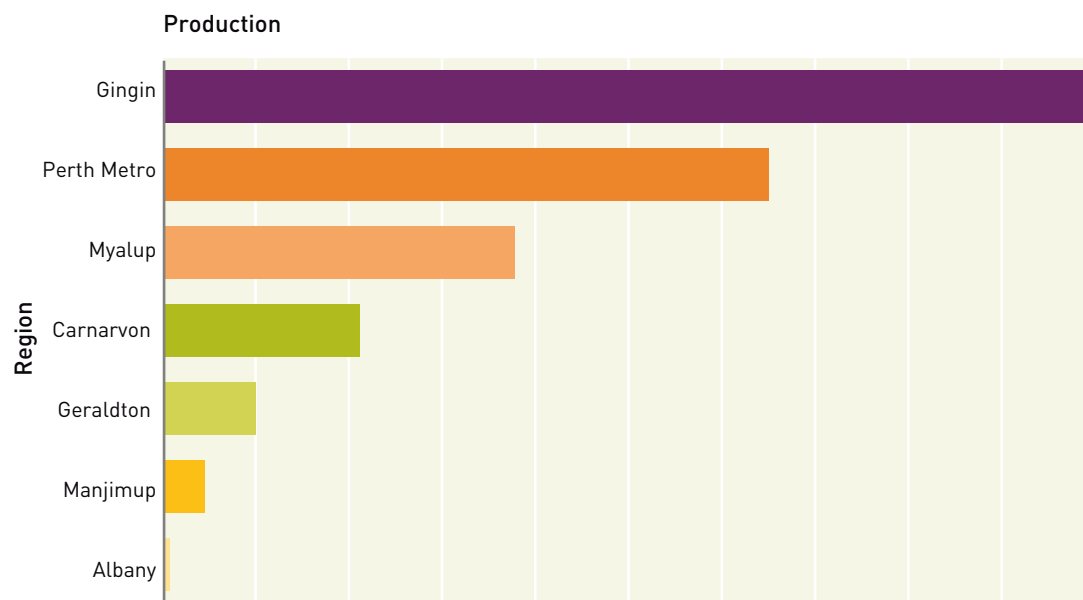
TOP 20 VEGETABLE LINES RANKED BY PRODUCTION IN 2016-17



The insights are provided from analysis and assumptions drawn from the Agricultural Produce Commission Vegetable Producers Committee fee for service data

VEGETABLE INDUSTRY PRODUCTION INFORMATION (CONTINUED)

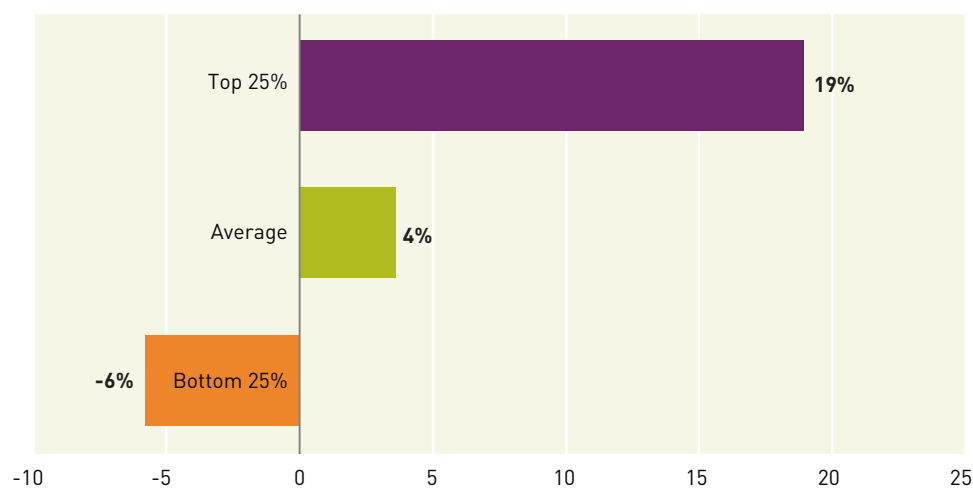
REGIONAL PRODUCTION IN 2016-17



The insights are provided from analysis and assumptions drawn from the Agricultural Produce Commission Vegetable Producers Committee fee for service data

