

COTTON information sheet

The Impact of Drought on Small Business - A Pilot study on Wee Waa

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Introduction

The 2002-03 drought has been widely considered as one of the driest in Australian history, both in terms of severity and its extent (Federal Government's Drought Review Panel 2004). Cotton production was down 50%, while cattle, grain and sheep production were also negatively impacted.

Cotton production in the lower Namoi Valley dropped from around 60,000 ha in 2000/01 to 30,000 ha in 2003/04. The purpose of this study was to quantify the impact of the drought on a cotton community using Wee Waa as a case study from the valley.

Business Impact

The study, by questionnaire to 33 local businesses, found:

- that the current gross turnover of the combined businesses surveyed (19 respondents) fell by 47% to \$110 million from 2001 levels of \$207 million.
- Permanent staff numbers fell to 69% of the 2001 figures.
- Casual employment fell to 52% of that in 2001. Of the terminated employees 1/3 remained in the town; 1/3 left the region and 1/3 are unaccounted for according to their former employers.
- Combined Wee Waa Primary School numbers declined by a total of 57 students (15%).
- Approximately 79% of respondents indicated that they had not accessed any drought support or assistance services.

Background

Figure 1 shows the impact of the drought on the gross value of cotton production in Australia. Gross value has dropped from around \$1.5 billion to less than \$0.7 billion due to the drought.

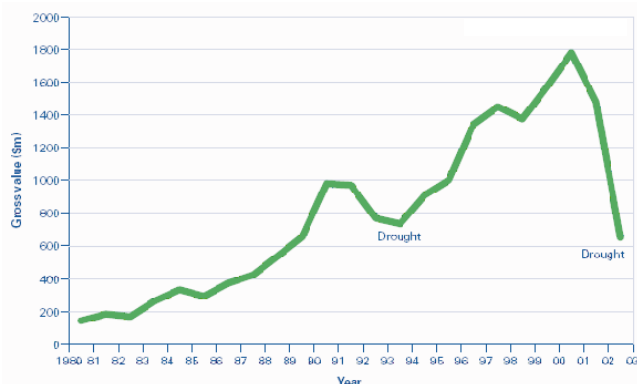


Figure 1: Impact of the drought on gross value of cotton production in Australia

Table 1: Impact of drought on cotton production in the Lower Namoi Valley

Year	Cotton bales	Cotton area (ha)
1995-96	220,000	33,500
1996-97	337,000	47,600
1997-98	455,000	66,100
1998-99	500,000	85,000
1999-00	435,000	62,000
2000-01	440,000	65,000
2001-02	361,000	52,000
2002-03	270,000	33,000
2003-04	200,000	30,000

Survey Methodology

During February 2004 a sample of some 33 businesses in Wee Waa were questioned in regard to

the impact of the current drought on their business.

These questionnaires were distributed via a door-drop to businesses in Wee Waa. Nineteen responses were received. Seven of the respondents indicated they were 100% dependent on cotton. Only one respondent had a business dependence on cotton rating less than 50%. The types of business ranged from food, fuel, agricultural supplies, town shops, industrial companies and service companies.

The survey compared 2001 (pre-drought) figures with current information (2004). 2001 was a Census year, and offers the opportunity to reference some of the information provided in that census.

Provision of answers to the questionnaire was voluntary and data is not presented in a way that allows identification of individual businesses surveyed.

School pupil numbers were obtained by verbal communication with the principals or staff at each school.

