

CLUSTER FARMS SCOPING PROJECT

MURRAY DAIRY REGION



GARDINER FOUNDATION

Funded by
Dairy Australia
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WHAT WE'VE BEEN THROUGH

- Ten years of drought
- Financial variability
 - fodder prices
 - milk prices
 - GFC



RESULT

- Milk production has fallen in the region from 3.01 billion litres in 2001/02 to 1.84 billion litres in 2009/10.
- In excess of 112,000 hectares committed to dairy in 2006 had been lost to other uses by 2010. Accompanying this land is infrastructure that remains capable of successfully milking dairy cows.

SOMETHING EXTRA TO CONSIDER

- Nearly 20% farms < 100 COWS
- 450 farms < 150 COWS
- Only 10% farms > 400 COWS.

Maybe it is time for a new business model?

Cows	Farms	%
0-100	196	18
100-150	259	24
150-300	406	38
300-400	107	10
400-500	47	4
500-750	40	4
>750	24	2
Total	1,079	100%



WERE TO FROM HERE

- RAIN
- Recovery - what's it going to look like? – can we help it?



THE PROJECT

- Murray Dairy considered this project over 12 months ago as a component of the “Growing the Murray Dairy Region” strategy
- Murray Dairy applied to the Gardiner Foundation for funding in August 2010 and were successful in obtaining funding via the Innovation Program



THE PROJECT TEAM

- Cameron Smith was appointed as the Project Manager
- A Project Steering Committee was formed
 - Michael Acocks, Dairy Farmer at Rochester
 - Stuart Brown, General Manager-Milk Supply with TMI
 - Les Cain, Dairy Farmer at Katunga
 - Brendan Martin, Dairy Farmer at Bamawm
 - Karensa Delany & Wolfie Wagner, Gardiner Foundation



TODAYS PRESENTATION

- The Cluster Farms Project
 - Cameron Smith, Farmanco Pty Ltd – Project Manager

- Successful Cluster Farms
 - Gino D'Augello, M & S Accounting Services Pty Ltd

CLUSTER FARMS SCOPING PROJECT

Presented by: Cameron Smith
Farmanco Pty Ltd



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Agenda

- Project Background
- Project Objectives
- Project Outcomes
- Resources
- Picture of Success



PROJECT BACKGROUND

- A DEFINITION OF A CLUSTER FARM
 - Any vehicle that brings together land and/or water and/or livestock and/or plant and/or human resources from more than one farm which increases the overall resources available for milk production in the Murray Dairy region.



PROJECT BACKGROUND

- Components of a Cluster Farm
 - Buying group for farm inputs
 - Buying group for business services
 - Labour pool
 - Selling group for farm outputs
 - Machinery syndicate
 - Other



PROJECT OBJECTIVES

- Developing and putting forward to the dairy industry and investment community, new thinking on “Cluster Farm” arrangements and business models for the Murray Dairy Region.
- Investigate the potential for the development of human resources in relation to “Cluster Farms”. How people could work together and contribute to a system, where the whole system delivered synergies – greater than the sum of the parts. Capacity building and wealth creation could be enhanced.
- Extend the findings of this project to both the Dairy and the Investment communities, as a foundation for engagement and identifying collective opportunity. The findings forming a platform that allow for regional development.



PROJECT OUTCOMES

- To provide an alternative mode of accessing resources for dairy farm businesses looking to expand
- To provide an alternative mode of transition for dairy farmers who are currently farming but are planning to cease dairy farming in the operational sense but who wish to continue to play a role in the dairy industry, through maintaining asset investment or transferring knowledge and/or skill to a larger dairy enterprise
- To provide an alternative avenue for underutilised resources to again be used within the dairy industry



RESOURCES

- Case Studies
- Generic Documents
- Equitable Framework
- Murray Dairy Website



CASE STUDIES

- Case Studies have been developed to provide insight into actual Cluster Farms that are operating in the Murray Dairy Region
 - Donaldson and Sherman Cluster at Girgarre East
 - Complex Cluster
 - Land, water, livestock, plant and human resources clustered
 - Company Structure
 - Gibson and Shaw Cluster at Nanneella
 - Mid range Cluster
 - Land, water and human resources clustered
 - Lease and Employment Structure



GENERIC DOCUMENTS

- In the formation of a Cluster Farm a range of documents may be required. As part of the project the following documents have been put together -:
 - Resume or CV
 - Confidentiality Agreement
 - Cluster Farm Information Sheet
 - Business Plan
 - Offer to Lease
 - Lease Agreement
 - Heads of Agreement



GENERIC DOCUMENTS

- On the Murray Dairy website there are -:
 - word versions that you can download and populate yourself
 - pdf versions that have been populated with some example information



EQUITABLE FRAMEWORK

- A process that investigates the likely returns from a Cluster Farm.
- A process that fosters a common understanding between all parties involved in the Cluster.
- A process that considers the assets (quality and value) that each party brings to the Cluster.
- A process that considers the effort or work that each party will contribute to the Cluster.