WA VEGETABLE GROWERS PERFORMANCE

THE 2016–17 FINANCIAL YEAR WAS A VARIED ONE FOR VEGETABLE GROWERS, WITH A WIDE RANGE OF RETURN ON CAPITAL ACHIEVED ACROSS WESTERN AUSTRALIA

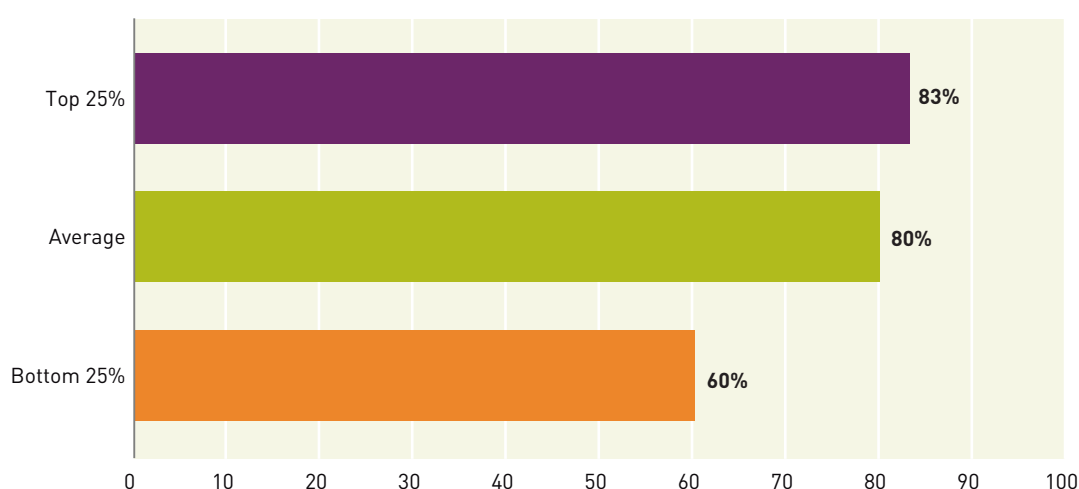


ADJUSTED RETURN ON CAPITAL (ROC)

- West Australian vegetable growers achieved an average return on capital of 4% in the 2016–17 financial year. The top 25% had a return on capital of 19%, while the bottom 25% of growers generated a return on capital of -6%. This highlights the variance in WA vegetable growers performance.
- The adjusted return on capital (ROC) is one of the most important financial ratios to consider when examining a growers performance. ROC is the cash return not including any capital gain on land asset.
- The adjusted return on capital is calculated by taking liquid farm assets away from total farm assets. Liquid assets, such as cash at bank and produce on hand, can easily be sold, or converted into cash and aren't necessarily part of the initial investment made. Therefore, this is a more accurate measure of the return on capital that an investment has made.
- The adjusted ROC is an important measure that the grower can use to determine how their business is tracking over time and whether they are making sound business decisions. If a grower can achieve an increased profit each year and increasing total farm liquid assets it will improve their adjusted ROC.

WA VEGETABLE GROWERS PERFORMANCE (CONTINUED)

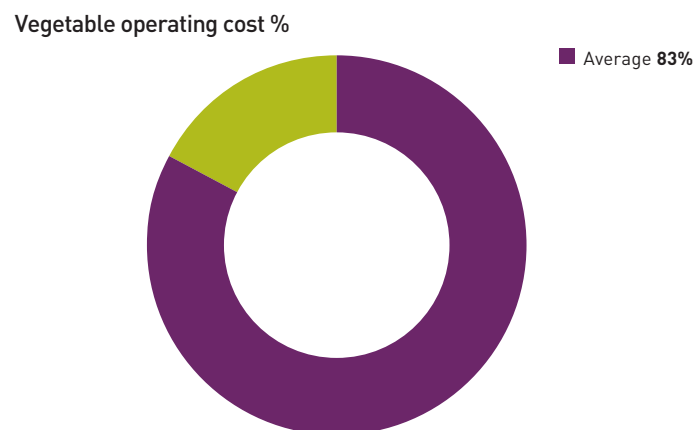
VEGETABLE GROWERS IN WESTERN AUSTRALIA HAVE STRONG BUSINESSES WITH AN AVERAGE ADJUSTED EQUITY PERCENTAGE OF 83%



