AUSTRALIAN NUFFIELD FARMING SCHOLARS ASSOCIATION

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By

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Topic: How Farmers Can Work Together For A More Sustainable And Profitable Business

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Executive Summary

The aim of my topic was to learn about as many different ways that farmers can work together then decide which process has the biggest impact on profitability on a business focused farm.

My travels exposed me to many new and exciting forms of cooperation which all had varying returns for the farmer involved. Following are some examples,

- North American Farmers is a membership organisation with 6000 members with the primary purpose of advising farmers of fair input pricing through telephone services and preferred suppliers. If they find any circumstance that is not in their member's best interest they will try and remedy this by bulk buying, dealing direct or education.

- DLG is an R & D group from Germany that was founded to bring technical and management progress into agriculture. It brings farmers, scientists, researchers, government officials and consultants together to discuss and solve relevant topics. Other activities is organising large exhibitions and running a commercial QA system. It has 10000 members.

- Due to the dramatic drop in profitability in the UK, many farmers have been forced to work in with each other in business arrangements resulting in efficiency and management gains.

- FM500 is a private extension programme in South Eastern Australia using sophisticated financial analysis with the discussion group process to enhance the profitability of members involved.

With all that I had learnt I then divided how farmers work together into five broadly related areas.

- Management.
- Research, Development and Extension.
- Watchdog Membership Organisations.
- Joint Ventures.
- Supply Chain Cooperative Businesses.

With the focus on the grains industry and a farmer with strong business principles I have concluded that the most profitable way a farmer can have a mutually beneficial relationship with other farmers is when it assists the management of the business. This can come in the form of benchmarking combined with a well-structured discussion group. A discussion group is a formal way that farmers can compare, critically appraise and exchange ideas.

I was not aware of the discussion group concept before my travels but came across many different forms but concluded that to achieve the best results a discussion group needs to be,

- Farmer driven.
- Time limited – 3 years or one farm visit per member.
- Like minded with similar businesses.
- A small group of 3 – 8.
- Preferably not neighbours or friends.
- Use of a facilitator to assist in data collection and presentation

Using accurate financial data as the basis of discussion in a formal and well structured group will improve your management, aid in decision making and help in strategic direction

The value of benchmarking combined with a well-structured discussion group is a powerful tool for improving farm profitability.

The other area that I believe has great potential to assist farmers lower their production costs is to involve themselves in joint venture arrangements. This is when a farmer engages in a business relationship with other farmers for the purpose to,

- Achieve scale
- Lower cost of production.
- Give access to expensive equipment.
- Provide opportunity for youth.
- Assist in expansion.

The key to successful joint venture arrangements is having a business focus with a high level of documentation.

Farmers of the future will need to work together in all aspects to maintain profitability and will need to in new and creative ways.

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Aims\Objectives\Study Goals

The aim of the study tour was originally to look at how farmers can work together. This introduced me to many different examples that provided variable returns to the farmer involved. Meeting on numerous occasions farmers and businesses that have extreme business focus, I realised that it was important to look more closely at what the cooperative process was doing for the farm business that was involved.

This then changed my study topic to "**How farmers can work together for a more sustainable and profitable business".**

I shall endeavour to highlight that there are many ways to co-operate, but these are frequently not being fully utilised. Due to the ever-changing environment of farming, new ways are developing that will be more appropriate for the modern farmer. Finally each and every situation needs certain criteria for it to work to its potential, so I intend to document my thoughts and findings.

Introduction

Agriculture is a global industry with many common challenges facing the modern farmer. One of the greatest problems is that commodities are being produced around the world below the cost of production and that reduces the farmers' returns. This is due to a number of reasons:

- Farmers have no choice, as there are no alternative income sources.
- Farmers are unaware of their return on asset.
- Globalisation.
- Farmers choose a lifestyle.
- Distorted markets.

