

WESTERN AUSTRALIA

VEGETABLE INDUSTRY BENCHMARKS



2018-19 FINANCIAL YEAR




vegetablesWA


PLANFARM

**Hort
Innovation**



Department of
Primary Industries and
Regional Development

**Prepared by
vegetablesWA and
Planfarm Pty Ltd**

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Contact: Bryn Edwards
702-704 Murray Street
West Perth, WA 6005
t: 08 9486 7515
bryn.edwards@vegetableswa.com.au
www.vegetableswa.com.au



Contact: Paul Omodei
Suite 17/18/19, Level 4, 92 Walters Drive
Osborne Park, WA 6017
t: 08 9284 1044
paul@planfarm.com.au
www.planfarm.com.au

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 2018-19 vegetablesWA & Planfarm benchmarks are derived from a number of businesses located 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. While the grower report drills down into the individual growers information. Doing this highlights the strengths and weaknesses of an individual business, whilst comparing productivity and profitability measures back against the average. This project has been able to consistently and effectively provide one-on-one feedback to help drive the individual growers business 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.

KEY INSIGHTS

The vegetablesWA and Planfarm's *Vegetable Industry Benchmarks 2016-17* was Western Australia's first ever annual report into the financial and production performance of vegetable grower businesses. The 2018-19 is the third edition of the annual report and contains significant insight into the financial performance of Western Australian vegetable growers.

KEY INSIGHTS ARE:

- Generally positive outcomes however there is a wide range of results.
- The most profitable growers (as measured by vegetable operating profit per hectare) were not those from a particular area, of greater scale or a particular vegetable type, but those that were able to achieve a higher income per hectare, through increased saleable yield and a strong focus on marketing their product, while keeping costs as a percentage of income below 65%.
- The most profitable growers were also focused heavily on vegetable production, allocating 90% of their area to growing vegetables.
- The most profitable producers were not necessarily the largest producers in terms of land area utilised.
- The vegetable industry can generate great returns comparable with any other industry or investment type.
- There are easy changes to improve profits for those with lower results.
- The overall industry average numbers have changed as the benchmarking has evolved over three years as it involves more businesses. We have also further refined financial measures to benefit the industry.

PRESENTATION OF FINANCIAL RESULTS



This report is the analysis of the 2018–19 single year financial results.

At the end of this report the 2016–17, 2017–18 and 2018–19 single year results are compared against each other for individual three-year comparisons. We also present the three-year average results based off a consistent client base. This is to build some medium- to long-term benchmarking results of West Australian vegetable growers.

Throughout this report you will see vegetable grower results being presented ranked on the **average**, the **top 25%** and the **bottom 25%**. The average is the average of the whole data set while the bottom 25% and the top 25% results are the average of the bottom 25% and top 25% respectively.

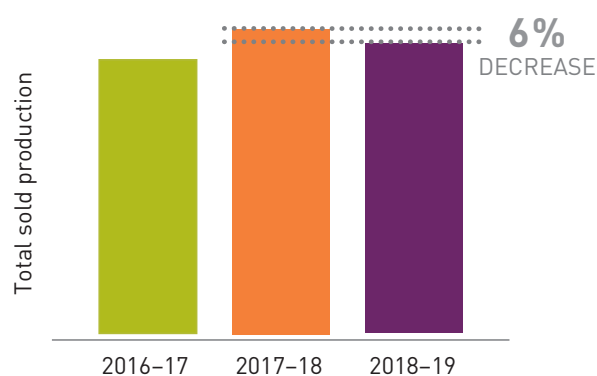
For the 2018–19 benchmarking single year results, the growers were ranked on their vegetable operating profit per hectare. Vegetable operating profit per hectare is calculated by taking vegetable operating costs away from vegetable enterprise income so it ignores other enterprise expenses and income. This allows for growers to be ranked on the profitability of their vegetable enterprise.

Note that for the measures such as the vegetable operating costs percentage, the equity percentage and the return on capital these measures are calculated individually for every client and then averaged. They are not calculated using the average vegetable income/costs or average net equity/assets or average net profit divided by average assets. This is an important distinction to make as they will return different results if calculated off the averages.