Where data was provided indicating a range, then mid-point values were used. When Gross

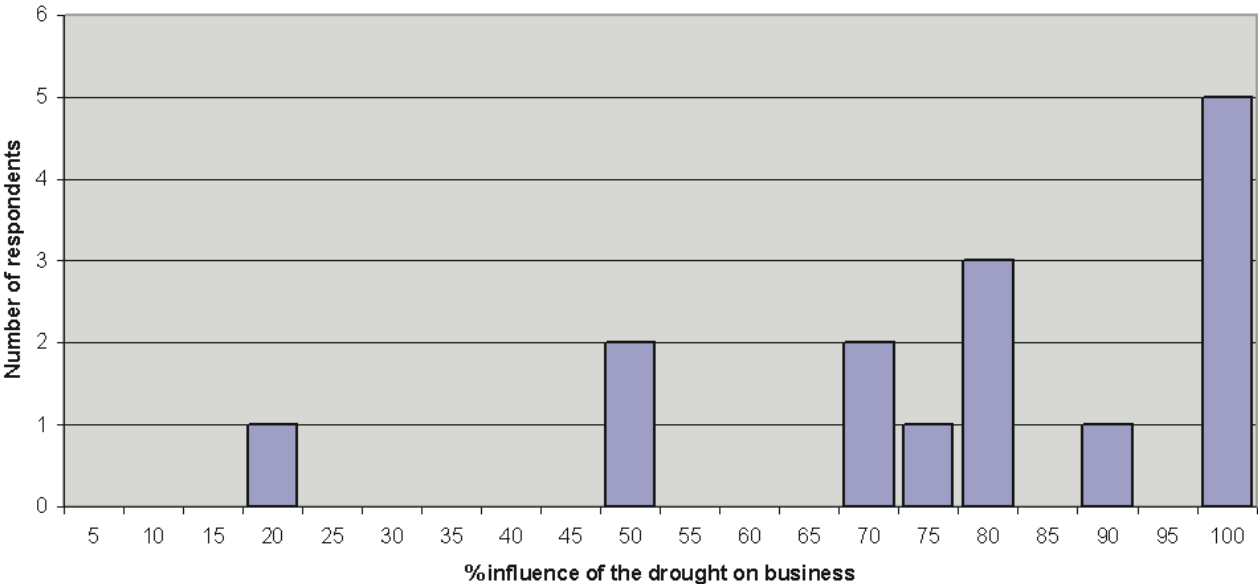
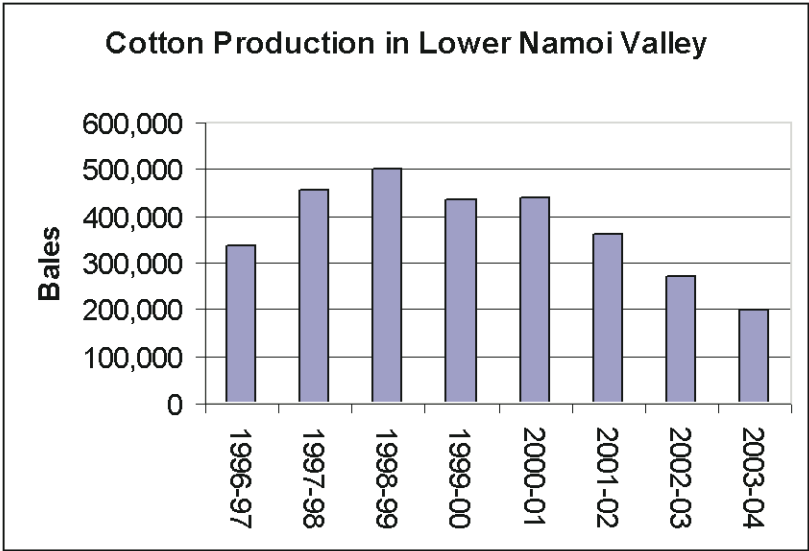
turnover figures have only been provided as a percentage of 2001, then this has been used but no dollar figure has been used in the combined gross turnover.

