

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)

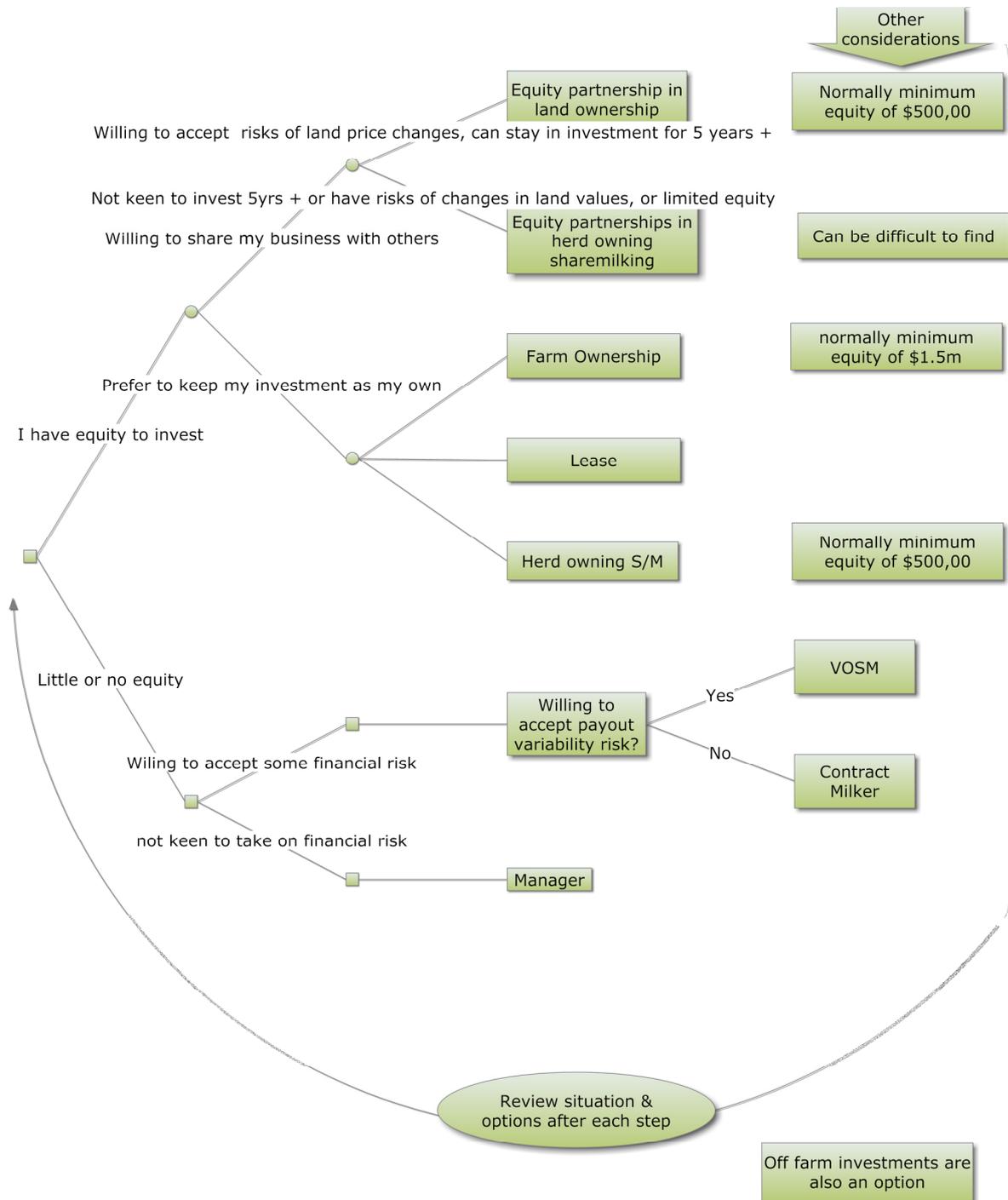


Table 3: Key considerations when analysing which management structure to employ/engage

| 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?

