

Table 1: Pathway options - comparisons, pros and cons

	Farm manager	Contract Milker	Variable Order Sharemilker	Herd Owning Sharemilker	Leasing	Equity Partnerships (in land)
Relationship	Employer/employee	Owner/contractor	Owner/contractor	Owner/contractor	Lessor/lessee	Joint venture
Length of tenure	Variable	Typically 1-2 year contracts	Typically 1-2 year contracts	Typically 3 year contracts	Variable	Equity partnership agreements are usually 5 years
Legal status	Bound by employment law	Contractual agreement open to negotiation	Contract is bound by Variable order agreement (statute)	Contractual agreement open to negotiation	Lease agreement	Equity partnership agreement is a contractual agreement between 2+ parties
Level of day-to-day decision making	Depends on level of control delegated to manager	Sharemilker has day to day control	Sharemilker has day to day control	Sharemilker has day to day control	Lessee has day to day control	Equity manager/ sharemilker
Who has staffing responsibility	Usually farm owner	Sharemilker	Sharemilker	Sharemilker	Lessee	Equity manager/ sharemilker

Table 2: Key areas to consider when analysing a progression path

From a manager/sharemilkers perspective:						
	Farm manager	Contract Milker	Variable Order Sharemilker	Herd Owning Sharemilker	Leasing	Equity Partnerships (in land),
Skills	Farm management	Farm management, small business management	Farm management, small business management	Farm management, small business management	Farm management, small business management	Farm management, small business management, governance
Financial Risk (mgmt. perspective)	Little financial risk May include performance bonuses	Risk from production variability	Risk from production and payout variability	Risks from production and payout variability, changes in livestock values	Risks from production and payout variability, changes in livestock values	Risks from production and payout variability, changes in livestock values and land values
Investment required	Nil	Usually motorbike, misc. equipment. All machinery in some cases	Usually motorbike, misc. equipment. All machinery in some cases	Livestock, machinery	Livestock, machinery	Livestock, plant and machinery, land
Wealth Creation Earnings per annum, or (return on equity)	\$50-\$150,000	\$60-\$200,000	\$60-\$200,000	15% plus capital gain/loss of livestock	?	3%-6% plus capital gain/loss of land & livestock

Note:

Farm management skills: on-farm related skills, e.g. pasture management, animal husbandry, machinery, R&M, soils & fertiliser

Small Business management: Financial budgeting, cash flow management, invoicing, wages, HR skills

Governance: reporting to, and working with a board of directors at a governance level. Increased requirements for reporting and communication

What type of operating structure should I pursue (for progression)