This then makes it more difficult for a farmer that is aware of his return on asset (ROA) to continually achieve a rate of return that is acceptable, taking into account the advantage of a favourable lifestyle. What I was looking for is how these farmers can work together to assist them in achieving this target, as I believe that all businesses need to do this in a global market to continue farming in the future.

The first task of my tour was to look at the many different ways that farmers could work together. This was a revelation to me as I discovered a number of different ways that I was unaware off. The different history, culture and climatic conditions were also important to understand as they often have a large influence on the situation.

The next task was trying to assess the importance of these methods for farm profitability, critical criteria for their success, and to look at new ways that farmers can work together.
In my contents I have divided how farmers work together into five broadly related areas.

- Management.
- Research, Development and Extension.
- Joint Ventures.
- Watchdog Membership Organisations.
- Supply Chain Cooperative Businesses.

Contents

Management ***- Discussion Groups and Benchmarking***

Discussion Groups

The Discussion Group concept is a formal way that a group of farmers can compare, critically appraise and exchange ideas with other farmers in the group. There is a huge variation of groups, which provide benefits on varying scale.

Industry Driven Groups

The example for this I based on the discussion groups that have been set up by the Welsh Dairy Board. This is an industry initiative to spread the philosophy of discussion groups to help raise quality and production levels amongst dairy farms.

These groups typically have:

- Between 8 – 25 members.
- Facilitator provided by the government or industry.
- A couple of keen members who drive the group.
- Meet each or every second month involving a farm visit.
- Mainly local farmers.
- A catchy name eg Grazing Gods, Grasshoppers or K9.
- Key people on relevant topics attending.

Benchmarking is used amongst the farmers and this can vary in complexity. Some use simple formulas to aid discussion where others will use a complex process that will result in accurate profit indicators.

The group's dynamics are very important with the group functioning best when a level of trust is reached amongst the members. This can change each time a new member comes in or if the group is too large. This is an important role of the facilitator who encourages all to participate and to get the discussion as open as possible. The agenda is sometimes left to the farmer who is hosting the meeting on his farm.

This example of discussion group highlighted many issues that result in not achieving the best out of the discussion group concept. The groups appeared too large to achieve trust, benchmarking wasn't a large part and groups tended to be formed by facilitators rather than interested parties.

Farmer Driven Groups

The next example is the FM500 Group based in south-eastern Australia. It has 400 farm businesses that are involved in over 30 open and interactive discussion groups. I believe this model has far better value to growers involved.

Farm Management 500 is a private extension program linking farming families with agribusiness partners, consultants and a powerful resource network. FM500 aims to accelerate the adoption of better business practises by fostering open and interactive farmer group meetings. All members share ideas and experiences to recognise and develop skills and enhance profit. Farmers involved are actively working to improve their farm business management skills and recognising the need to create wider industry networks.

Structure

Groups meet regularly on members farms, contributing to a yearly program of approximately four days of group based activities. An additional 2 days of sharing and networking is held with other FM500 groups at specially arranged FM500 intergroup workshops.

Groups typically consist of twelve farming businesses. Members are invited according to their desire to learn, share and contribute to the forward thinking and professional manner by which the future of the industry can advance with confidence.

Benefits

FM500 encourages a whole business approach, aided by the increased and more sophisticated use of **financial performance analysis and benchmark indicators** for comparison within and between businesses and to industry standards.

The main focus is on people and their individual needs, ensuring a balanced approach to issues relating to all the family members.

Members of FM500 say they have greatly improved their networks and ability to manage change. Being a member of a FM500 group has removed both social and decision making isolation.

Wider audience group

This example I learnt from a Danish Pig producer.

A facilitator will organise businesses of similar size and enterprise that come from different regions (far enough apart that they don't know each other or aren't familiar with each others businesses). This has the advantage of being able to be more open and competitive whilst having the opportunity to learn outside your immediate community.

Small group

For farmers to work together successfully they do not necessarily have to be involved in a formal or structured organisation. Small groups may be formed when a farmer rings up other farmers or businesses that they respect and value their opinions and business practices. The number is in the range of three to eight and no facilitator is required. Because of the size of the group, a level of trust and confidentiality can be reached that enables a higher level of disclosure. Open book showing complete financial details is common. Other group members can be outside the farming industry.