Some responses have been edited due to the nature of the response. Not all responses to all questions

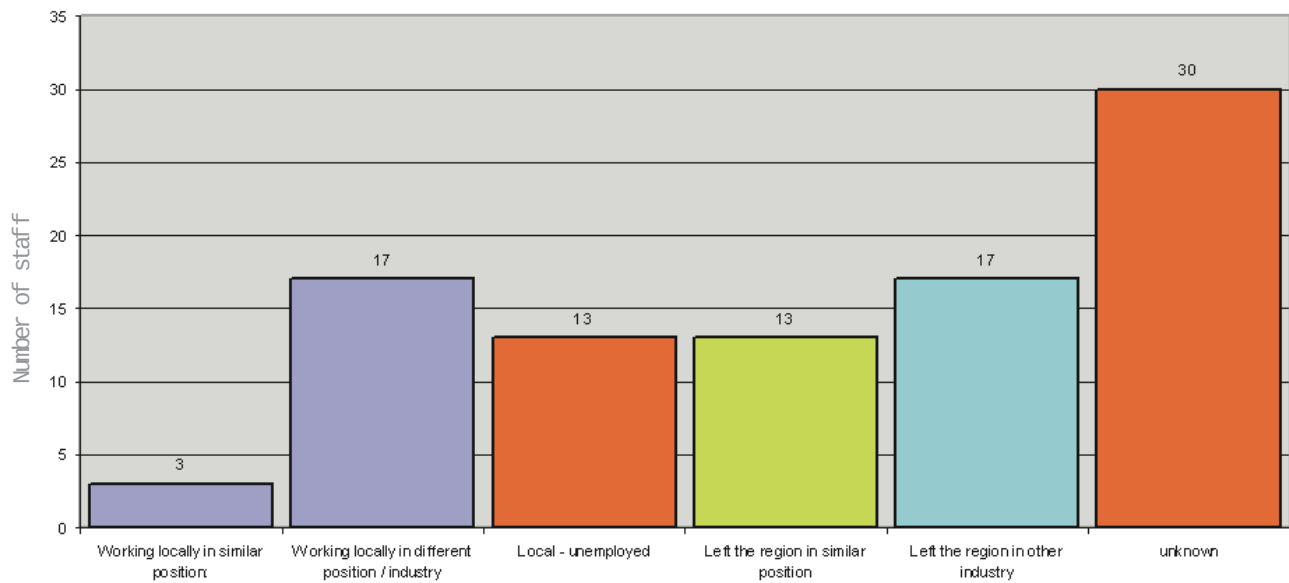
are presented due to ambiguous or inappropriate comment, and nil or low number of answers.

Respondents were asked to describe the nature of their business. These descriptions are presented in order to demonstrate the diversity of businesses surveyed.

