

Prepared for the  
PRIMARY INDUSTRY COUNCIL /  
KELLOG RURAL LEADERSHIP  
PROGRAMME 2002

Prepared by  
Conall Buchanan  
Canal West Road  
RD6 THAMES  
E - mail [c.r.buchanan@xtra.co.nz](mailto:c.r.buchanan@xtra.co.nz)

Phone 07 867 3073  
Phone 027 433 3674  
Fax 07 867 3 073

---

# SHAREMILKING

## A Snapshot - 2002

---



# TABLE OF CONTENTS

<b>1.0 Summary</b> .....	<b>3</b>
<b>2.0 Introduction</b> .....	<b>5</b>
<b>3.0 Value to New Zealand and The Dairy Industry</b> .....	<b>6</b>
<b>4.0 Why Does It Work?</b> .....	<b>7</b>
<b>5.0 Present Situation</b> .....	<b>8</b>
5.1 Trends	
<b>6.0 History and Perceptions</b> .....	<b>10</b>
<b>7.0 Strengths and Weaknesses</b> .....	<b>12</b>
7.1 Strengths	
7.2 Weaknesses	
<b>8.0 Risks</b> .....	<b>14</b>
<b>9.0 Who and Why</b> .....	<b>16</b>
<b>10.0 Career Paths</b> .....	<b>18</b>
10.1 Past	
10.2 Present	
10.3 Future	
<b>11.0 Culture.</b> .....	<b>22</b>

Continued .....

---

<b>12.0 The Sharemilker Section of Federated Farmers .....</b>	<b>24</b>
<b>13.0 The Sharemilker Of The Year Competition .....</b>	<b>25</b>
<b>14.0 Leadership.....</b>	<b>28</b>
<b>15.0 Contracts and Positions .....</b>	<b>29</b>
15.1 Variable Order Sharemilking Contracts	
15.2 Herd Owning Sharemilking Contracts	
15.3 Positions	
15.4 Disputes	
<b>16.0 Conclusion .....</b>	<b>33</b>

## **Appendices**

The author of this report has held sharemilking contracts since 1987, is a former Chairman of the Sharemilker Section of Federated Farmers, has had considerable involvement with the Sharemilker Of The Year competition, and has been a member of the sharemilkers' team renegotiating the terms of the Sharemilking Agreement Act 1937. Sharemilking has led to farm ownership and he is currently a member of the Fonterra Shareholders Council.

To obtain a copy of this report, contact Conall Buchanan at [c.r.buchanan@xtra.co.nz](mailto:c.r.buchanan@xtra.co.nz), or Canal West Road, RD6, Thames. Ph/fax 07 8673073 or 027 433 3674

# 1.0

# SUMMARY

Sharemilking is a contractual arrangement developed over time that shares the costs and benefits of operating a dairy farm.

This report is intended to draw attention to the importance of sharemilking and to act as a contemporary resource for those wishing to understand the sharemilking industry and its role in 2002.

Sharemilking is unique to New Zealand and has become an integral part of the dairy industry. 37% of our dairy farms operate sharemilking contracts. These farms produce 42% of New Zealand's milk<sup>1</sup>, which makes up 9% of the country's total export income and is worth three billion dollars<sup>2</sup>.

There are two common forms of sharemilking established within an unofficial system. This allows advancement and the building of both experience and capital (principally in livestock). Sharemilking is a pathway to farm ownership.

There are very sound reasons for the popularity of sharemilking. Its' principal strength is the benefit to both parties.

The average sharemilking operation milks 285 cows with an approximate capital value of \$450 000 and turnover of \$290 000. Return on capital is estimated at 20% and return on equity, 29%.

The percentage of New Zealand's dairy farms that operate with sharemilking contracts has been steadily increasing and is continuing to do so.

Sharemilkers on average run larger herds at higher stocking rates for higher production per hectare than owner-operators. They tend to be the sector within dairying with faster and more complete uptake of research and extension.

As is the case with most industries, sharemilking has its own specific strengths, weaknesses and risks.

