

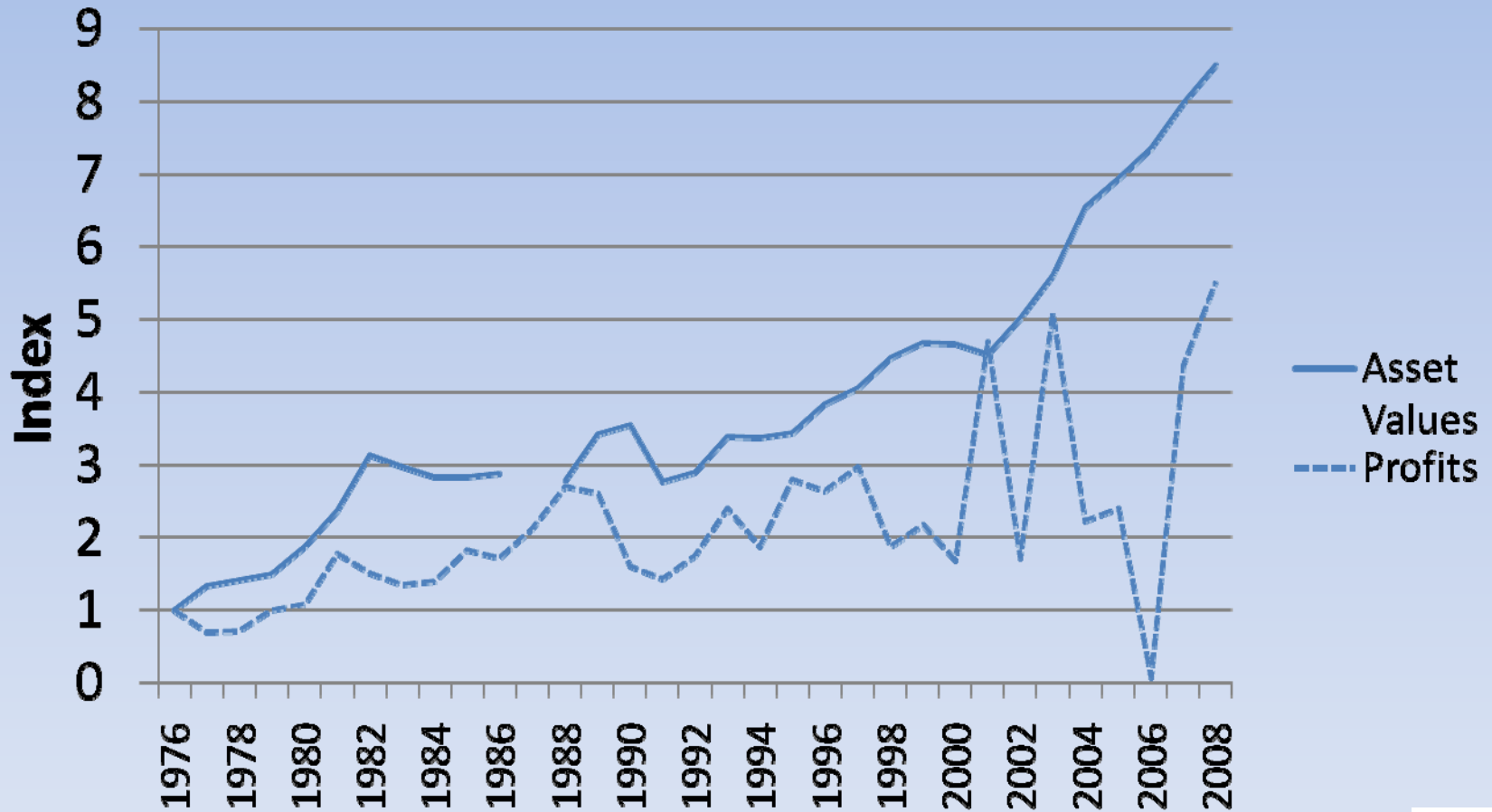
Efficient Use of Capital in Farm Businesses

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The Challenge



Source: Planfarm Benchmark Data



The 'Business of Farming'

- Operating business
 - Food
 - Fibre
 - Fuel
- Real Estate business
 - Accumulating assets over time

Separate the Businesses

- US Corn Belt
 - Purely operational businesses
 - Very few real estate assets
 - Driven by high return on operating capital



Separate the Businesses

- Real Estate Businesses
 - NZ Rural Property Trust
 - Assiniboia Capital Corp
 - Hancock Ag Investment Group



Separate the Businesses

- Typically Australian farms a combination of both types of businesses.
- Often the real estate business is used as a buffer against variable profits/seasons.



The Profit 'Comb-over'

- What does the operational business contribute?



Operating Returns

Total Profit	\$653,400	Return to Total Assets	7.0%
Land Lease (4%)	\$283,520	Return to Land Assets	4.0%
Residual Profit	\$369,880	Return to Operating Assets	16.6%

Source: Planfarm Benchmark Data



Leasing Land

- Opportunity to lever operating profits
- In Australia
 - Limited opportunities
 - Volatility of profits
 - Issues with tenure
- Structure lease payments as a share of profit
 - Percentage of grain produced
 - ‘Variable Cash Rents’



Focus on Scale

- “Get big or get out”
- We need to work with scalable units
 - Dairy operations
 - McDonalds
 - UK scale determined by harvesting capacity
- Benchmark operational performance
 - UK joint ventures saving £100/ha on machinery and labour through better scale.



Working With People

- NZ Sharemilking
 - Offers a career path not a job
 - 15% higher productivity
- US Corn Belt
 - Definition of roles
 - Delegation of authority



Working With People

- UK Joint Ventures
 - Pooling land resources
 - Operating that land with one set of plant
 - Efficient use of capital and labour
- Alternative Growth Path for Australian Farmers
 - Doesn't require capital to buy land
 - Overcomes the lack of leasing opportunities



Real Estate Business

- Accumulation of Land Assets has served Australian farmers well.
- Different markets driven by different factors
- US Corn Belt
 - Farm profits/rental values driving land prices in the long run.



Real Estate Business

- UK – Development
- Tax, subsidies, house prices, interest rates, average earnings, share prices & inflation



Real Estate Business

- Keep buying land when the opportunity arises
- Don't assume you should farm the land yourself
- Diversify



External Capital

- Main advantage would be an increase in supply of rented land.
- Requires improved ‘investment infrastructure’
 - Standardised reporting of performance
 - Benchmark for industry level returns

Conclusion

- There are ways to make more efficient use of our farm capital.
- Requires a change of mindset
- Willingness to separate operating and ownership activities.

Acknowledgements