International Group

An organisation brings a group of farmers together from around the world to compare cost of production, markets and land values. This allows the group to see trends and opportunities that may exist due to globalisation. This concept has limited benefit to the business and probably only pertains to the very large enterprises. This example came from the dairy section of IFCN which has facilitated an international discussion group.

Benchmarking

Comparing your farm's management, input costs, commodity prices, cost of production and profitability against other farmers from within your district, market and around the world enables you to make informed decisions about your business.

The process of benchmarking is well understood but there are different levels providing different information and therefore value.

I visited IFCN (International Farm Comparison Network) **www.bal.fal.de**, in Germany, which compares like farms with the same enterprises from around the world. In a complex process taking exchange rate, enterprise mix, market access and other variables they can compile a set of figures that assist in highlighting

- Future trends.
- Land use change.
- Production opportunities.
- Government intervention.

An example is the Canadian wheat industry in the mid-west is very good at producing cheap wheat but when you add the transport and handling costs it makes them higher per tonne of wheat than their competitors. This would indicate that there would be a need to lower this part of the cost of production to stay competitive. If this was the case farmers who adopt their business to this information will survive into the future and the ones that don't, regardless of how good a producer they are will suffer a gradual decline in profitability.

Comments on Discussion Groups and Benchmarking

The larger group idea has many disadvantages to its structure. Once the group gets too large you will start to have too much variation in enterprises and skill level. Also the higher the levels of trust the greater the benefit to the farmer. I believe to gain the most benefit out of a discussion group it must be no more than 8 members, and should contain likeminded farmers with similar businesses. It would be favourable not to be made of neighbours or friends.

The big point I would like to make is that a discussion group has a **use by date**. The time frame would be around two to three years depending on group maturity. After this period the learning would drop dramatically and the group could become a time waster.

The use of a facilitator will enhance the group's value by coordinating, data collecting and assisting in group dynamics. It must be recognised that this comes at a cost, as it is time consuming for the facilitator to run a discussion group.

Groups can evolve into other useful business relationships like buying, equity, social, travelling groups which all are beneficial to the business but also need to be carefully assessed on the returns that they deliver for time invested.

Discussion groups are a classic case of the more you give the more you will get in return.

So my conclusion of a well-structured discussion group is as follows

- Farmer driven.
- Use-by-date – 3 years or one farm visit per member.
- Like minded with similar businesses.
- Small group of 3 – 8.
- Preferably not neighbours or friends.
- Use of a facilitator to assist in data collection and presentation.

The combination of these two processes is very important to get the most value, as by themselves they are almost time wasters.

The value of benchmarking combined with a well-structured discussion group is a powerful tool for improving farm profitability.

***Research & Development* - Commodity Levies and R & D Groups**

Investment into Research and Development is critically important for the future of any industry. In the past, agriculture was blessed to have the government primarily fill this role but as support lessens the farmer needs to start funding their own R & D. This is happening through levies on commodities and farmers paying membership to a group whose primary focus is on attracting, coordinating and extending research and development.

Commodity levy / Check off

A levy is legislated or voluntarily administered and the proceeds form a corporation, commission or foundation, which uses the funds to develop the commodity. The money will be spent on research, development, extension, marketing, education, and sometimes lobbying. The levy will either be a percentage of the value of product or a set amount per volume. Farmers control these organisations, yet often have industry representation on the board.

A good example is a German canola group called UFOP www.ufop.de, which derives its income from seed sales of canola. It has six staff with a budget of 2M euro. They have been responsible for helping the industry grow from 700 000 ha to 1.2M ha, raising the price under political policy change, developing 200 000 ha of industrial rape, and actively involved in the development of the biodiesel industry.