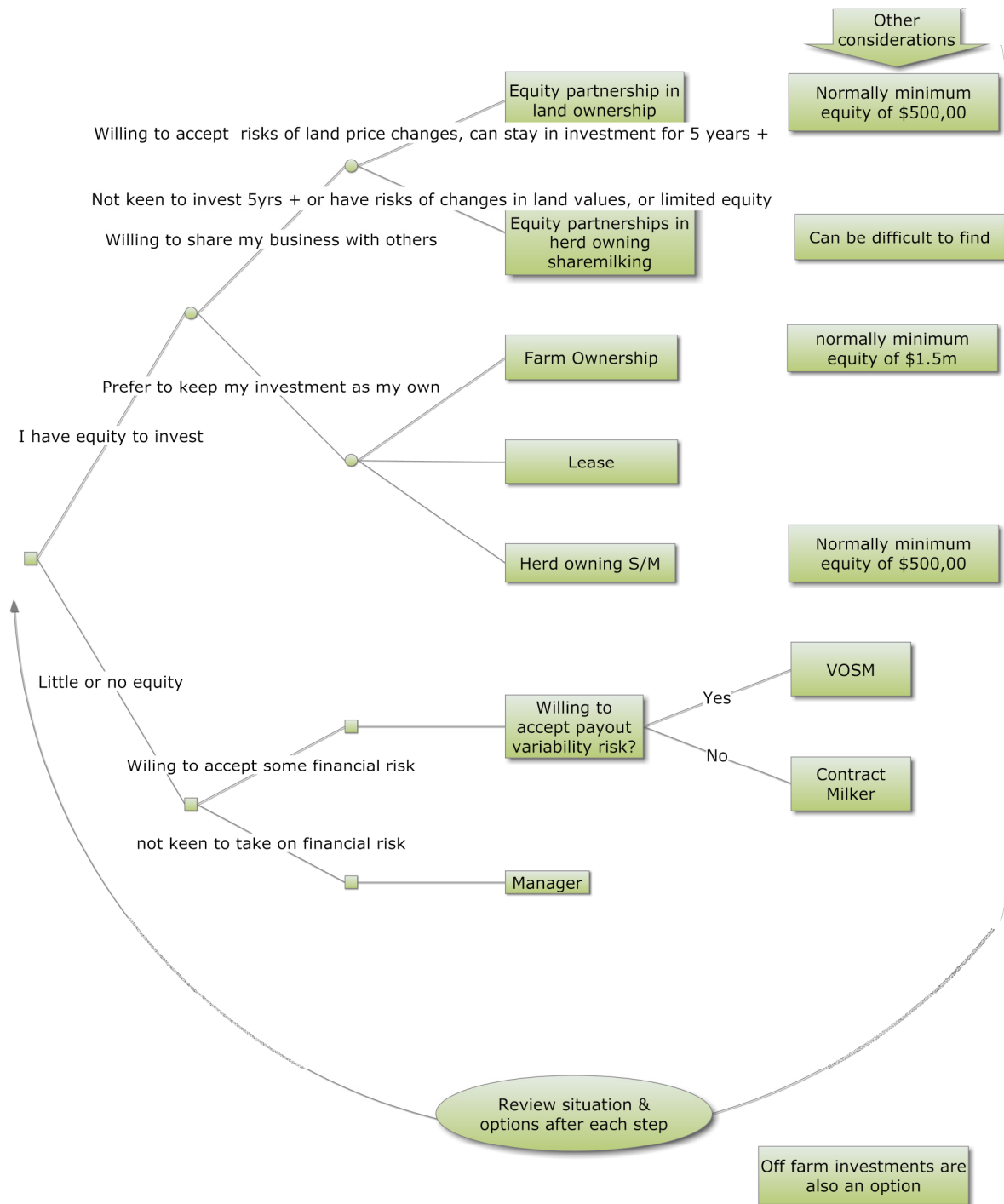


Table 3: Key considerations when analysing which management structure to employ/engage

From a farm owners perspective						
	Farm manager	Contract Milker	Variable Order Sharemilker	Herd Owning Sharemilker	Leasing	Equity Partnerships (in land),
Roles of farm owner	Staffing Feed Fert R&M Animal health Breeding Financial	Feed Fert R&M Animal health Breeding Financial	Feed Fert R&M Animal health Breeding Financial	Feed (split) Fert R&M (split) Financial	Minimal – oversee farm to ensure it is being maintained	Variable, depending on how the partnership is structured
Investment required	Livestock, plant & machinery, land, shares	Livestock, plant & machinery, land, shares	Livestock, plant & machinery, land, shares	Land, shares	Land, maybe shares	Livestock, plant & machinery, shares
Financial Risk (mgmt. perspective)	Risks from production and payout variability, changes in livestock values and land values	Risks from production and payout variability, changes in livestock values and land values	Risks from production and payout variability, changes in livestock values and land values	Risks from production and payout variability,		Risks from production and payout variability, changes in livestock values and land values
Milk Production per ha			Highest average production/ha	2 nd highest average production/ha	?	?
Financial Returns		Returns similar to owner operator		Returns lower than owner operator or VOSM	Approx. 20% of milk income	Depends on how EP is structured. Varies from no cash returns to quarterly dividends
Other						EPs more difficult to dissolve than sharemilking agreements?

As a Farm owner, what type of operating structure should I have?