ADJUSTED EQUITY PERCENTAGE

- From the results it can be seen that vegetable growers in Western Australia have mixed financial positions in terms of business equity percentages. The average and the top 25% had strong equity positions while the bottom 25% had a significantly lower equity position.
- The graph depicts the adjusted equity percentages of the top 25%, the average, and the bottom 25%. The equity percentage is a measure of the ownership of total farm assets, it is calculated by dividing total equity by assets net of liquid assets.
- The assets net of liquid assets is calculated by taking liquid farm assets away from total farm assets. Liquid assets, such as cash at bank and produce on hand, can easily be sold, or converted into cash. Therefore, this figure is a more accurate representation of a businesses ownership position.
- The adjusted equity percentage is an important measure that the grower can use to determine what their entire business equity ownership is.

2016–17 FINANCIAL YEAR WESTERN AUSTRALIAN VEGETABLE GROWERS OPERATING COSTS AS A PERCENTAGE OF GROSS FARM INCOME WAS 83%



VEGETABLE OPERATING COST PERCENTAGE

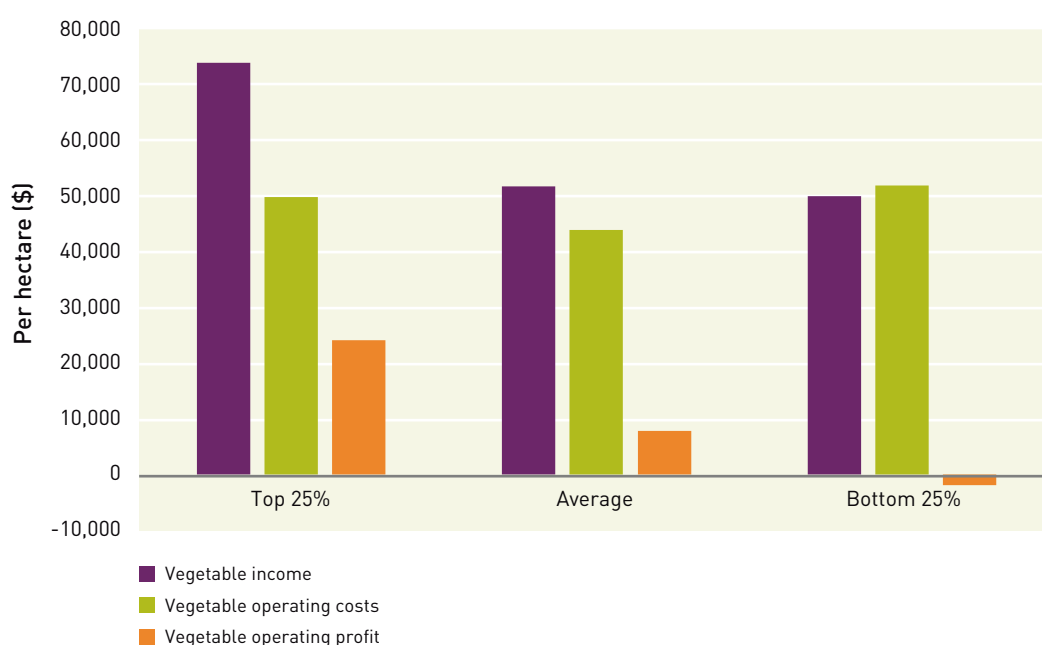
- In the 2016–17 financial year the average Western Australian vegetable grower was able to keep vegetable operating costs to 83% of vegetable income, which was an average operating profit per hectare of \$7,833.14.
- The vegetable operating cost percentage is a measure of the percentage of the vegetable income that is allocated to covering the seasons vegetable operating costs. Operating costs include the major cost items such as wages, cost of sales and also overhead costs.
- The operating cost percentage is an important measure that the grower can use to determine how they turn operating expenses into income. If a grower can reduce the operating costs of their business while maintaining the same income or increase income with the same costs, then they can increase profitability.