The next example is a second tier group which receives a percentage of their income from 20 state check offs. US Wheat Associates www.uswheat.org, is an organisation which promotes US wheat consumption. They have a budget around 10 – 12 M $/US and have offices around the world. Their main activities are

- Meet with trade, millers etc to discuss their needs.
- Show the quality and economic value aspects of US grain, outline the logistic and structure advantages
- Point of contact for any complaints or queries.

The main difference amongst the groups is whether it is legislated or voluntary. Voluntary can be disguised through the option to get your levy back or when the levy is voted on every set period. The argument is that if a levy is voluntary then there is a lot more scrutiny on the performance of the board.

Grower R & D Groups

These are groups that have their base income come from farmer membership. They are apolitical and their main purpose is to assist in Research and Development within their membership. Due to the government traditionally acting in this role most groups are relatively young.

The exception was a group in Germany, The German Agriculture Society www.dlg.org , which started back in the late 19th century which now boasts 15000 members.. It was founded to bring technical and management progress into farming. The DLG is a non-profit self-help organisation. It is financed from membership dues (100 Euros), revenue for services and public subsidies. Its main purpose is

- Bringing farmers, scientists, advisers, and government officials together through conferences, management seminars, travel groups, and relevant topic discussion groups.
- Organising exhibitions. Agritechnica, which is related to the cropping industry, and Eurotier for the livestock side of agriculture are two of the biggest of their kind in Europe. The profits from these are directed to the first point.
- Running a quality assurance system that certifies the products quality. This is a commercial part of the group that financially supports itself.

The smaller regional group is best described by using the Birchip Cropping Group www.bcg.org.au, as an example. It was formed in 1993 to attract industry, government and educational institutions to their region, and to conduct, extend and validate agronomic research. It has developed into a group with 500 members. Their revenue comes from membership $269/business, sponsorship and accessing funding that is available to carry out relevant projects.

The initial expectation has well been exceeded, highlighting that this type of group is filling a void left by decreasing government assistance and farmers are becoming aware of the need to reinvest in their industry.

Joint Ventures

Commodity products like grain have little opportunity to value add. To maintain or increase your profit the farmer needs to either produce more or produce it cheaper. The cost of production of a farm not only enables it to be profitable but also allows expansion. Joint venture is used to describe any time a farmer works in with others in a business arrangement. This has many different applications and usefulness and if done correctly will lead to a better profit for the farmer involved.

Machinery Rings

A machinery ring is a cooperative organisation that assists farmers to utilise their machinery and labour more efficiently. Members of machinery rings include farmers, hire companies, contractors, self-employed labour and other business's offering or demanding services broadly related to agriculture.

By having an extensive database of services and machinery available in a district a machinery ring can provide all contracting services, machinery and equipment hire, rural labour requirements and machinery sales amongst members. A ring also has direct debit facilities so any work done is guaranteed of payment.

The advantage to all the members

- Less paper work.
- A local network dealing with people you know.
- More efficient use of men and machinery.
- Opportunity to lower costs on the input side.

The advantage to the farmer is it can

- Reduce the investment in labour and machinery.
- Easier to find labour, machinery and services at the right price and at the right time.
- Utilise machinery and labour to its full by contracting to other farmers.

For the suppliers of the ring, benefits are

- Prompt secure payment.
- Increases customer base.
- Great avenue to be able to earn extra income.

Rings have large membership generally between 200 to 600 members. They are cooperatives with farmer boards. On application a share is purchased that is non-returnable plus an annual membership fee. Any work that is processed, a 2% levy is charged. Machinery rings don't have assets, just administration costs.

A big problem for machinery rings is once a contact has been set up the people involved wont use the machinery ring again and go direct to save the levy charge. This example was based on my learnings from the Sastak Machinery Ring in England.

Machinery Joint Ventures

Normally machinery joint ventures are agreements between farmers to share a piece of machinery for a common purpose. The advantage is to:

- Lower the cost per production unit.
- Have access to expensive equipment that can do the job quicker and more efficiently.
- Ensure quality.

