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Cluster Farm Scoping Proposal – Regional Case Study

At the start of the 2008/09 season, Rob and Julie Donaldson farmed in partnership with Julie's parents on a 240 acre farm with 560 ML of irrigation water, milking 200 cows through a nine a side double up dairy.

Around the corner Greg and Sally Sherman farmed on a 358 acre farm with 560 ML of irrigation water, milking 300 cows through a 20 a side swing over dairy. Like many farming families in Northern Victoria in the 2008/09 season, the Donaldson and Sherman families were being challenged by low irrigation allocations, high input prices and a mid season milk price drop all of which were likely to deliver a rather ordinary result for the season.

During December 2008, Greg and Rob each had their own separate, individual epiphanies in relation to combining the two dairy businesses into one. Julie and Sally (who also happen to be sisters) talked to each other about their husband's ideas and were amazed with the coincidence. While drought and difficult seasonal conditions may have been the catalyst for the change in business structure, Greg and Sally had also lost staff prior to Greg's epiphany.

Greg and Sally had had a previous experience at combining resources as they had previously been in partnership with friends, a partnership which they had bought out enabling them to continue their careers in the dairy industry.

Greg and Rob's mutual thought set the wheels in motion for the two families to combine their land, water, livestock, machinery and human resources enabling them to continue on in the dairy industry as a more viable entity.

Prior to the clustering of the business, a lot of research was undertaken investigating the quantity of feed that could be produced on the combined farm, the level of production that was achievable with this feed and the likely financial outcome that could be generated. Ultimately the new entity needed to deliver improved returns when compared to the returns that would be generated by each family operating their own business separately. External input was obtained from Stuart Brown at TMI, their respective accountants, their agronomist and nutritional consultant. The end point of the research indicated that under their "sense of reality" an improved result could be delivered if the businesses combined.

Independent advice was sought and it was suggested that the new business should operate as a company, so a new company was formed.

Each couple still owns the land and water resources that they initially brought to the new company as well as any previously owned plant and equipment. The company owns all of the herd and all plant and equipment that have been purchased along the way.



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By March 2009, the new entity was operational. While formalising the agreement it was felt that some time would be needed to bed down the new arrangement so a formal review process was set down for the end of year 3 and at the end of year 5.

The company receives all of the income from the business and pays all of the costs including all of the debt and commercial leases associated with the business.

For any arrangement to work there often needs to be some compromising. The compromises that were made in the early stages of the cluster included -:

- a change in residence so that both families were closer to the dairy,
- each family had had a long relationship with their respective dairy company and the new entity could only supply one company
- each family needed to sell a proportion of their herd with Greg and Sally selling 60 head and Rob and Julie selling 40 head.

Along the way there has been some frustration, particularly in relation to the size of the plant and equipment available to the new entity. This frustration is partly due to the increased land area operated by the business and partly due to the change in production system and as a result, a fair bit of equipment has been changed up since the cluster started operation.

The decision making process within the company is semi formal. For example, in relation to the acquisition of new machinery such as a larger seeder, the thought was instigated, there was agreement on the merits of the purchase from a couple of the directors, informal discussion continued until agreement was reached and finally the company purchased the new piece of equipment.

The directors have six monthly round table meetings to flesh out the bigger picture aspects of operating the business and while everyone in the business considers that formal monthly meetings would be beneficial, currently the monthly meetings are occurring less formally.

The families consider that the best thing about the formation of their cluster is that they are all "still farming" and that they have managed the past couple of years without having to take on any additional debt.

Everyone has the confidence that the business can survive in a changing environment, although they are all mindful that terms of trade and the actual operating environment still pose challenges for their clustered business.



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The important things to consider if contemplating your own cluster include -:

1. Consideration needs to be given to the relative capital improvement of the various properties
2. Setting up and operating a cluster will take some extra work
 - a. Learning how to do everything within the new business
 - i. Physical Work
 - ii. Management Work

While the Donaldson/Sherman cluster came together at a time of adverse seasonal conditions and terms of trade. New challenges confront the cluster today. With improved irrigation allocations likely in the short term, innovative ways of utilising the additional water need to be considered that ensure that the cluster continues to optimise returns into the future.