KEY POINT OF NOTE:

- With an average operating profit of \$7,833/ha, a reduction of just 5% in operating cost % (83% to 78%) would increase the operating profit by \$2,303/ha or 29.4%.

WA VEGETABLE GROWERS PERFORMANCE (CONTINUED)

2016-17 FINANCIAL YEAR WAS VARIED WITH VERY LARGE DIFFERENCES BETWEEN THE TOP 25%, THE AVERAGE AND THE BOTTOM 25% OF GROWERS IN TERMS OF OPERATING COSTS AS A PERCENTAGE OF GROSS FARM INCOME



2016-17 VEGETABLE INCOME, VEGETABLE OPERATING COSTS AND VEGETABLE OPERATING PROFIT COMPARISON

- The results of the 2016-17 financial year show a clear trend in the vegetable income per hectare between the three groups, with the top 25% producing 43% more income from similar operating costs.
- The average and the bottom 25% produced almost the same amount of revenue, but the average grower had a higher vegetable operating profit per hectare due to \$6,000/ha lower operating costs compared to a grower in the bottom 25%.

MARKET & ENVIRONMENTAL FACTORS

During the 2016–17 financial year there were four major market and environmental factors that influenced the performance of growers over this period.



TOMATO POTATO PSYLLID
INCURSION IN WA



MARKET ACCESS CUT TO
EASTERN STATES BUYERS



MARKET FLOODING IN
MAJOR KEY LINES



WEATHER EVENT
CHANGES, Milder
CONDITIONS

TOP PERFORMERS IN 2016–17

15%

HAD A 15% HIGHER
RETURN ON CAPITAL THAN
THE AVERAGE GROWER

22%

HAD 22% LOWER
VEGETABLE OPERATING
EXPENSE PERCENTAGE

\$24,218

HAD A VEGETABLE
OPERATING PROFIT OF
\$24,218 PER HECTARE

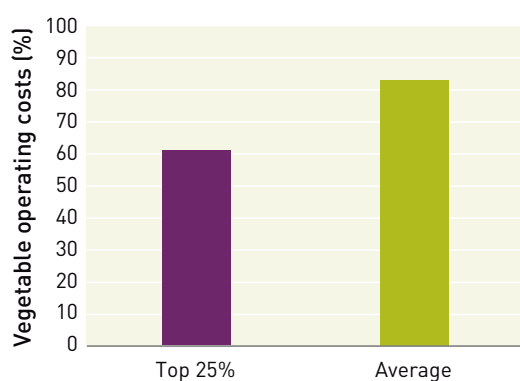
The top 25% of growers were ranked on the vegetable operating profit per hectare.

Some of the financial markers of the top 25% of growers were:

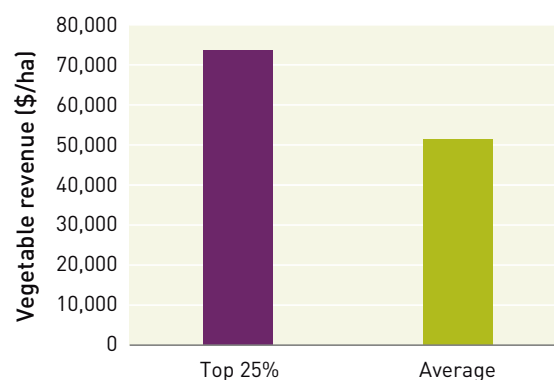
- They produced more vegetable revenue per hectare when compared to the average and the bottom 25% of growers.
- They were more efficient at controlling their operating costs, being 22% lower than the average vegetable grower as a percentage of farm income.
- They were more focused, only growing vegetables and have no other farm enterprises.

