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## Nuffield scholar investigates capital options for farm growth

By Catherine Norwood

*There are more ways to expand a farm business than buying the farm next door, discovers Western Australian Nuffield Scholar Brendon Tierney.*

By Catherine Norwood

As a young farmer with plans to expand the family's farm business in Western Australia, Brendon Tierney, 33, has been watching rural property price-rises during the past decade outstrip the capacity of the land to generate an income.

This growing disparity between land values and potential income proved the catalyst for 16 weeks of international travel and study as a Nuffield Scholar, sponsored by Kondinin Group. Mr Tierney's aim was to investigate farm business structures and expansion options beyond the traditional Australian strategy of buying another property.

Mr Tierney helps his father Frank and uncle Cec manage an 1800-hectare farm near Moora, north of Perth, and has also worked as a farm business planning consultant for more than 10 years. He says increases in property prices in WA have put the purchase of more land beyond the reach of many farmers.

"Even if you can finance a purchase, when you do the figures based on current land values and crop returns, you are likely to find that more land means you're working harder, but earning less money."

He focused his research in developed countries, similar to Australia, visiting farm operations and farm business advisors in the United Kingdom, Illinois and Iowa in the US, Saskatchewan in southern Canada, and New Zealand.

He discovered that while joint land ownership and farm operation are the dominant model in Australia, in many other countries there are successful farm businesses that own little or no land, in conjunction with rural real estate investors who achieve returns from rents and capital gain.

He says it clarified for him the importance of separately valuing real estate and farm businesses, and analysing the performance of each separately, and as a combined investment; a process he is undertaking for his own family business.

"In Australia, the real estate and operational businesses have complemented each other well. But analysing the performance of each component separately allows individual farmers to identify whether their mix of operational and real estate businesses is delivering the best financial outcome," he says.

Another important concept he has returned with is the "efficient business unit" benchmark – a unit of operation that can simply be replicated as a business expands.

In the UK he found the optimum scale of a farm business was governed by harvesting capacity, in the dairy industry it might be milking capacity. It's a subject he is keen to do more research on, to establish some Australian operational efficiency benchmarks.

“If you buy additional land and expand to one and half times your size, you may find that you have 1.5 units of income, based on the additional land, but the full costs of running two units. You have to consider the scale of your expansion, and whether it will allow you to maximise your operational efficiencies.

“That doesn’t necessarily mean you shouldn’t buy more land if the opportunity arises. But it may mean re-evaluating whether you farm additional land yourself, especially if you have to buy new equipment or hire additional staff,” Mr Tierney says.

Overseas he saw a number of cooperative arrangements that he believes may have real potential in Australia – although recognising that many farmers are fiercely independent and may find it difficult to work with others in this way.

“Working with others requires that you give up control over certain aspects of your operations and makes you accountable, which is often a difficult process. I believe there are some real opportunities in cooperative operations, although I might not have considered some of these options as viable if I hadn’t seen them in practice during my Nuffield Scholarship,” he says.

This includes instances in the United Kingdom where farmers establish joint ventures based on principles including separation of land ownership and operational arrangements, a focus on operational efficiency and clear definition of roles and responsibilities within the joint venture.

In some joint ventures, properties and equipment are combined under a single business enterprise, which pays rent to each member of the venture for use of the land and shares the profits. Mr Tierney says this model removes issues of whether “your crop” or “my crop” is planted or harvested first, because it becomes “our crop”.

Mr Tierney says a specialist advisor he spoke with in the UK estimates joint ventures can save individual farmers up to £100 (AU\$165) per hectare through more efficient use of labour and machinery. Other benefits include the release of capital for investment elsewhere, greater financial control and discipline, more scope for an individual to spend time away from a business, and introduction of a wider range of ideas by establishing a management team.

He also visited farmers who relied on leasing property to expand their businesses, with several in the US and Canada running enterprises across more than 4000ha of land – all of it leased. The US farmers he visited put considerable effort into establishing long-term relationships with their landlords, improving the security of tenancy, although each lease may be for only a year or two.

“Australian broadacre farmers face greater market volatility than US producers, which makes leasing a higher risk venture here. With a fixed rent, it’s possible that a farmer may have no profit left after harvesting in a poor season. The leasing models I saw that I think have the most promise for Australian producers use profit-share as a basis for determining rents.” Crop-share arrangements and variable cash rents indexed to grain prices are two examples of profit-share arrangements.

This approach can give landowners greater confidence in longer-term leases, knowing they won’t miss out on higher returns in a good year. Longer-term tenants also have an incentive to manage the land sustainably. At the same time lessees gain greater security of tenure, and reduce the risk that lease payments will be more than their profits. Ultimately, Mr Tierney says, both parties need to benefit.

Mr Tierney’s final report *The Efficient use of Capital in Farm Businesses* can be downloaded from the reports menu at Nuffield Australia website [www.nuffield.com.au](http://www.nuffield.com.au), and is also available from Kondinin’s website [www.kondinin.com.au](http://www.kondinin.com.au).

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A high-resolution photograph of Mr Tierney can be downloaded from [www.coretext.com.au/communications\\_images.php](http://www.coretext.com.au/communications_images.php). Please contact Catherine Norwood at Coretext Communications (03) 9670 1168, [cnorwood@coretext.com.au](mailto:cnorwood@coretext.com.au) if you have any problems accessing images.

## Applications open for 2011 Scholarships

Applications are now open for scholarships in 2011 and will close on 30 June, 2010. Winners will be announced in October 2010. Scholarships are for primary producers aged 28 to 40 years, although applications outside this range may be considered.

Each scholarship is valued at \$28,000, sponsored by major agribusiness and industry groups across Australia. All scholars take part in a six week Global Focus Program, with up to 10 weeks of individual travel to investigate a topic of their choice.

Scholars say it has been a life changing experience, building self-confidence and decision-making skills and introducing them to a network of leading primary producers and agricultural leaders around the world.

Nuffield Australia chairman David Brownhill says personal growth is a huge benefit of the program. Its primary aim is to improve the skills of Australian primary producers, provide a global perspective of agriculture and help scholars bring back new ideas and strategies for the benefit of both individual scholars, and their respective industries.

Recent scholars have been drawn from a wide pool of primary industries and include grain and rice growers, fishers and aquaculturists, chicken, beef, lamb, goat and pork producers, woolgrowers, dairy farmers, apiarists, orchardists, horticulturalists and vignerons. Study topics have varied from the basics of production such as soil, water, crop varieties, weeds and disease to production systems, new technologies, natural resource management, biofuels, carbon trading, supply systems, marketing and public relations.

Scholars are selected for their farming and leadership capabilities, and potential to make a valuable contribution to the future of Australian agriculture. They join a growing international network of scholars, which has more than 200 members in Australia and 1300 members worldwide.

Application forms are available from Nuffield Australia on 03 5480 0755, via email, [enquiries@nuffield.com.au](mailto:enquiries@nuffield.com.au), or from the website [www.nuffield.com.au](http://www.nuffield.com.au).

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