



Horticulture Australia

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Horticulture Australia Limited



CASE STUDY

Building a
Sound Vegetable
Growing Business





Content

Introduction	02
Good decision-making	02
A sound business model	03
Rules of thumb	04
Talking business	04

Case Study

BUILDING A SOUND VEGETABLE GROWING BUSINESS

Introduction

The talking business team visited successful vegetable growers in NSW, Queensland, Western Australia and Tasmania producing a range of crops (carrots, capsicums, onions, broccoli, leafy salads and herbs). These vegetable growers discussed their approach towards creating successful businesses and the most important business decisions.

This case study is based on all of these discussions, which identified some recurring themes, principles and rules of thumb to assist vegetable growers in thinking and talking about their businesses and business decisions.

The vegetable industry in Australia presents exciting opportunities and significant risks. Growers must be highly skilled in not only the technical aspects of growing

vegetables but also at managing their businesses. These growers were running sophisticated, dynamic, complex businesses often selling their produce in international markets and employing a number of staff. They produce extremely high quality food in difficult circumstances.

This case study aims to describe how well-managed businesses are run.

Good decision-making

The successful businesses were created through a series of good business decisions. Good decision-making however doesn't simply come by doing a university degree or working hard.

Good decision-makers combine experience, observation, enquiry, and curiosity and finally 'gut feeling' to making decisions. They are generally clear thinkers, and can easily explain why they have done something. They are often self-critical and will admit when they have made a mistake. Good decision-makers listen to other people and learn to apply what they hear to their own farm.

Good decision-makers think carefully before they do something and then methodically pursue the goal. Some principles of decision-making are explained in the 'Business Decision Making' fact sheet, which can be found at <http://ausveg.businesscatalyst.com/rnd/fact%20sheets/Business%20Decision%20Making.pdf>.

In some cases growers were experiencing severe business (financial) difficulty. This may have been due to poor decisions or in some instances avoiding making decisions at all.



A sound business model

Discussions often focused on how the grower started in business and developed their business over the years. These discussions led us to what we would consider a sound business model.

The important aspects of the model are:

- Build a market
- Maintain a market
- Know the numbers
- Manage the risk
- Expand the business

This model is not expected to be a recipe, which can be followed and will guarantee success. The model is meant to encourage you to think and talk to other growers. To some growers it may seem obvious because they have been doing it for years.

Build a market

Successful vegetable growers started by finding a good market and building it. One grower said, “I am waiting for demand to outstrip supply”. He will not expand his production of a specialty crop until his market grows to the point where he knows he has demand for the extra production. One grower spent a lot of money investigating a new market by travelling overseas. Some markets were built slowly with trial consignments of vegetables.

Successful growers spend time in the marketplace (not just the wholesale markets) talking to buyers or potential buyers, understanding what they want and then producing it for them.

Maintain a market

A number of growers benefited from working closely with their buyers to build sound long-term relationships and investing in producing the quality of product their client needed. One grower said, “I’ve never had a consignment rejected”. Often growers purchased machinery with the single aim of ensuring they could meet the quality requirements of the client. This included harvesters, washers, sorters, and refrigerated transport.

Successful growers work with their market and ensure that they are a supplier of choice and can give their suppliers what they want and when they want it.

Know the numbers

Once a sound reliable market had been developed, the growers focused on improving efficiency by lowering the cost of production. The case study “know your cost of production” shows how cost of production can be calculated and used for decision-making.

The growers who had built the best businesses knew what their costs of production were and what critical factors improved or restricted the amount of money they made on each unit produced. Some of the larger growers had staff trained up to manage the costs on their behalf due to the scale of operation.

Successful growers know what their costs of production are and how they can work to improve efficiency.

Manage the risks

Growers who had initially considered the risks of various components of their business and had then focused on managing those risks were able to make significant profits when other growers were struggling with various internal and external impacts such as drought, flood, water, pests and diseases. The key risks considered included water security, single marketplaces, contractual arrangements, single crop types and timings, natural disasters and pest and disease pressures.

Successful growers understand their risks and invest in risk management approaches to maintain good returns.

Expand the business

Once these initial steps are in place then there is potential to expand the business if the market can grow. The businesses that ‘know the numbers’ and understand how much they make on each particular crop type per unit of land area can soon calculate how much to pay to buy/ lease the additional block of land or install the new piece of machinery or infrastructure.

Rules of thumb

Growers were asked what rules of thumb they use to help them make their decisions. This section provides some of those rules of thumb and considers how they may add value to your business management.

“Get organised the night before”

This rule of thumb reflects an attitude to management where the daily production system is well organised. This allows everything to be done on time and done efficiently. Labour can be employed efficiently without wasting time. This also reduces the chance of a breakdown.

“Don’t make the same mistake twice” “every mistake costs you money”

Good managers learn from their mistakes. They take responsibility for their mistakes and make sure they don’t make them again.

“Grow with your markets”

There are good opportunities to supply good quality product into existing markets. Make sure that you get the opportunity to expand where the profit is available.

“If you have a problem doing 50 acres, then fix the problem before you grow”

It is important that the systems, production and profitability is repeatable and sustainable. If you aren’t profitable, then growing will rarely solve the problem. In fact growing when you are unprofitable can lead to bigger losses.

“If you can’t sell it you can’t grow”

This means that the market dictates the direction of the business, if there is no willing buyer at the right price for that particular crop then don’t even bother planting the crop.

“You’ve got to make life easier for yourself”

Reflects an attitude of working in the areas that matter, such as developing and maintaining markets and knowing the numbers. For all the other jobs that are perhaps less important or you don’t have the necessary skills, use someone else. Successful growers are very busy and can’t afford to waste their time. They also know living a good life is important and they want to make time for relaxation and having fun.

“Sometimes you have to take a punt”

Rewards come from taking a risk, however the risk is reduced if the grower is experienced and knows how to make good decisions. Any business, which doesn’t take a risk will slowly die because they aren’t trying anything new.

These business principles apply to any business.

Talking business

This case study has been prepared to encourage vegetable growers to learn from each other about business. What rules of thumb do you use to help make decisions? What is your business model? Do you agree with what you have read? Talk to other growers about how they do things and make decisions.

Disclaimer

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