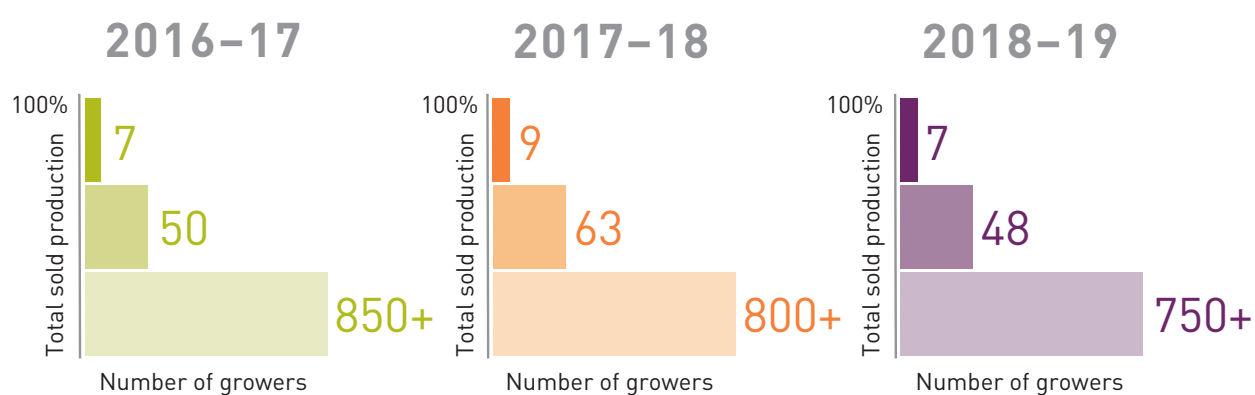
VEGETABLE INDUSTRY INFORMATION

TOTAL SOLD PRODUCTION

There was a 6% decrease in sold vegetable production between 2018–19 and the preceding year of 2017–18.



SPREAD OF VEGETABLE GROWER PRODUCTION IN WESTERN AUSTRALIA

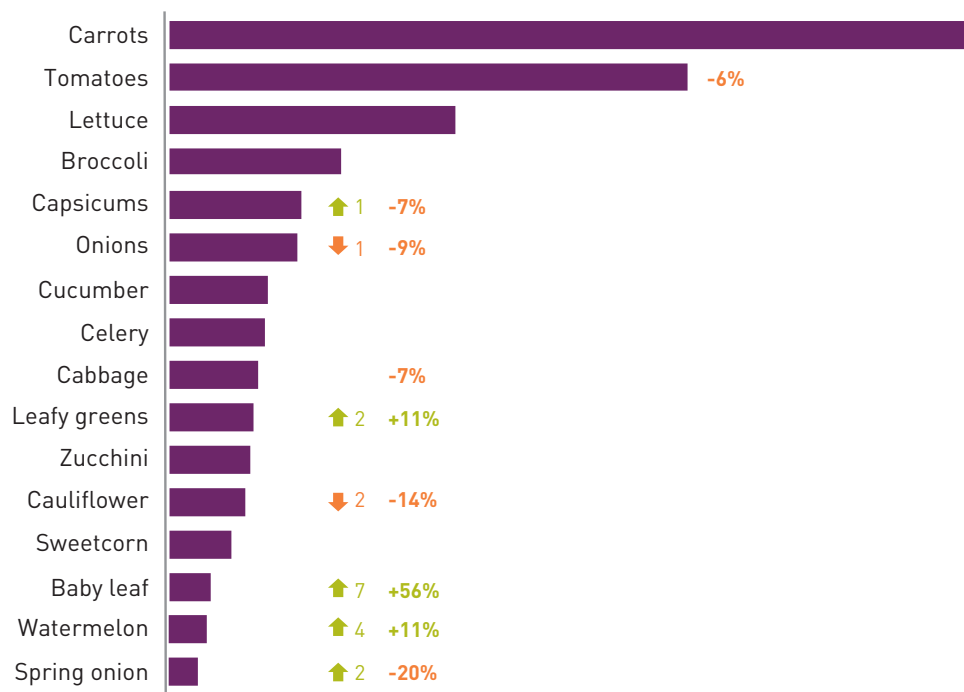


Ranking growers in terms of production in 2018–19:

- The first third of total sold production was produced by the seven largest producers
- The second third of total sold production was produced by next 48 producers
- The last third of total sold production was produced by the remaining 750+ growers
- There was a reduction of 5% of growers from 2017–18

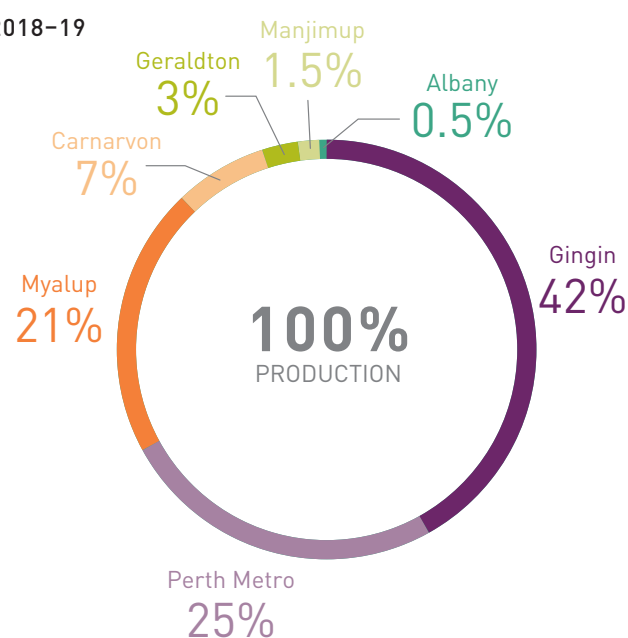
The insights are provided from analysis and assumptions drawn from the Agricultural Produce Commission Vegetable Producers Committee fee for service data

TOP 14 VEGETABLE LINES RANKED BY SOLD PRODUCTION IN 2018-19 — 80% OF TOTAL



Arrows and numbers denotes in a change in rank from 2017-18 to 2018-19

REGIONAL PRODUCTION IN 2018-19

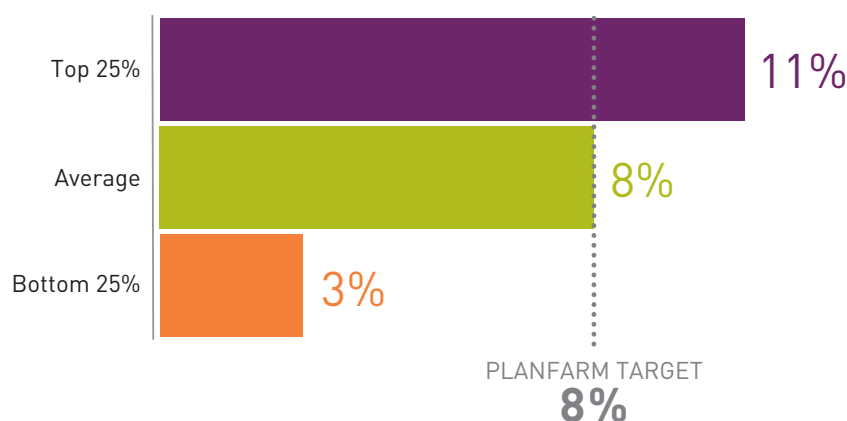


The insights are provided from analysis and assumptions drawn from the Agricultural Produce Commission Vegetable Producers Committee fee for service data

WA VEGETABLE GROWER PERFORMANCE

The 2018–19 financial year provided variable results from participants. The average return on capital was 8%.