The people involved in sharemilking have a variety of backgrounds. Recent years have seen an influx of young tradespeople and professionals from outside agriculture who have identified the benefits of sharemilking and are now sharemilkers themselves.

---

<sup>1</sup> Livestock Improvement Dairy Statistics 2000/2001

<sup>2</sup> NZ statistics department website. Figures for year ended June 2001

The traditional career path to dairy farm ownership has changed and is continuing to evolve. Sharemilkers are not as strongly represented in farm purchase statistics as in the past. This is partly due to the increasing size of the average dairy farm. The increased numbers of larger farms have provided more large-scale sharemilking opportunities. There is increasing use of alternative ownership structures of dairy farms.

Sharemilkers are represented by a specific section within Federated Farmers of New Zealand.

The Sharemilker Of The Year competition has numerous benefits to the dairy industry and also serves to raise the profile of sharemilking as an attractive occupation and valued part of an important industry. There is a culture associated with successful sharemilkers and commonalities exist among sharemilkers as a group. Sharemilking has been a development ground for leaders of the dairy industry.

The positions chosen by sharemilkers can have a large effect on the progress of their careers and ability to advance within the industry. The avoidance, or swift resolution of disputes is advantageous to both farm owners and sharemilkers.

Sharemilking will continue to be an important part of the New Zealand dairy industry because of its fundamental strengths. It is a win/win arrangement, allows capital growth, progression and farm ownership for new farmers. It also fills a need of many existing farm owners. The system will continue to adapt, as it has from its origins in the late 19<sup>th</sup> century.

There will continue to be turnover within sharemilking as people achieve or change their objectives. Sharemilkers will continue to need integrity, good business skills, strategic thinking and the ability to work hard. The pathways leading to, and the end destinations may vary in the future, but sharemilking is an important part of the dairy industry and will continue to be so.

## 2.0 INTRODUCTION

Sharemilking is a contractual arrangement where one party (the farm owner) provides the infrastructure required for dairy farming, and the other (the sharemilker) provides the physical labour, management skills and some of the chattels or livestock required to operate the farm.

Under the 50% agreement<sup>3</sup> the sharemilker owns the herd, plant and mobile equipment. The sharemilker is usually responsible for all milk harvesting and stock related expenses, general farm work and maintenance. The sharemilker usually receives 50% of milk income and the proceeds from most of the stock sales. The sharemilker is usually largely responsible for farm management.

Under the Variable Order agreement<sup>4</sup> the sharemilker does not usually own the livestock and has minimal plant or equipment. The sharemilker's expenses normally relate directly to milk harvesting. The percentage of income received is negotiated and the farm owner is often more involved in farm management than with the 50% agreement.

The purpose of this report is to provide an outline of the concept of sharemilking as it applies to the New Zealand dairy industry in 2002.

It is intended to:

- Highlight to those involved in dairy farming, the value and scale of sharemilking.
- To be a useful reference bringing together information about sharemilking in an easily accessible format.
- Provide an outline of the situation as at 2002. It will serve as a benchmark for future examinations of the evolution of sharemilking.
- To be a useful resource for those looking to have a greater understanding about sharemilking from the perspective of the dairy industry in other countries.
- To be a useful resource for those considering a career in dairy farming.
- To be a useful resource for those considering engaging a sharemilker.
- To be a useful resource for those considering the possibility of applying the principles of sharemilking to other industries.
- To be a useful reference for people in New Zealand who have little knowledge of the role sharemilking plays.

Much of the information in this report is previously undocumented, as it is either industry specific knowledge, or an outline of normal practice.

---

<sup>3</sup> See later in this report at 15.2

<sup>4</sup> See later in this report at 15.1

# 3.0 VALUE TO NEW ZEALAND AND THE DAIRY INDUSTRY

Sharemilking is of significant economic importance to both New Zealand and the dairy industry.