When times are good farmers generally over invest in machinery but this cost per hectare can be avoided through clever cooperation with other farmers to keep machinery costs to a minimum. Many machines are under-utilised and a comment to me was "when you feel a machine can't be pushed any more, there is still room to do so".

An example is a group of farmers in the UK co-operated to purchase an expensive human consumption pea harvester. Other than lowering the cost per hectare they were able to supply the local Birdseye processing plant with better quality (due to the machine's capability) and at a constant supply (due to the cooperation amongst the owners resulting in better prices for all).

All farmers can utilise machinery far better than what they currently are by:

- Working out the best machine to do the job at the lowest cost, least downtime with best results.
- Decide on the maximum hectares or tonnes it can manage in a season.
- Contact neighbours or other farmers in different climatic regions to work out a suitable working arrangement to suit all parties.
- Formalise the arrangement with a complex document.

Business Joint Ventures

The example I will use is from England where three farmers with small properties set up a Pty Ltd company (Farmeco). They sold all their own equipment then the newly formed company:

- Purchased machinery to handle 2000 acres.
- Was responsible for machinery and labour.
- Charged each farmer a fee per hectare to manage the crop stubble to stubble.
- A young and keen manager was put in charge resulting in not only scale advantages but also management gains.
- Grew to now manage in varying forms 6000 acres.
- Lowered the cost per hectare considerably for each farmer.
- Enabled two of the farmers to pursue other business activities.

This has been a considerable success but some big issues with this concept arise. Without the pooling of grains inefficiencies in marketing occur and issues may rise in the future such as whose crop is seeded first. There is a high level of trust between the three farmers but this to me was a high risk for the company's future.

A better example in East Germany is (Agrar Services) which is similar but they had a high level of documentation to maintain harmony. One example is members have listed farms in the area that members can bid for if they wish to buy extra land. It is under dust at the bottom of a filing cabinet but they all know its there, which maintains trust.

Other advantages of Agrar Services to the farm businesses involved were:

- Four of the five farmers were involved, pooling and utilising different skills.
- Grain was pooled for marketing.
- Four of the five farmyards were rented for storage with one converted into large workshops and grain storage.

Business joint ventures don't need to be too complicated to succeed. Two farmers in England lease land without increasing their own machinery base, as any time one of the farmers machines is available they do the operation and charge the lease.

The final example of farmers working together was a Hutterite Colony in Canada, which due to religious background operate as a collective farm. The reason I mentioned this is they are prospering while other farms struggle due the diversity in their operations with synergistic effects and to a lesser extent – gains in efficiencies.

Equity Group

When a group of farmers input capital or skills for the purpose of off farm investing, I term this an equity group.

Off farm investments can be enhanced by increasing the size of capital to access higher returning situations. A diversity of skills and knowledge is often an advantage. Off farm investment is an important part in spreading the risk of a farm business and the future farm will have farming as only a percentage of their portfolio.

In New Zealand three farmers purchased land to establish a dairy. They then got a young farmer to buy the cows to run in the dairy. In a clever equity arrangement the young farmer had equity growth potential while the three farmers with combined management skills were able to get a good return on their investment.

Comments on Joint Ventures

The luxury of excessive equipment will diminish, as profits from farming get harder to extract. Also a level of farm scale will be required to stay profitable and if this cannot be achieved by expansion then business arrangements will assist in long-term sustainability of the farm business. Working together in business arrangements will:

- Achieve scale
- Lower cost of production.
- Give access to expensive equipment.
- Provide opportunity for youth.
- Assist in expansion.

The key to successful joint venture arrangements is having a business focus with a high level of documentation.

A factor that will assist in the increased adoption of joint venture arrangements is when farmers separate farm ownership from farming.

Agriculture Watchdogs.

I have used this term to describe any farmer group that can identify any excessive profits or inefficiencies in their supply chain. Also to watch political trends and decisions that will impact on the farms profitability. They are membership based and don't own any assets of note.