2018–19 RETURN ON CAPITAL



KEY FINDINGS:

- West Australian vegetable growers achieved an average return on capital of 8% in the 2018–19 financial year. The top 25% had a return on capital of 11% while the bottom 25% had a return on capital of 3%. This highlights the varied performance of vegetable growers.
- The average return on capital of 8% is equal to the Planfarm KPI target return on capital. When achieving an average return on capital of 8% over 10 years, a business will double its capital base.
- It's important to understand that the return on capital measure is a whole business measure and therefore other farm enterprises, such as livestock, other cropping or processing facilities will contribute to generating a positive return on capital.
- The return on capital (ROC) is one of the most important financial ratios to consider when examining a grower's performance. ROC is the cash return from the capital at the businesses disposal and does not include any capital gain on land assets.
- The ROC is calculated by taking liquid farm assets away from total 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 to produce income. Therefore this is a more accurate measure of the return on capital that an investment has made.
- The 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 increase total farm liquid assets it will improve their ROC.

Vegetable growers in Western Australia in the 2018-19 financial year, have strong balance sheets with an average business equity of 79.4%.

2018-19 EQUITY %



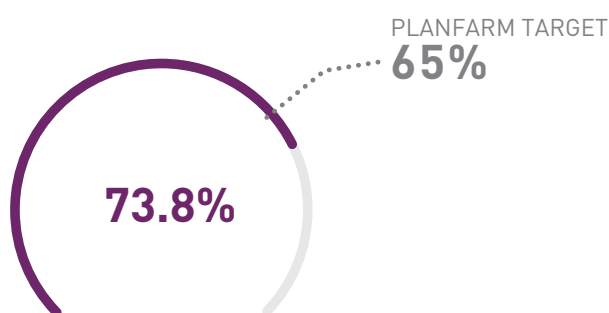
KEY FINDINGS:

- The average equity position for the 2018-19 benchmarks was 79%, with the top 25% being slightly higher at 81% and the bottom 25% being lower at 75%. This equity position for both the average and top 25% is ideal as the target equity percentage is 80%, a KPI set by Planfarm. This is because an equity percentage above 80% can assist businesses to survive shocks such as negative surplus (deficit) caused from production, market influences or pricing catastrophes.
- The graph depicts the equity percentages of the top 25%, the average and the bottom 25%. Equity percentage is a measure of the ownership of total farm assets, it is calculated by dividing total equity by total assets.
- The equity percentage is an important measure that the grower can use to determine their entire business equity ownership. From the results it can be seen that vegetable growers in Western Australia have a stable financial position in terms of business equity percentages.

WA VEGETABLE GROWER PERFORMANCE CONTINUED...

In the 2018–19 financial year, Western Australian vegetable growers had an average operating cost (as a percentage of vegetable income) of 74%.

AVERAGE OPERATING COST %



KEY FINDINGS:

- In the 2018–19 financial year the average Western Australian vegetable grower was able to keep vegetable operating costs to 74% of vegetable income, which resulted in an average operating profit per hectare of \$18,127.
- 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 target for this metric is less than 65%.
- The operating cost percentage is an important measure that the grower can use to determine how they turn operating costs into income. The way a grower can increase profitability of their business is to either reduce the operating costs while maintaining the same income or increase income with the same costs or a combination of both.

KEY POINTS:

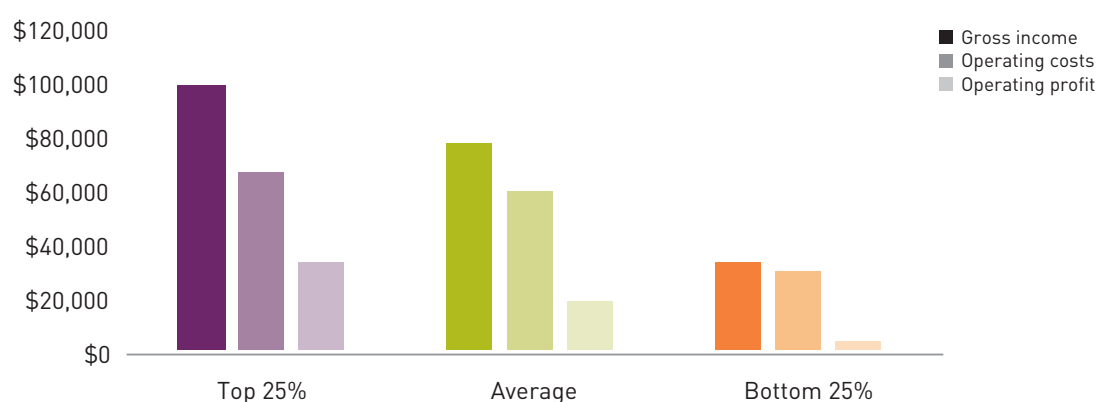
Top 25% growers have an **operating efficiency of 60%**, providing 40% for depreciation, finance/lease costs, drawings, capital (or debt repayment) and importantly profit.