- The Dairy Industry brings in 22 % of New Zealand's export income.<sup>5</sup>
- 42% of the milk produced in New Zealand comes from farms that operate sharemilking agreements.
- This means that Three Billion Dollars or 9% of New Zealand's export income originates from milk produced by its 5200 sharemilkers.
- Sharemilkers operate 37% of the dairy farms in New Zealand and milk approximately 1.48 million of New Zealand's 3.48 million cows.

The sharemilking system is unique to New Zealand and one of the strengths of our dairy industry. It is envied by other dairying nations, and there is increasing interest in how it works.

The sharemilking system allows entrants to the Dairy Industry to gain experience and build capital, in an effective manner, to enable farm ownership. This ensures a continual rejuvenation of the dairy farming population, by people who have, with determination and ability, proved themselves. In the process these people often push the boundaries and raise the standards of the whole industry.

Financial necessity, ambition and determination have consistently seen sharemilkers driving developments in the dairy industry over the years. Sharemilkers are traditionally the part of the industry most driven to develop and try new management techniques and practices. These include production, profitability and labour innovations. When successful, innovation has a comparatively swift uptake in the New Zealand dairy industry.

The innovative attitude, the preparedness to try new ideas, the environment that encourages and shares the concepts behind business success, and the type of people that this attracts has meant that past sharemilkers often take on leadership roles in the industry.

---

<sup>5</sup> NZ statistics department website. Figures for year ended June 2001

## 4.0 WHY DOES IT WORK?

Sharemilking works for a very simple reason. It benefits both parties to the agreement. When both the farm owner and sharemilker work with integrity and respect, it is the classic win/win situation. Both parties bring differing assets and skills to the partnership, share risks and benefits, and are part of a larger system, which allows progression in the industry.

There is also a high degree of interdependence between a farm owner and sharemilker, this encourages both parties to have regard for each other.

The nature of dairy farming is such that if a herd of cows is not managed well and tended to regularly the consequences can be severe in a business sense. There is always the possibility of livestock death, but a real risk is that if a herd of cows is not milked on a regular basis, they will simply stop producing milk and therefore earning income. Engaging a sharemilker rather than employing labour means that a farm owner has a greater degree of confidence in the motivation of the people milking the cows. Because of this, sharemilkers effectively take on significant responsibility, which also allows them significant involvement in the total farm management and the potential to have a (usually) positive effect on net farm income.

## 5.0 PRESENT SITUATION

The average sharemilking operation in the 2000/2001 season<sup>6</sup> milked 285 cows and produced 89,804 Kilograms of Milk Solids (kgMS). An operation this size would require total capital of approximately \$450 000 and have an approximate turnover of \$290 000. The average return on capital would be approximately 20%. It is not uncommon for equity levels to range from 40 to 60% leading to a potential return on equity of 29%.<sup>7</sup>

Running a business of this size requires significant managerial, financial and administrative skill. Successful sharemilkers have a good working relationship with their financial advisors (usually their accountants) and bankers. Business plans are commonly used to assist sharemilkers to reach their short and long term goals. Consultants (as distinct from advisors) are commonly utilised to ensure that the productivity of the operation is being optimised. A common factor among successful sharemilkers is their professional approach.

As it is not uncommon for sharemilkers to physically move after three years to advance their career, this has an effect on the long-term role they play in communities. As many sharemilkers are in their twenties and thirties, they often have young children, so involvement in a district often centres around the local primary school. Some sharemilkers are able to develop their careers in one district, but many do move. The growth of dairy farming and the involvement of sharemilkers in much of this growth has resulted in a change of demographics in some districts with more young families involved, particularly in Southland and Canterbury.

A feature of many sharemilking operations is that they are run by couples, enabling mutual support and family involvement.

### 5.1 TRENDS

The following table<sup>8</sup> shows that 65% of sharemilkers have a 50/50 contract and that sharemilkers operate 37% of New Zealand dairy farms. It also shows that sharemilkers on average run larger farms, at higher stocking rates than owner operators. The higher stocking rate can be attributed to sharemilkers being younger and more willing to press for higher productivity. The larger total size can be partially attributed to the attractiveness of sharemilkers to the owners of large dairy farms due to the complexity of larger scale operations and the ability to share the operational requirements with a sharemilker. Equity partnerships are also attractive in some circumstances to large farm owners and this will be covered later at 10.3.

