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“Collaborate to survive and thrive” – Nuffield Scholar

Amid drought-induced forecasts of doom and gloom, Nuffield Scholar John Gladigau may be the beacon the Australian agriculture industry is waiting for. Melissa Branagh reports.

Like many cereal farmers, producer John Gladigau from Alawoona, South Australia, is feeling the pressure of drought, market volatility and the nagging reality that his ancestral property, which once had the capacity to support several families, now sustains only one.

Disturbed by this generational trend, several years ago the Mallee farmer began exploring ways to increase efficiencies and economies of scale, supplementing the intensive cropping program on his 2100 hectare property with a 500 hectare share farm venture.

Motivated by an interest in business structures that increase profitability without losing the integrity or heritage of family farms, he applied for a 2006 Nuffield Scholarship to investigate how farmers overseas pool resources to reduce costs and increase productivity.

Supported by ABB Grain Ltd, the successful Scholar has recently returned from a fact-finding tour of the United Kingdom, Europe and the United States, which reinforced his confidence in the cooperative farming concept he devised before his departure.

The model proposes that farmers can secure their futures through joint venture arrangements that provide opportunities to increase land capacity, reduce unit costs and boost sustainable production.

“If three or four family-owned properties unite under one business structure, the enterprise can sell surplus machinery, acquire the most efficient and appropriate new equipment, and build infrastructure for bulk on-farm grain, fertiliser and fuel storage,” Mr Gladigau says.

“This would produce cost efficiencies and benefits associated with shared intellectual capital and resources, without compromising independence or affecting succession planning.

“Overcapitalising on equipment represents a huge cost in agriculture, but machinery syndicates don’t always work because during seasonal cropping timeliness is a key issue; who gets to use the combine harvester first?”

Conversely, Mr Gladigau’s cooperative farming model means that producers, particularly those within a logistically workable area, can farm big without actually being big. “By merging properties under one business umbrella, farmers with similar goals and values can make joint decisions and take equal responsibility for machinery maintenance and replacement,” he says.

“Under this structure participants share the risks and rewards, profits and losses; it makes no difference whose crop is harvested first.”

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TAKING LESSONS FROM BIG BUSINESS

The Nuffield Scholar says property owners can enjoy similar security under a leasehold arrangement, whereby they draw an income and minimise risk while retaining family possession. “Super funds and private companies are increasingly setting up collaborative ventures with farmers, often with opportunities for farmers to contract their own property and maintain hands-on involvement,” Mr Gladigau says. “These enterprises have a place – the only problem is they are driven from the top down by investment companies who have different agendas and want to keep a hand on the rudder.

“The model I propose enables farmers to steer from the bottom up, but there is a lot we can learn from investment companies – many are getting close to their targeted 20 per cent return, which is a fair profit, so they must have the right systems in place.”

The Nuffield Scholar cites the ‘cells of optimum efficiency’ principle as one of the key philosophies farmers should borrow from large investment companies. Under this theory, equipment is selected for maximum utilisation across a specific production area, for example 4,000 hectares.

“In this instance, expansion would be replicated in 4,000 hectare lots – or ‘cells’ – to ensure optimum efficiency,” he says. “This business structure is working for big corporations and farmers’ understanding of agriculture should put us in an even stronger position.”

Mr Gladigau acknowledges that farmers are getting a smaller slice of the pie, and is adamant the industry will have to step up its professionalism to compete with other business ventures that integrate specialty knowledge.

“Small scale farming restricts farmers’ capacity to become specialised because they have to be ‘jacks of all trades’, however collaboration provides opportunities for partners to become more educated in specialist areas, to consult accountants and advisors who can add value to the business, and to mentor and stimulate each other.

“Bringing a number of people together who are proficient in specific areas can only enhance performance.”

THE BEST OF THE BRITISH

“The tradition of farmers farming their own land is unique to Australia”, Mr Gladigau says. After travelling to cropping areas in the United Kingdom, Germany, the Netherlands and the United States, he became aware that more than 80 per cent of land in the UK and the US is owned by “predominantly old money” and leased to farmers.