The top 25% had an **operating profit per hectare of \$32,281!** Almost double the industry average.

With an **average vegetable income of \$77,035/ha**, a reduction of just 5% in operating costs (74% to 69%) would increase operating profit by \$3,852/ha. This represents a 21% increase in operating profit of the average industry results. A small positive change in operating efficiency can have a significant improvement in operating profit.

The 2018-19 financial year showed differences between the top 25%, the average and the bottom 25% of growers in terms of the vegetable income, costs and profit.

2018-19 VEGETABLE INCOME, COSTS AND PROFIT



KEY FINDINGS:

- The results of the 2018-19 financial year show a clear trend in the vegetable income per hectare between the three groups, with the top 25% of growers producing \$20,000/ha more income compared to the average grower, and the average grower producing \$30,000/ha more income compared to a grower in the bottom 25%.

KEY POINT:

The top 25% growers appear to have **more risk by spending more on operating costs per hectare**, but also have more reward with a **much larger revenue per hectare** which then drives operating profit.

TOP 25% GROWERS IN 2018-19

All growers were ranked on the vegetable operating profit per hectare.





KEY FINANCIAL MARKERS OF THE TOP 25% OF GROWERS WERE:

- The top 25% of growers managed to produce more vegetable income off the same area as the average grower.
- They had the lowest 'other farm enterprise' profit per hectare when compared to the average and bottom 25% of growers, suggesting that the top 25% of growers are focussed solely on maximising the profitability of their vegetables.
- The top 25% of growers were the most efficient at utilising their labour inputs, which is the single largest cost for all vegetable growing enterprises.

14%

LOWER OPERATING COST
PERCENTAGE THAN THE
AVERAGE GROWER

3%

HIGHER RETURN ON
CAPITAL THAN THE
AVERAGE GROWER

\$32,281

VEGETABLE
OPERATING PROFIT
PER HECTARE

TOP 25% GROWERS IN 2018-19 CONTINUED...

The 2018-19 top growers didn't all grow the same vegetable, they weren't all from the same area and they didn't all value add!

1 Income per hectare

The top 25% of growers grew **11 different types of vegetables** between them. The type of vegetable grown didn't make the grower a top 25% grower, but rather maximising the income per hectare while keeping the vegetable costs as a percentage of vegetable income under 65% provided greater returns. When examining your own business, improving your income per hectare can be done by either increasing your saleable yield per hectare or getting more money for your product. If increasing income isn't going to be an option, then comparing your operating costs against others by benchmarking can give insight into where you might be overspending in your business operations.



2 Location

The vegetable benchmarking project covered the top five of the six vegetable growing regions in Western Australia (**Gingin, Perth Metro, Myalup, Carnarvon, Geraldton and Manjimup**). The top 25% of growers were spread all throughout these areas and therefore the climate didn't affect the vegetable operating profit of the businesses but rather the growers ability to grow the right vegetable in the right region.

3 Value added produce

Growers who value added produce were scattered throughout the vegetable benchmarking. More importantly the way the data is collected, any value added and costs associated with processing are taken out of the vegetable operating profit (included in 'other farm enterprise') so that we can compare vegetable growers at a farm gate level.