MURRAY DAIRY WEB SITE

- www.murraydairy.com.au



PICTURE OF SUCCESS

- increased awareness of the Cluster Farm option
- increased understanding of the potential of Cluster Farms for expanding dairy businesses, retiring dairy businesses and ceased dairy businesses
- a Cluster Farm to be operational in the Murray Dairy region
- **service providers in both the dairy sector and the financial sector being well informed and actively promoting the opportunities around Cluster Farm options**
- Cluster Farms principles and thinking incorporated in the “Dairy Moving Forward” – Farm Business Systems stream and potentially used in future business related research work undertaken in the Australian Dairy industry.



PICTURE OF SUCCESS

- Bringing a Cluster Farm together is a process that may take many months
- The literature indicates and our experience suggests that one of the key ingredients in the process is the Cluster Driver
 - Internal (Phil Coop – Tillbuster Commons Project)
 - External (Graham Marshall – Furracabad Farm Cluster)



SERVICE PROVIDER SURVEY

- Some of you may have already completed a survey
- Could I ask for everyone who hasn't completed one of the Capacity & Capability Survey to please do so before you leave



QUESTIONS OR COMMENTS?

CLUSTER FARMS SCOPING PROJECT

Formation of Cluster Farms

Presented by: Gino D'Augello
M & S Accounting Services Pty Ltd



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Agenda

- How will Cluster Farms develop?
- Case Studies – Simple to Complex
- Structuring
- Other issues



How will Cluster Farms develop?

- A DEFINITION OF A CLUSTER FARM

Any vehicle that brings together land and/or water and/or livestock and/or plant and/or human resources from more than one farm which increases the overall resources available for milk production in the Murray Dairy region.

- A DEFINITION OF A “JOINT VENTURE”

A Joint Venture is a business agreement in which parties agree to develop a new Entity, utilising existing assets. They exercise control over the enterprise and consequently share revenues, expenses and assets



Items to highlight their success

- Pooling of resources (Capital and labour)
- Pooling of knowledge, business skills
- Risk mitigation
- Common understandings or “agenda’s” between participants



Case Study – Simple cluster

FARM “A”

- Operates a Dairy Farm
- Owns land and water
- Owns plant and equipment
- Owns stock
- Provides labour

FARM “B”

- Owns land and water
- No labour offerings



Case Study – Simple cluster

Suggested outcome:-

- Farm “A” enters into a lease of Farm “B”

Benefits:-

- Farm “B” may have been unproductive
- Farm “B” receives a consistent ROI
- Farm “A” able to be in control of operation
- No requirement to setup a separate business



Case Study – Mid-range cluster

FARM “A”

- Operates a Dairy Farm
- Owns land and water
- Owns plant and equipment
- Owns stock
- Provides labour

FARM “B”

- Owns land and water
- Owns some plant
- Able to provide labour



Case Study – Mid-range cluster

Suggested outcome:-

- Farm “A” enters into a “business relationship” with Farm “B”
 - Lease over the farm and employed as labour
 - Share-farming arrangement

Benefits:-

- Farm “B” may have been unproductive
- Farm “B” receives a consistent ROI from land assets and remuneration for their labour
- Farm “A” able to be in control of operation
- No requirement to setup a separate business

Case Study – Complex cluster

FARM “A”

- Looking to purchase Dairy Farm (300 Acres)
- Owns some Plant and Equipment
- Needs to purchase Stock
- Able to provide majority of labour
- Business skilled
- Extensive level of Dairy knowledge
- H – 58, W – 56