In the UK, farmers have been sharing plant for many years. “The average size of farms is around 57 hectares, which means there are obvious advantages to sharing equipment,” he says. “The UK subsidy system introduced under the European Union’s Common Agricultural Policy is a huge motivation for collaboration. While funding has been linked to farm size and allows small farms to exist, including, disapprovingly, those that would not otherwise be viable, a lot of profits are funnelled to larger scale operations, with direct farm payments for activities such as diversification or setting up producer groups.”

Mr Gladigau says government and industry also offer financial incentives such as grants for joint infrastructure development, and subsidise professional consultation to encourage collaboration “because they deem it essential to optimum efficiency”.

A UNITED STATE OF AFFAIRS

In some states in the US, anti-corporation laws apply to the agriculture industry to preserve the idyllic ‘family farm’ image, which Mr Gladigau describes as “a huge disincentive for collaboration”, although he says farmer subsidies are in many cases essential to survival and some exemplary cooperative structures have emerged to maximise payments.

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“I visited a 4,000 hectare collaborative corn and dairy venture in Iowa involving a number of investors who lease land from up to 30 landholders,” he recalls. “Plans are afoot to expand the dairy herd to 18,000 cows in three years and to build a digester to utilise effluent from the dairy to generate methane-based electricity, which will power a plant for corn ethanol production. Solid waste will be returned to the fields, mash will be used in the dairy, and ethanol will be used on the farm or sold.

“This is a closed loop system that will produce efficiencies in each link of the chain. In their own right, some of these components may not be profitable, but this systematic approach will save \$8 million US annually in transport costs alone.”

EMOTION A BARRIER TO COLLABORATION IN AUSTRALIA

Collaborative structures overseas are restricted by protectionist subsidisation and State intervention, and Mr Gladigau says British and American farmers are envious of Australian farmers’ freedom to implement profitable joint venture arrangements that are not impeded by rigid government controls.

He proposes models which eliminate the need for subsidies that allow small, inefficient farms to operate unfeasibly, and instead, through cooperation, offer solutions to increase economies of scale and productivity.

“Australian farmers are fiercely independent – they want to do things their way and are sceptical about getting ripped off,” he says. “But we need to overcome this emotional attachment, and to stop perpetuating the image of farmers as downtrodden, struggling battlers, if we are to survive and thrive.

“Australian farmers need to promote agriculture to attract business partners including business-savvy producers and investors. We need to differentiate between agribusiness and real estate to reveal the sustainable worth of agriculture.”

NO TIME LIKE THE PRESENT

The Mallee farmer describes ‘now’ as “a great time to be in agriculture”.

“Opportunities abound despite the market volatility and there are no rules, just opportunities,” he says. “This may be difficult to appreciate in the current climatic conditions and in the face of climate change, but the biofuels revolution has added a new dimension to agriculture’s ‘food, fodder and fibre’ mix.

“Diversion of land from food to biofuels production is already driving up food prices. Biofuel mandates in North America, the European Union and Brazil dictate that even more land will be taken from food production, and the industry will continue to grow buoyed by political pressure for biosecurity and environmental sustainability.

“This creates an unprecedented and lucrative prospect for Australian farmers to focus on the rapidly growing international food market. Professional operations with chain efficiencies – including collaborative business structures – will be best placed to seize this opportunity.”

Keen to lead the national charge, Mr Gladigau is already talking with farmers, machinery companies, industry organisations and politicians with a view to developing his collaborative farming model locally within the next couple of years and creating an industry benchmark. “It’s about finding people with similar objectives that you can work with, and creating a profitable and sustainable business with long-term benefits for all involved, including the local community,” he says.

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A photo of John Gladigau can be downloaded from the website www.coretext.com.au/communications/images.html

Caption: Nuffield Scholar John Gladigau believes collaborative business structures are the key to future farming success.