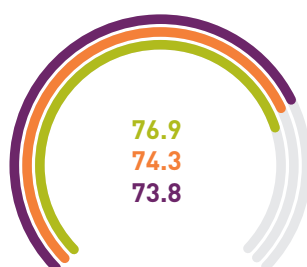
SINGLE YEAR RESULTS COMPARED FROM 2016-17 TO 2018-19

The vegetable benchmarking results in the following graphs compare the 2016-17, 2017-18 and 2018-19 results. Note that the 2017-18 results have been updated from the previous year. It is important to remember that these aren't three years of results from the exact same group of growers, however the same calculations were used.

Although the average equity percentage and the operating profit per hectare for the businesses involved varied from year to year the operating efficiency and return on capital for the vegetable growing business seemed to be quite consistent, with an operating efficiency around 75% and a return on capital between 7.5-8.5%.

The reason that the other two measures differ a lot would be due to the movement of vegetable growers into the benchmarking. As the benchmarking has evolved and more clients have started to be involved in the benchmarking it has shifted the industry averages for these measures.

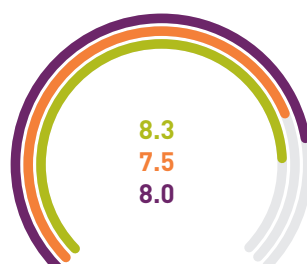
OPERATING COST (%)



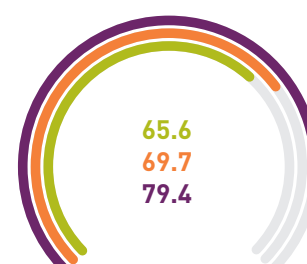
OPERATING PROFIT/HA



RETURN ON CAPITAL (%)



EQUITY (%)



■ 2016-17 ■ 2017-18 ■ 2018-19

BUILDING A LONG TERM PICTURE OF VEGETABLE GROWERS ACROSS WESTERN AUSTRALIA

The vegetable benchmarking project over the past three years has helped vegetable growers and industry professionals build a greater understanding of average West Australian vegetable growing businesses, the financial results and drivers of these businesses.

Over the past three years the benchmarking project has been releasing single year data every year, talking about the results on a single year basis and comparing back to the previous year.

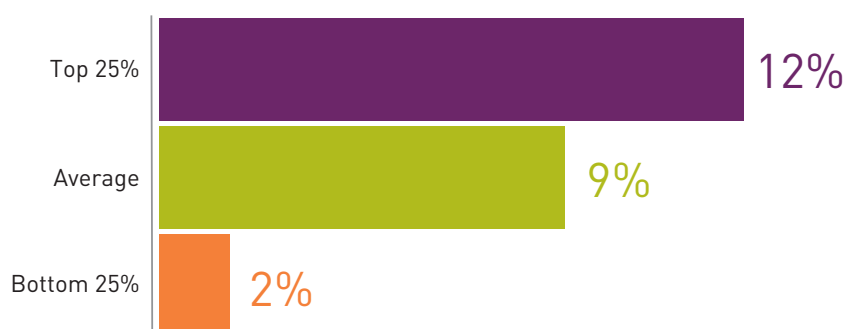
The ideal is to build benchmarking data over a number of years in order to create a rigorous understanding of an industries performance through time. In this next section three-year medium term benchmarking data will be presented. This three-year data consists of the growers that have been involved in the benchmarking every year for the past three-years.

In the three year average analysis the growers are ranked based off their three-year average vegetable operating profit per hectare in order to maintain a consistent ranking system with the single year results.

The ideal is to build benchmarking data over a number of years in order to create a rigorous understanding of an industries performance through time.