---

<sup>6</sup> Livestock Improvement Dairy Statistics 2000/2001

<sup>7</sup> See appendix 1

<sup>8</sup> Livestock Improvement Dairy Statistics 2000/2001

Operating Structure	No. Of Herds	Average Herd Size	Average Hectares	Average Cows/Hectare
<b>Owner operators</b>	<b>8592</b>	<b>229</b>	<b>89</b>	<b>2.6</b>
Other	113	306	113	2.8
Sharemilkers < 20%	296	325	118	2.9
Sharemilkers 20 - 29%	1132	277	104	2.7
Sharemilkers 30 - 39%	317	234	91	2.6
Sharemilkers 40 - 44%	70	280	100	2.9
Sharemilkers 50/50	3372	290	106	2.8
<b>All Sharemilkers</b>	<b>5187</b>	<b>285</b>	<b>106</b>	<b>2.8</b>
<b>All Farms</b>	<b>13892</b>	<b>251</b>	<b>96</b>	<b>2.7</b>

The following table<sup>9</sup> shows that sharemilkers on average have higher production per hectare and per cow than owner operators.

Operating Structure	Average kgMS per Farm	Average kgMS per Hectare	Average kgMS per Cow
Owner Operators	72 075	803	309
All Sharemilkers	89 804	860	312
All Farms	78 913	825	310

The following table<sup>10</sup> shows the trend of a decreasing number of dairy farms, mainly due to amalgamations. There has been a steady increase in the number and percentage of farms being operated by sharemilkers. This trend has been consistent since at least the early 1970's<sup>11</sup>

Operating Structure	1994/95	95/96	96/97	97/98	98/99	99/00	00/01
Owner Operators -Total	9627	9541	9368	9263	9005	8694	8592
Owner Operators - %	66%	65%	64%	63%	63%	63%	62%
All Sharemilkers - Total	<b>4932</b>	<b>5034</b>	<b>5050</b>	<b>5238</b>	<b>5203</b>	<b>5014</b>	<b>5187</b>
All Sharemilkers - %	<b>34%</b>	<b>34%</b>	<b>34%</b>	<b>36%</b>	<b>36%</b>	<b>36%</b>	<b>37%</b>
Total Number of Farms	<b>14 649</b>	<b>14736</b>	<b>14741</b>	<b>14673</b>	<b>14362</b>	<b>13861</b>	<b>13892</b>

The dairy cow population in New Zealand has increased from 2.8 million in 1994/95 to 3.5 million in 2001/02

<sup>9</sup> Livestock Improvement Dairy Statistics 2000/2001

<sup>10</sup> Livestock Improvement Dairy Statistics 2000/2001

<sup>11</sup> A Review of Sharemilking 1972 –1996. Geoffrey Taylor, Agriculture New Zealand Ltd. 1996 ISBN 0-478-07436-0

# 6.0 HISTORY AND PERCEPTIONS

Very little is known about the origins of the sharemilking industry. However, it is generally accepted that it originated from the Scottish concept of share farming and was melded with the American share-cropping arrangement in the 1880's to produce an agreement which has led to the development and institutionalisation of sharemilking in the New Zealand dairy industry.

The first recorded sharemilking partnership was on the Taieri Plains in 1884. Since then, considerable variation has occurred in the share taken by the milker, from the quarter and third share agreements in prominence at the turn of the century, through to the half share, 29% and 39% agreements of the 1930's, and the Variable Order and 50/50 sharemilking positions of today.<sup>12</sup>

It is not difficult to speculate on why sharemilking developed in New Zealand. We must remember that New Zealand was a pioneering nation and there was opportunity available here that did not exist in more established countries. Consequently there was rarely a surplus of labour, and wage earners' working conditions were comparatively better than in other parts of the world (*New Zealand was one of the first countries to adopt a 40 hour working week*). Sharemilking probably evolved in this environment as a good method to attract and retain people in the industry.