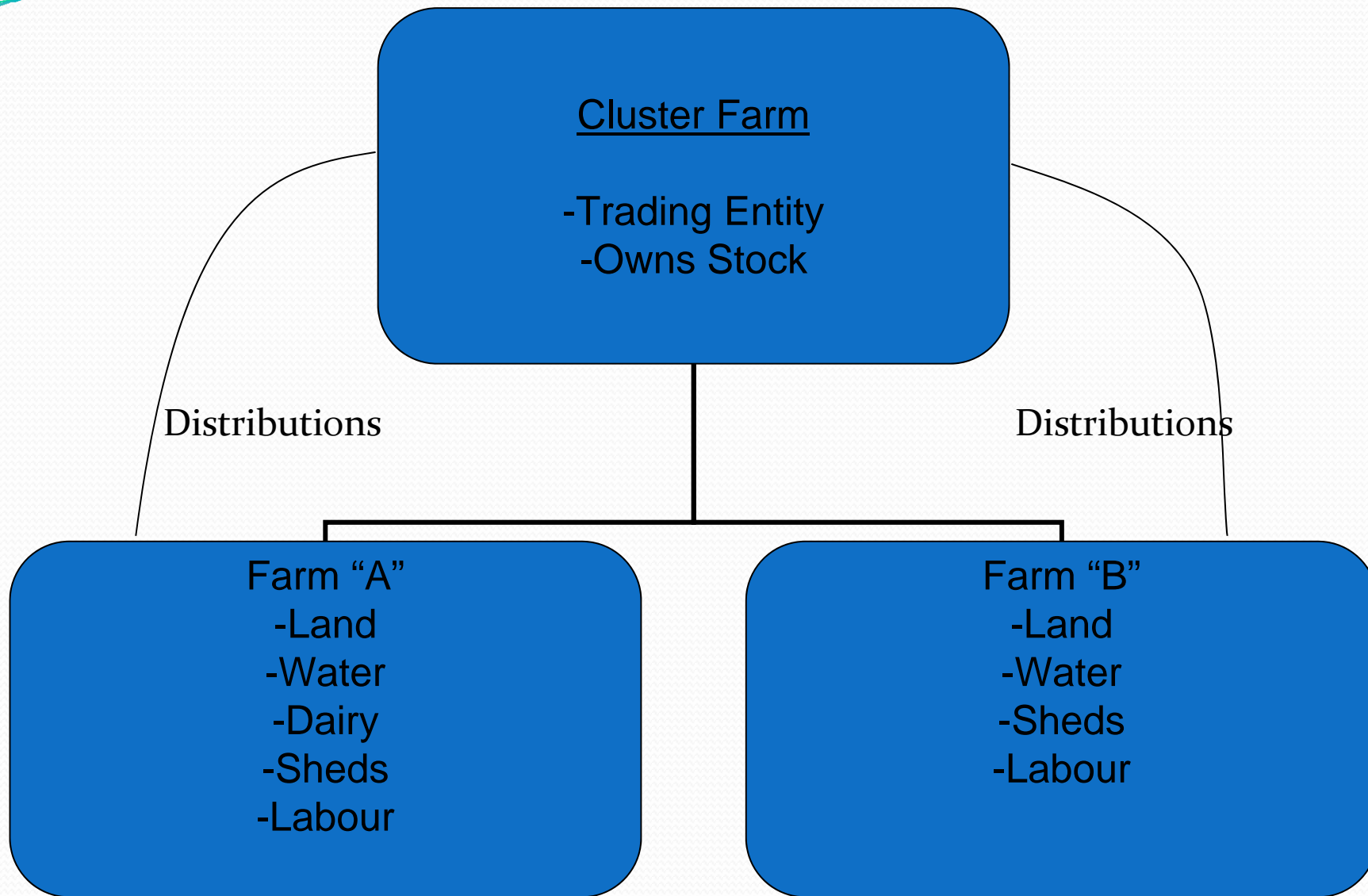
Farm fact sheet:- [Main Dairy Farm.PDF](#)

Case Study – Complex cluster

FARM “B”

- Currently trades as a “Fodder Farm” (300 Acres)
- Owns extensive Plant and Equipment
- Able to provide some labour
- Dairy knowledge
- Business skilled
- Farm located approx 3klms from Farm “A”
- H – 40, W – 40

Farm fact sheet:- [Fodder Farm.PDF](#)





Case Study – Complex cluster

Possible outlook?

Farm :- [CASE STUDY.PDF](#)



Structuring – Complex cluster

Partnership

Advantages

- Profit/loss distribution as per equity splits
- Income averaging available to partners
- Flexibility to add/subtract cluster members

Disadvantages

- Partner liability beyond profit share
- Asset protection



Structuring – Complex cluster

Company

Advantages

- Profit/loss distribution as per equity input (shares issued)
- 30% tax rate on “excess profits” (may assist with profit re-investment into business)
- Personal asset protection
- Flexibility to add/subtract cluster members

Disadvantages

- Averaging difficulties to shareholders
- Initial setup costs (\$1,000 - \$2,000)
- On-going costs (eg ASIC)

Structuring – Complex cluster

Unit Trust

Advantages

- Profit/loss distribution as per Units issued
- Asset protection
- PP distributions retains its “character”
- Flexibility to add/subtract cluster members

Disadvantages

- Initial setup costs (\$2,000 - \$3,000)
- On-going costs (eg ASIC)

Other issues

- Capital improvement on individual farms?
- Succession planning?
- Will's structuring for participants?



Questions or Comments?



SERVICE PROVIDER SURVEY

- There is no such thing as a free breakfast
- Some of you may have already completed a survey
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THANK-YOU