THREE-YEAR AVERAGE RETURN ON CAPITAL

THREE-YEAR AVERAGE RETURN ON CAPITAL



KEY FINDINGS:

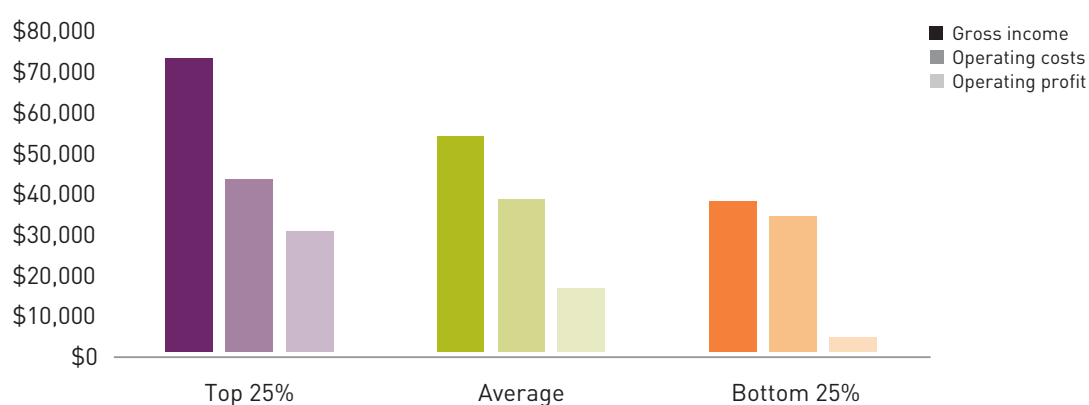
- West Australian vegetable growers achieved an average return on capital of 9% per annum over the three years from 2016–17 to 2018–19 not including asset value appreciation.
- The three year average results, much like the single year results, showed a wide gap between the top and bottom 25% of performers, with the latter returning only 2%.
- The top 25% of growers over the past three years were able to produce a higher return on capital of 12%.

KEY POINT:

A cash return of **9% per annum** is highly competitive when compared to other asset investment classes.

THREE-YEAR AVERAGE VEGETABLE INCOME, OPERATING EXPENSES AND OPERATING PROFIT PER HECTARE

THREE-YEAR AVERAGE VEGETABLE INCOME



KEY FINDINGS:

- Over the three-year period the top 25% of growers produced more vegetable income on a per hectare basis compared to the average, while the average grower produced more vegetable income on a per hectare basis than the bottom 25% of growers.
- Interestingly, the vegetable operating costs for the businesses over the three year period were similar, with a \$4,997/ha difference between the top 25% and average and a \$4,082/ha difference between the average and the bottom 25%. The top 25% spend the most on the operating costs per hectare and the bottom 25% spend the least.
- What sets the top 25% of growers apart from the rest of the cohort is their ability to produce more income from the same area and relatively similar operating costs.

KEY POINT:

The top 25% of producers spent **13% more on operating costs** when compared to the average but produced **35% more income**.

THREE-YEAR AVERAGE VEGETABLE OPERATING EFFICIENCY

OPERATING EFFICIENCY %



KEY FINDINGS:

- The three year operating efficiency highlights the ability of the top 25% of producers to achieve a lower operating efficiency by maximising the income that they produce from the same amount of costs when compared to the rest of the cohort.
- Over a three year period the average operating efficiency was 72% while the top 25% of producers had an operating efficiency of 59%.
- This suggests that vegetable growing businesses appear to operate at a higher operating efficiency (i.e. spending 72 cents to make 1 dollar). This only leaves 28 cents to pay for personal drawings, finance, tax, capital and profit! In effect, the top 25% have an additional 13 cents in every 1 dollar of income at their disposal compared to the average.

VEGETABLE BENCHMARKING SUCCESS STORIES 2017-20

Participation in the vegetable business benchmarking process has delivered numerous significant positive impacts to vegetable business owners.

These have included:

- Strategic business restructuring — strategic targets have included future business sale, improved quality of life, more focused marketing
- Clarity of succession planning and improved family business stability
- Lowering overheads
- Reducing operating costs
- Targeted profit focused production programming
- Deeper scrutiny of yield and labour efficiency
- Informed investor value proposition modelling
- Improved water efficiency

For more detailed Benchmarking Success Stories please visit:
www.vegetableswa.com.au/benchmarking

GLOSSARY

EQUITY PERCENTAGE

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

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.

OPERATING EXPENSES

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

OPERATING PROFIT

This is the gross farm income minus the operating expenses.

VEGETABLE 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 PROFIT

This is the vegetable income minus the vegetable operating expense.







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