

7. Create wealth with share farming

As Western Australian dairy enterprises increase their technology, production and profits, prospects for those who are interested in entering the dairying industry without the capital and/or know-how to own and operate a dairy, are plentiful.

The dream of owning and running your own business is possible with a share farming arrangement, which can be individually tailored to meet the resources and aspirations of the share farmer.

How Does Dairy Share Farming Work?

Share farming allows individuals to operate a dairy for the purpose of building assets, skills and experience without the initial outlay required to purchase a dairy farm.

A share farming agreement essentially involves two businesses operating together to form a business relationship. The share farmer and dairy owner are recognised as individual business entities, forming a business relationship.

The form of the share farming agreement will depend on the skills, knowledge and ambitions of the share farmer, as well as the goals of the dairy owner. Most arrangements are 50/50, with the herd supplied by the share farmer and the facility supplied by the dairy owner, however many variations exist depending on the assets, skills and desired lifestyle of each party.

Self Assessment

Before consultation with the dairy owner begins, a critical self-assessment process will provide the groundwork for the business. Critical self-assessment should consider:

- ◆ **Skill set** – assess your skills and what you are able to manage according to your experience.
- ◆ **Work expectations** – be realistic in assessing the amount of hours you are committing to the share farming business. Cater for necessary downtime, leisure and holidays.
- ◆ **Partner expectations** – is a partner entering into the arrangement? If so, what is the partner's role? Clearly define this role at the outset as this can often become a point of conflict as the work load increases.
- ◆ **Financial responsibility** – how much financial responsibility can you comfortably manage, particularly given that in the first year the enterprise is in establishment phase and may not return the expected income?
- ◆ **Decision making** – what level of decision making is appropriate for you? In

assessing your skills and experience, be realistic in deciding the level of responsibility that you seek.

- ◆ **Personal goals** – where do you hope to be in one, five or 10 years? What are your objectives for the share farming enterprise?
- ◆ **Assets** – what tangible assets can you provide? Ownership of a herd and/or equipment will be attractive to many dairy owners.

Assess the Enterprise

An attractive dairy enterprise offers good ongoing productivity and profits; a well managed and maintained set-up and farm; as well as an advantageous location. *[cont'd over]*

Success Story

Scott Hamilton has a 50/50 share farming arrangement and successfully manages around 250 seasonal calving Holstein Friesians on the O'Neill property outside of Busselton.

"In my first year I agreed to an arrangement where I received 28% of the milk cheque in accordance with volume produced. Now I receive 50% of the milk cheque and am responsible for half of the grain costs," Scott said. "The five year deal was struck with the help of an accountant and farm consultant and has allowed me to grow into the business and purchase the herd."

The Hamiltons and O'Neills have been able to mesh their working lives, their leisure time and the farm's productivity.



**Tim O'Neill (left)
with share-farmer
Scott Hamilton**

Tips for Success

- ◆ If new to dairying, choose a farm that has a simple and manageable dairy production system;
- ◆ Share a common vision for the future of the dairy enterprise with the dairy owner;
- ◆ Understand the costs associated with feed, fertilizer, supplements, pasture, labour, maintenance and poor conception rates;
- ◆ Jointly calculate the anticipated returns from the enterprise based on the agreed split of costs and income – ensure annual and sick leave, superannuation and insurances are included as costs;
- ◆ Jointly model the effects of extremes in milk and supplement prices under average seasonal conditions to gauge variations in returns;
- ◆ Jointly develop production targets - increases in production should follow with improved understanding of the business;
- ◆ Jointly determine responsibility for essential farm operations and if contractors are used, who is liable for these costs;
- ◆ Consider leasing equipment in the short-term to secure independence and assist with positive cash-flow;
- ◆ Where possible, time the commencement of the share farming agreement to coincide with dry-off (June/July). Cows purchased should be in-calf, reducing the risk of cash flow problems in year one;
- ◆ Seek a brief position report which includes an inventory of all fodder (quality/quantity), fuel, shed and animal health items, as well as an assessment of pasture cover, the condition of relevant structures and equipment, the number of livestock and their condition;
- ◆ Allow for low income in year one as budgeted production targets may be impacted by variables such as conception, lactation and seasonal conditions;
- ◆ Book regular meeting times where the day-to-day issues and plans for the future are discussed and problems addressed;
- ◆ Seek taxation advice on primary producer status and legal advice to draw up a contract. On the contract include: the names of both parties; start and finish dates; resignation alert period; commercial arrangements; duties and obligations of each party; operational issues; responsibility for production issues; access by the dairy owner; provision for natural disasters; land and water rights; income and cost sharing arrangements; payment of milk cheque;
- ◆ Invest in good financial support to develop a business plan and ensure the business is well managed.

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Risk assess the property and dairy set-up, as well as the objectives of the dairy owner to ensure potential problems are clearly defined and the dairy owner's goals understood. Seek clarification on the following:

- ◆ **Business arrangement** - is the dairy owner looking for an employee in a profit-sharing arrangement; a part share farming arrangement involving consultation between both parties on decisions; or a full share farming arrangement (50/50) where the dairy owner relinquishes control of the dairy operation?
- ◆ **Assets** – are equipment and property in good condition and is there the capacity to grow the enterprise? Will equipment be shared? Who is responsible for maintenance of equipment? Can equipment be leased?
- ◆ **Inventory** – does the inventory list the quantity and quality of existing fodder, fuel, standard of milking shed and the health of the herd?
- ◆ **Herd** – does the existing dairy herd deliver an acceptable income?
- ◆ **Farm management** – has the property been well managed and does it offer required capacity?

Be aware that your relationship with the dairy owner will have the greatest impact on the success of the enterprise. Open consultation and agreement on all aspects of the share farming arrangement will alleviate problems in the long-term and encourage a profitable and satisfying business for all.

In Conclusion

Share farming is an opportunity for two parties to build and share in the wealth of a well managed dairy farm. It is a means by which the share farmer can build his own dairy business without the risk of starting from scratch.

An effective share farming arrangement gives the share farmer access to the wealth of experience and knowledge gained from life on a dairy farm, as well as a means of sharing the assets of the farm.

Further information:

Local farm consultants are a recommended source of information.



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