Input Groups

Farm input prices are what the market will bear and if there is no real competition unfair profits can be made at the expense of farmers. The North American Farmers is a group that was formed five years ago and now has 6000 members. This was achieved by commission sales but the philosophy has appealed to growers. The purpose of the group is to monitor input prices, recognise inputs that are fair and advise growers when they are unfair. They will also attempt to remedy a situation by organising competition in the market place. The membership is $350 Ca and this goes to administration with no accumulation of assets. The idea of membership rather than volume is to keep the organisation focused on being a watchdog and not to fall in the trap of a money-making enterprise. Some points about NMFG are:

- A list of suppliers with discounts to members is produced but is reviewed annually on their performance.
- A phone service advising growers if the price they receive is fair.
- Cash up front for any bulk purchases that goes into a trust fund.
- Group is apolitical
- Main inputs like fertiliser, fuel, farm machinery, glyphosate and lubricants are targeted.

It has been difficult for the group to start with the philosophy getting them to the point where they are today but feel they are starting to make an impact now. Dealing with big companies that don't wish to give up on the large profits is challenging.

Farm Lobby Groups

There are two types with one being an overall voice on all topics and the other being enterprise specific. The enterprise groups are more effective as they are focused and quicker to react to issues but require the larger group's network and resources for assistance.

Lobby groups have a history that has shaped their structure and culture and this may not suit the farmer of the future. The Lobby Group of the future needs to:

- Educate growers on the industries situation in the world market place.
- Actively enter into any political debate that will affect the farmer's profitability.
- Act as a watchdog identifying fat or inefficiencies.

A good example of a lobby group was the Danish Pig Producers which was formed to represent the pig producer that derives their income from pigs only. It now has 1500 members that produce two thirds of Danish pork production. It is efficient in its use of resources with a staff of four and renting office space. They felt their small staff was good as it only concentrated on the major issues that effected farmer's profitability and they were quick to react. A story I was told was the threat of wild German boars coming into Denmark. The DPP were able to organise industry funds to pay professional shooters on the same day that they were sighted over the natural water barrier.

My visit to a mink farm in the Netherlands was the most startling example of the importance a lobby group can have with over population and a strong animal rights influence wanting the demise of the industry in that country.

Comments on Watch Dog Organisations

To cater for the future farm, these organisations will need to understand the natural market forces that are occurring, as to fight these is only delaying the inevitable. So education is the most important role to play as a good farmer can handle most situations with the right information. The North American Farmers concept is very exciting as the model I believe offers real value to farmers. It allows natural business to occur but with good transparency so no excessive profits can be made. This model can include the sourcing of information that can assist the farmer to make better business decisions.

I have become a lot more respectful of farm lobby groups in my travels as they have a real role in fighting costly and restrictive legislation. It is my view now that it is important for all farmers to be members

- So the network that takes time to set up can be maintained.
- Provides credibility when complaining.
- Enables the farmer to actively improve their group

Farmer Cooperatives

Traditionally farmer cooperatives have played an important role in agriculture. They have achieved success where individual farmers were unable. They mainly have associated with the parts of the sector near to the farmer but some have progressed right through the supply chain.

Input Cooperative

I spoke to the CEO of an extremely successful buying group, Woldmarsh - England. Some 40 years ago a group of farmers discovered they were spending far too much time searching for goods and services necessary for there farming operations (sound familiar). Also because each farmer was purchasing small quantities there were no discounts being applied and there was also a lot of fat in the supply of these goods and services. Because of this they decided to:

- Establish a purchasing co-operative.
- Recruit a buying specialist to consolidate the individuals purchasing needs.
- To source widespread goods and services.
- Negotiate substantial discounts for bulk purchases.
- Simplify invoicing and to allow the farmer member to focus on farming activities.

Today the Woldmarsh Producers Ltd remains privately owned by its farmer members, employs a specialist buying team and has an annual turnover of over 37M pound. It continues to grow showing it is still providing benefits to its 580 members.

