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Nuffield scholar brings home a million dollar marketing lesson

Western Australian grain grower Simon Tiller has discovered that time spent better marketing his grain will make his farm business more profitable than time spent on the tractor.

By Catherine Norwood

After speaking to almost 100 farmers in nine countries about how to farm wheat more profitably, grain grower Simon Tiller discovered the key was to spend more time inside. This knowledge, garnered last year while Mr Tiller was on a Nuffield Scholarship, has already netted him more than \$1 million in less than 12 months.

But the Western Australian grain grower warns his approach is not for the faint-hearted or the time-poor. The key, he says, is a commitment to marketing.

Mr Tiller runs a 10,000-hectare farm business 130 kilometres northeast of Esperance in Western Australia. He produces 20,000 tonnes of canola, wheat, barley and field peas. He says if he can earn an extra \$10 a tonne by spending more time studying the market and making better decisions about selling his grain, that's an extra \$200,000 a year. So far this year he is more than \$60/t ahead of the market.

Mr Tiller's Nuffield Scholarship was sponsored by the Grains Research and Development Corporation (GRDC), and he initially planned to spend his scholarship looking at routes to improved profitability including value adding, feedlotting and using feedlot wastes, grain storage and handling options, and entering the grain value chain.

But last year, in discussions with almost 100 farmers in nine countries – New Zealand, Ireland, Scotland, England, France, the US, China, Canada and the Philippines – he identified time spent on marketing as the overriding feature of the more profitable enterprises. These farmers also had a better work-life balance.

“When I was growing up, the more time you spent on the tractor the more profitable you were; but that's not the case any more. Now it's time spent off the tractor that brings the best returns,” he says.

Before travelling overseas Mr Tiller had appointed one of his staff as manager in his absence and upon returning he made the position permanent, to free up more of his own time. He has also set up new banking arrangements and a trading account that allows him to more effectively enter the grain trading market, including the futures market.

Mr Tiller uses a detailed business plan to determine what his crop inputs will be and how much he needs to make per tonne to achieve a “reasonable return”. He uses the average yield for the past five years and total budgeted cost of inputs for the current crop, plus 20 per cent, (preferably 25 per cent), to set a price for his wheat and canola. He no longer sells his crop into market pools because the pools simply don't offer the price he needs. Instead he takes whatever the cash price is when he delivers his grain to local traders at harvest, and uses grain futures to ensure returns in line with his pre-determined “reasonable return”.

"We first tried hedging with futures in 2006, and got burned in 2007; we were given some bad advice and we weren't proactive enough when the market started to improve. Since coming back from my Nuffield travels I've taken more time to investigate the options and found an independent advisor I trust, and we're starting to get things right."

Mr Tiller says if the price of grain goes up, and wheat or canola is actually selling for more than the value of his grain futures on the Chicago Board of Trade he loses money on his futures, but makes it up when he sells his crop. If the price of grain falls during the season, he will get less for it when he delivers his crop, but his futures, contracted at the higher price, will make up the difference.

"This way I can maintain the income from my crop at the level I need to remain profitable. If I can't buy futures for a price that covers the cost of my inputs and a profit margin it is simply not worth growing the crop." He buys futures positions for the equivalent of 80 per cent of his wheat crop and 70 per cent of his canola crop one, and sometimes two, years in advance.

Mr Tiller says one of the benefits of marketing your own grain is that you can tailor your strategies and level of risk to suit your business, and take into account factors such as debt levels or rainfall reliability. But it is also essential to have a licensed financial advisor, and to seek information and advice from a number of different sources. Relying on any one person too much is just dangerous, he says.

He believes the deregulation of grain markets in Australia will make it more important for farmers to actively engage in market mechanisms such as futures to improve their profitability, although it takes time and effort to really understand how the markets work. He suggests anyone new to futures markets and hedging start with a few small trades to build their confidence, rather than leaping in.

One issue Australian farmers face in doing their own marketing is that most of the advice on selling grain comes from consultants who have ties with the grain buyers. "I don't think the grain traders are really the best people to get advice from about when to sell grain," he says. "In Europe and the UK independent consultancies are more well-established than they are here. I hope that we will see more independent advisors setting up here."

Mr Tiller says his Nuffield Scholarship was a great opportunity to see what is happening globally in agriculture. It introduced him to a network of the world's leading farmers and provided opportunities he would never have had travelling alone.

Applications for the 2010 Scholarships are now open, with 20 scholarships valued at \$27,000 each, sponsored by a range of leading agribusiness and primary producer organisations.

Scholars take part in a compulsory six-week Global Focus Program that includes Canada, the US and UK and may also include the Philippines, Brazil, China, France and Ireland. This is followed by a further 10 weeks of international travel as part of each scholar's individual study tour.

Scholars are selected for their farming and leadership capabilities, and potential to make a valuable contribution to Australian agriculture. Applications close on 30 June 2009. Application forms are available from Nuffield Australia on 03 5480 0755, via enquiries@nuffield.com.au, or from the website www.nuffield.com.au. Successful scholars will be announced in October 2009.

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For more information contact: Simon Tiller (08) 9078 7075, email simon.tiller@bigpond.com

A high-resolution photograph of Mr Tiller can be downloaded from the "media_images" album, through the gallery link at the Nuffield Australia website, www.nuffield.com.au, or from www.coretext.com.au/communications_images.php. Contact Catherine Norwood at Coretext Communications (03) 9670 1168, cnorwood@coretext.com.au if you have problems accessing images.

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