TOP PERFORMERS IN 2016-17 (CONTINUED)

HAD LOWER OPERATING COST %



PRODUCED MORE REVENUE FROM THE SAME AMOUNT OF LAND



Some of the key differences in terms of business practice between the top 25% and average vegetable growers were:



THEY PRODUCED
QUARTERLY FINANCIAL
REPORTS



THEY PRODUCED AN
ANNUAL BUDGET



THEY USED SPECIFIC
CROP ROTATIONS AROUND
THE FARM



THEY KEPT GOOD
PRODUCTION AND
FINANCIAL RECORDS

GROWER PRODUCTIVITY

The benchmarking project has the ability to collect and report on key productivity ratios, however, due to business management and record keeping among the majority of participating growers, this information is not able to be generated in the first year of benchmarking.

Typical grower productivity measures will include:

- **Yield per full time equivalent:** This details the vegetables produced for every full time labour unit.
- **Yield per labour cost:** This details the vegetables produced for every labour dollar spent.
- **Yield per kilolitre:** This details the vegetables produced for every kilolitre of water used.
- **Yield per dollar of chemical and fertiliser:** This details the vegetables produced for every dollar spent on chemicals and fertiliser.

GET INVOLVED

This Industry benchmarking report, although giving insight into the general performance of Western Australian vegetable growers in the 2016-2017 financial year, does not provide actionable insight to vegetable growers on its own.

For Growers to gain the most benefit out of this project they need to have their own data compared back to the industry benchmark data which can be found on the individual grower report. To have access to the individual grower report the grower must participate in this project.

To enjoy this benefit and get involved, start recording as much data as you can about your business and get in touch with vegetablesWA or Planfarm to begin the benchmarking process.

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APPENDICES

ADJUSTED ASSETS

This the Total assets figure minus the liquid assets.

ADJUSTED EQUITY PERCENTAGE

This is the equity figure divided by the total assets minus net of liquid assets.

ADJUSTED RETURN ON CAPITAL

This is the profit before tax total divided by the adjusted assets figure.

EFFECTIVE AREA

The land used directly for production of vegetables or other farm income, doesn't include non arable land such as salt lakes, rocks and bushland in hectares.

EQUITY PERCENTAGE

This is the dollar equity figure divided by the total assets expressed as a percentage.

GROSS FARM INCOME

All income produced from farm related activities. Includes proceeds from the sales of all produce, diesel rebates, crate rebates and other farm related income.

LIQUID ASSETS

Defined as assets that are easily transferred into cash. These are defined as cash at bank, accounts receivable, tolls, credits, seed, produce and stores in this report.

MEASURE PER HECTARE

A measure divided by the effective area.

OPERATING EXPENSES

Relates to any payments made by the farm business for materials and services, excluding capital (depreciation), finance, and personal expenditure.

OPERATING EXPENSES PERCENTAGE

This is the operating expenses amount divided by the gross farm income amount.

OPERATING PROFIT

This is the gross farm income minus the operating expenses.

PROFIT BEFORE TAX

This is the gross farm income minus operating expenses, capital expenses, the interest component of finance expenses and farm lease payments.

VEGETABLE OPERATING INCOME

This is all of the income which is generated from the vegetable enterprise of the business, this is the sales of produce, crate rebates and diesel rebates.

VEGETABLE OPERATING EXPENSE PERCENTAGE

This is the vegetable operating expenses divided by the vegetable income expressed as a percentage.

NET PROFIT

This is the vegetable operating profit plus the other farm enterprise operating profit minus capital expenses farm lease payments and the wages of management.

OTHER ENTERPRISE OPERATING PROFIT

This is the other enterprises, such as fruit production, income minus operating costs associated with the production in this other enterprise.

WAGES OF MANAGEMENT

The adjusted expense that is calculated using the net worth of a farm to allocate a wage to the owners of the business who would pay themselves with drawings.

VEGETABLE OPERATING EXPENSES

This is all of the operating expenses which have been allocated to the vegetable enterprise of the farm.

VEGETABLE OPERATING PROFIT

This is the vegetable income minus the vegetable operating expense.



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