To become a member you join one of the 19 regional groups, you pay a one off subscription charge and thereafter pay a sliding charge based upon their purchasing. This is capped to encourage the very large producers or corporate farms. Each regional group meets bi-annually to elect a director to represent the group on the Company's board. The regional group is also used for networking, the exchange of ideas and a forum to maintain a local focus for the individual members. Interestingly these groups are also used to manage the group's risk of bad debts. Normally a buying group would need to have a reserve account to offset the chance of bad debt but each regional group is obliged to cover a certain % of the debt. The down side to this idea is large corporations aren't so welcome as regional groups aren't so keen to cover the risk. Other measures like basic finance checks and direct debiting means bad debts aren't a problem.

Apart from the obvious advantage of bulk buying power it is the saving of time that is the real winner. An example is Woldmarsh handles mobile phone accounts as they realise the farmer hates sitting on a phone being put on hold for 20 minutes. It is a pain to them and not a good return for their time invested but it is a valuable service to their members. Other ways Woldmarsh saves time is:

- Simplified administration
- One telephone call for all your requirements knowing they will be the best deals in the district.
- Avoids wasting time talking to supplier representatives.
- Information and education on products come from one source.

Woldmarsh doesn't have any assets other than an administration building so still relies on merchants to deliver the product so farmers can nominate whom they wish to deal with. Although they have indicated they would like to reduce this to selected outlets in the future. They accept 3-4% delivery charge. These merchants invoice Woldmarsh who then collect all invoices and put them on one account.

Woldmarsh do extensive surveys and along with historical data enable them to not have to hold stock but be confident in brokering deals. Their skill is their database.

We spoke about the internet for the future but due to lack of farm broadband access, and the sheer fact that is easier to ring from the header and order all your requirements in one phonecall means that this will unlikely replace Woldmarsh's current system.

An interesting comment was the CEO felt there is more opportunity to make money on the input side rather than output as there is always a larger variation in the price of a drum of chemical than a tonne of wheat. Also merchants may struggle to make much money from selling chemicals but it is not because they are selling it too cheaply but rather have too many unnecessary overheads.

This form of cooperative is very good at supplying produce at reasonable prices to its members as it:

- Enforces transparency in the supply chain.
- Is a strong enough group that is able to negotiate cost price from suppliers.
- Reduces farmer time.
- Has no assets or other activities.

Output Cooperatives

There are many examples of very successful farmer cooperatives. The example I will use is the Saskatchewin Wheat Pool, which is a cooperative that was formed back in the 1930's to primarily handle the collection of grain. It grew to be a huge cooperative that had considerable loyalty from the farmers and developed into a company that had diverse interests. It soon became apparent that SWP was not providing the cheapest inland grain storage and defection led to the company to near bankruptcy.

This example I have used to highlight a number of issues:

- SWP was formed because the new individual farmers could not transport grain to the coast by themself.
- It became very successful providing the right service to its members and creating loyalty.
- As time went by farmers lost touch with the industry due to the comfort SWP provided and became apathetic with management.
- Poor management and higher charges caused defection from SWP.

This is a good demonstration of the cyclical nature of cooperatives.

The lessons to be learnt is that a successful cooperative must

- Be well managed.
- Continually keep the farmers informed of the business and the environment that it is operating in.
- Remind members of how it would be without the coop.
- Encourage active participation by all members.
- Educate the board and potential board members.

Comments on Co-operatives.

Traditional cooperatives are returning less to farmer profitability as free trade and transparency has lessened the opportunity. Also investing time and energy as farmers in the supply chain isn't always a recipe for success. In saying this with the ever-changing climate of agriculture cooperation in the supply chain will always be important if it:

- Provides a link to the consumer.
- Results in a high enough percentage of the market to influence prices.
- Bridges a stumbling block for any value adding opportunity.
- Helps guarantee supply and quality.
- Competes with monopoly or high profit taking sections of the supply chain.