- Retail Clothing
- Legal services
- Retail Farm Equipment

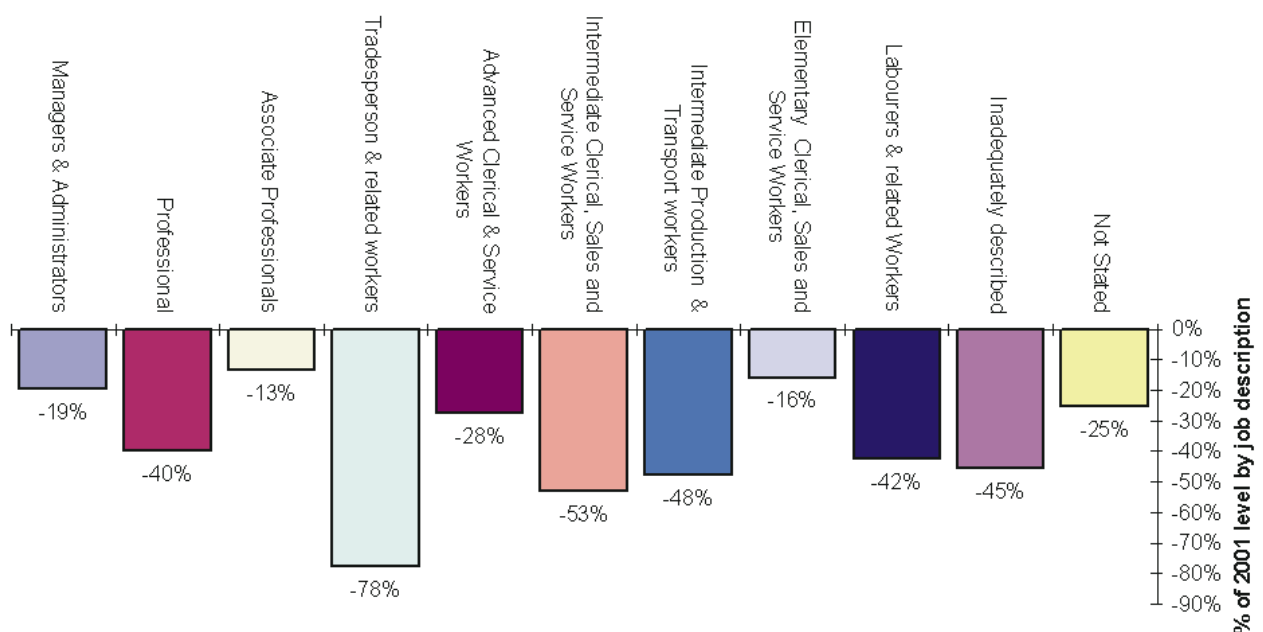


Community Impact - the fate of terminated employee- at least 32% have left town



- Contract farming services
 - Service Station / Fast food
 - Sandblasting and painting
 - Rural Merchandiser
 - Manufacturing, Distribution & R&D
 - Specialised Fertiliser Machinery maintenance
 - Real Estate Agent / Valuer
 - Travel Agency / Car rental / Air Cargo / Airline Agent / Country Link
 - Agricultural Supply company
- Chemical & Fertiliser Supply
 - Retail Agricultural inputs / Purchase Processing and Export of grain & Pulses
 - Retail Pharmacy
 - Tyre industry
 - Supply of Ready Mix Concrete
 - Earthmoving Contractor
 - Fast Food & Retail Motor Fuel

Staffing levels compared to 2001



Survey Results

Most respondents thought that drought had a 50% or greater impact on their subsequent business decision to restructure. Technology developments such as the internet and transgenic cotton varieties (which has lead to reduced spraying and chemical needs) had impacted on some businesses.

Trade and labouring positions seem to have borne the major brunt of the employment reductions as these also may be seen as readily replaced or contracted back when required.

Physical management strategies undertaken were to rationalise stock and equipment use. Two businesses increased the number of services they offered. While others operated a 'Just-in-time' receipt and delivery of inventory stock handling systems.

Implications for Future Business Positioning

Once the drought breaks, eleven of the respondents indicated they would return to their pre-drought staffing levels. One respondent indicated that the business would only replace half of the specialist positions. Two respondents indicated they would return to 65% and 85% levels respectively

One respondent indicated that the business would possibly not return to 2001 levels of staffing, whilst three other respondents indicated they would not return to pre-drought staffing levels.

Strategies to redress the impact of drought on the business focussed on minimising costs, primarily overheads and staff. Some made changes to their finance arrangements while others postponed or cancelled capital development projects.

Closer financial control was the main strategy companies indicated they would employ in the next drought. Some indicated they would reduce the size of their business whilst others indicated they would diversify and offer a wider range of services to be less reliant on a single component of their business.

Future research to benefit businesses and the

community included suggestions on better weather forecasting and production research involving best practice in water-use.

Several respondents requested socio-economic research on the impact of drought on rural communities. One respondent also indicated a need to study the socio-economic impact of new technologies being employed in the cotton industry.

Management Strategies for Drought

There are a number of management strategies businesses can adopt to help them prepare for drought.

- Tight inventory control and provisions, which will vary with the shelf life of the products
- Financial control - consider establishing reserve funds, tight control of human resource liabilities such as leave and entitlement accruals
- Understand client and supplier constraints.
- Maintain good communication with banker
- Obtain industry production forecasts from ABARE or Cotton Australia
- Review long term climate forecasts.

Inventory , Cash, Provisions & Forecasts

Future Research

The CRC is proposing to undertake further community based research. We would be interested in hearing from prospective parties

Phone 02 6799 1500

Web Site: www.cotton.crc.org.au