

PO Box 586 Moama 2731  
T +61 (0)3 5480 0755 F +61 (0)3 5480 0233  
E enquiries@nuffield.com.au W www.nuffield.com.au  
A.B.N. 33 092 327 396

#### 2009 SCHOLARSHIP SUPPORTERS

Australian Wool Innovation	Impact Fertilisers
Fisheries Research and Development Corporation	Landmark
Estates of the late RC and EC Cappur Webb	Macquarie Agricultural Services
Geoffrey Gardiner Dairy Foundation	Meat & Livestock Australia
Grain Growers Association	Rabobank
Grains Research and Development Corporation	Rural Finance Corporation
Kondinin Group	Sidney Myer Fund

Page 1 of 2

Monday March 30, 2009

## Asset building vs increased cash flow: farmers should choose

By Catherine Norwood

Australian farm businesses need to choose between building their assets or increasing productivity and cash flow, says Nuffield Scholar Mark Graham, who has been investigating investment options for broadacre agriculture as part of his scholarship.

Mr Graham, who was sponsored by the Grains Research and Development Corporation and farms in Narrogin in Western Australia, says farmers need to better understand their business objectives.

“Agriculture in Australia is relatively insular as an industry sector, and as farmers we keep trying to do everything ourselves, wanting to own the land and the equipment and manage the day-to-day operational risks as well,” he says. “Trying to do it all means we are less likely to do any aspect as effectively and as profitably as we could do with a clearer focus.”

Having looked at business models in Europe, the United Kingdom and the Ukraine, Mr Graham says the investment structures to attract non-farmer investment in Australian agriculture are relatively immature. In both England and Europe there are generations of family wealth accumulated in agricultural land, but the owners are not the farmers – one famous example is the Duchy of Cornwall, which provides an annual income to the Duke of Cornwall, His Royal Highness, Prince Charles.

Mr Graham says he believes separating investment in land from the day-to-day operations of farming would create a new range of farm business structures and opportunities, and generate greater recognition of farm management skills. Corporate farms are one model of investment independent of farming, but not the only model.

“There are a lot of decisions we make as farmers on a day-to-day basis that incrementally shape our businesses in ways we may not have intended because we haven’t stepped back and had a look at the bigger picture. A lot of small and medium-sized operators can no longer afford to buy the place next door, and if they do they scrimp and struggle and sacrifice their lifestyle to debt, trying to pay off an asset as a legacy for their children who, in 20 years time, may have no interest in farming. As business operators we can be smarter than that.”

He sees the future of farm businesses as falling into one of two categories. One is asset-based, using capital growth to accumulate wealth – comparable to owning a shopping centre complex; you don’t run the businesses operating from the centre. The other is a cash flow business – more like being a builder, where you don’t own the houses you build, but focus on operations that generate cash flow and profit.

Mr Graham’s own business is a mixed cereal and sheep enterprise on 12,000 hectares around Narrogin in Western Australia, cropping 9000 hectares for oats, hay, wheat, barley and canola. Land prices in the region have doubled in the past 10 years and Mr Graham says his farm asset growth is currently five to seven per cent, but his profit from total funds invested in farming returns only two to six per cent.

“I could spend all my time trying to get another half a tonne a hectare from my wheat harvest, or putting a few more lambs on the ground, but if I step back and really evaluate our business, that is not really what is going to generate the greatest wealth for my family.”

He says if the Australian agricultural sector can come to terms with separate investment in land and contract farming, it will open a range of new financial structures and partnerships, beyond share farming and leasing arrangements as they are currently practiced, although the challenge may be to get banks on board.

“If you have property you can borrow money, even if you are not a highly profitable business on a cash flow basis. In other sectors, like the building or retail industry, banks recognise and respect the risks of a cash flow business, but I don’t think they’ve developed that level of sophistication in their offerings for agriculture yet.”

He says it would make sense for agribusiness and finance companies, such as Elders or AWB, to link operational finance to grain supply contracts. Secondary users and processors, particularly those in niche markets, could also lease land and contract farmers to produce specifically for their markets. In Western Australia many of the state’s export hay businesses already lease land wherever they can and produce their own supply, he says.

Mr Graham says the global financial crisis (GFC) has caused many investors to look again at investment in agriculture. “You can see it in the United Kingdom in particular – their businesses may fail, their share portfolio may fall 50 per cent, but agricultural land will still be there, still being farmed, by someone, and that’s where the money is moving to.”

The GFC could prove the catalyst for greater investment in agriculture from outside the sector, he says, with new products targeting superannuation funds, for instance.

“There are many people nearing retirement, or who have recently retired, badly affected by the sharemarket crash and subsequent fall in the value of their share-invested superannuation. I think there is an opening to develop a product that offers a low level of risk with a medium level return – a product that’s not a Managed Investment Scheme, which relies on returns from production, not capital growth.”

Mr Graham says he also believes investment from individuals and organisations outside the farm sector has the potential for “cross-fertilisation” of ideas and practices, bringing new kinds of creativity and innovation to Australian agriculture.

He will be one of 10 Nuffield Scholars presenting a report at the Nuffield Australia Autumn Tour, in Cairns from April 16 to 19. Other scholar study topics include regional branding, the export beef marketing chain, cooperative marketing, product distribution chains, approaches to water policy, reducing farm inputs, and managing stock to improve rangeland environments.

The Nuffield Autumn Tour is open to anyone interested in attending and more information is available from the Nuffield Australia website, [www.nuffield.com.au](http://www.nuffield.com.au) or contact Nuffield Australia chief executive officer Jim Geltch on (03) 5480 0755.

ENDS

For more information contact Mark Graham 08 9883 6055, mobile 0427 811 285, email [mark.clairegraham@bordernet.com.au](mailto:mark.clairegraham@bordernet.com.au)

A high-resolution photograph of Mr Graham can be downloaded from the Nuffield Australia website, [www.nuffield.com.au](http://www.nuffield.com.au), through the gallery link to the “media\_images” album.

---

**Further information:**  
Jim Geltch  
CEO, Nuffield Australia  
T +61 (0)3 5480 0755