Conclusion

Modern agriculture is in a constant process of transformation and continuous change. Farmers need to learn how to farm in new economic and scientific conditions. Therefore it is important to recognise what farming will be in the future and change accordingly to minimise the bad and develop the good.

A few farmers will be early adopters and individual entrepreneurs but most farmers will do better by working with others in business to better their position in the future.

Ways that farmers can work together have been outlined and I will now attempt to rank the importance of each way. This is difficult as all are important under different circumstances but it will highlight my conclusion.

1. Nothing is more profitable than good management. This is the area that I believe is the most profitable way a farmer can work with other farmers. Discussion groups and benchmarking are good examples of this. Without comparing or critically analysing your business with other farmers delivering to the same market, and understanding your performance, industry direction and world trends, your business is in danger of losing its profitability regardless of how efficient you think you are. As outlined, the key message of my report is:

The value of benchmarking combined with a well-structured discussion group is a powerful tool for improving farm profitability.

2. The long-term future of your industry in your specific region is dependent on the continual improvement in management, agronomics, inputs and adoption of new technology. This is best done by the use of commodity levies and farmer R & D groups. This has become very important as agriculture is being forced to mature as an industry with government decreasing its support.

3. The need to work together to drive down the cost of production is important if you don't have optimal scale in your business. This is the area that has the greatest potential as farmers have a culture that currently does not exploit this form of working together.

4. Farmers are continually being squeezed on its profits by being supplied retail and delivering a product at cost price. Farmers need to unite to identify any unfair costs or inefficiencies before they can form a cooperative to combat the situation. The same applies to politics, identifying and understanding unfair and costly legislation is important to allow farmers to pursue farming in a fair environment.

5. Cooperation in a mature industry still is and will continue to be important but the energy and time involved is not going to have as a dramatic affect on your business as the other points.

My key learnings have been:

- Farmers will have the biggest impact on profitability by working together in the area of management.

- There are new ways emerging that farmers can work together that will cater for a farmer of the future.

- The need to work together is increasingly important for a profitable and sustainable business.

By working with others, farmers will have accurate and detailed figures of their operation that can be compared against others, discuss these in a formal procedure to continually improve their profitability whilst at the same time using the group to assist in trouble shooting and strategic planning. They will be actively involved in R & D on their farm and will employ the latest technology that will be utilised to its maximum capacity to drive down costs and produce a quality that the consumer wants. All this will be done in the comfort that they know their industry is not being artificially propped up, has a lean supply chain and no future legislation will stop their enterprise from returning a satisfactory return on asset.

In conclusion “a farmer in the new agriculture will be a networked farmer, interdependent and entrepreneurial, with a high capacity to maintain mutually beneficial relationships with other farmers and with associations, co-ops, and companies”.

Recommendations

My recommendations are directed towards the grains industry and are based on my own farming experience:

- There needs to be a lot more education on the benefits of the discussion group model and joint venture arrangements between farmers. These two areas have the potential to have a large impact on farm profitability, as they aren't being utilised enough, particularly in WA grains industry.

- There is a lack of solid, transparent international comparisons available to give clear signals on our performance and status in the world grain trade. Investment into a continuing structure that can achieve this is needed by the industry to provide a continual supply of transparent, independent and factual information.

- Farm lobby groups are a continual source of criticism for the job they do and the structure that exists. Due to my Nuffield I have done a complete back flip on my views and believe every industry needs a voice to represent it politically and to raise issues that could threaten its existence. So I recommend all farmers need to be a member of either a commodity or general group, and be actively involved to make it well managed and focused on the real issues.

- The growth of farmer driven R & D groups is only going to grow in importance providing a network for farmers, researchers, consultants and government officials. The industry needs to support and renumerate the volunteer time required.

- The final recommendation is the current system of the single desk being administered by the AWB makes very good theoretical sense. Looking at it in a way that it is farmers working together with capital interest to provide a direct market contact guaranteeing continual supply of the required quality for that market. This is a more long-term outlook than whether we can achieve a better price today.