The very reasons that sharemilking exists today are probably the same reasons that it started.

- There was a need, with farm owners being unable or unwilling to continue the daily process of milking.
- Sharemilking was a good way of ensuring that a strong incentive existed to stay with the job for a whole farming season as the sharemilker had a vested interest in the success of the operation.
- It was a good way to ensure both parties were strongly motivated to run a farming operation to its potential.
- It was a good way of sharing the risks. The cost, to the farm owner, of sharing the benefits was deemed worthwhile.
- Probably originally a side effect but in time recognised as another major benefit, sharemilkers became potential purchasers of farms when farm owners decided to sell them.

---

<sup>12</sup> A Review of Sharemilking 1972 –1996. Geoffrey Taylor, Agriculture New Zealand Ltd. 1996 ISBN 0-478-07436-0

While the fundamentals of sharemilking are largely unchanged, the scale, significance, attitude, professionalism, technology, level of training and level of respect have definitely increased.

Dairy farming in general, and sharemilking in particular, has at times in the past, been considered a “grubby” occupation. Also, many dairy farmers purchased farms through the returns gained during their own lifetimes, rather than inheriting established operations. Consequently, the farms were of a smaller scale than some other types of pastoral agriculture. To some degree this led to a lower level of respect for dairy farming. The terms “cow spankers”, “cow cockies” and the “Fred Dagg” type image was applied to all farmers, but particularly dairy farmers. There was a portrayal of dairy farmers, particularly sharemilkers, as being “a bit rough” and without the need for great education. This was usually inferred in good humour, but perceptions did in fact tend this way. As time has passed, our whole society has changed and with it the place of dairy farming. The opportunities to grow capital and business experience are now more widely recognised. The fact that the physical act of milking cows can still result in the need for a good washing machine no longer significantly influences the perception of dairy farmers.

One of the aims of the Sharemilker Of The Year competition<sup>13</sup> is to raise the profile of sharemilking and increase the awareness of the business realities and potential involved. Sharemilking is now an occupation requiring a professional approach and a wide variety of skills.

---

<sup>13</sup> See 13.0 Sharemilker Of The Year competition

# 7.0 STRENGTHS AND WEAKNESSES

## 7.1 STRENGTHS

- The fact that sharemilking contracts are usually a win/win scenario is the greatest strength of sharemilking.
- The system that has developed, allows progression and advancement. The system allows sharemilkers to enter at a level that suits their level of experience and available capital. When the time comes to grow, other sharemilkers moving to larger positions, purchasing farms or using their capital outside the dairy industry, leave the next rung on the ladder available.
- The recognition of the importance of sharemilking to the dairy industry and the fact that many people within the industry have been through the system. This means that there is significant moral support for sharemilking.
- The culture of sharing information and the openness that exists is a highlight in New Zealand dairying. This is partly due to our co-operative heritage and also the fact that we do not compete as individuals in the marketplace.
- The nurturing and training in the dairy industry, which has in the past been evident in local discussion groups. This has also been a factor in the willingness to participate in the Sharemilker Of The Year Competition, and the educational, networking and benchmarking benefits that result from entering.
- Finer details of contract conditions for 50/50 sharemilking are sometimes determined by the demand and supply of sharemilking positions/applicants. This contributes to clear market signals to those considering entering sharemilking.
- Many sharemilking operations are run by couples. This “buy in” by both partners gives real strength and enables a strong family life.
- The average age of dairy farmers in New Zealand is increasing, but not at the alarming rate of some other dairying nations. The sharemilking system plays a major part in enabling younger people to participate in dairy farming and to purchase farms. Sharemilking allows younger generations to build assets so that they can purchase farms rather than rely on inheritance and the pitfalls associated with that.

## 7.2 WEAKNESSES

- A sharemilker whose contract ends is in a position that necessitates action. A contract ending on the 31<sup>st</sup> of May<sup>14</sup> means that the herd of cows, all machinery, the sharemilker's family, and that of their staff must vacate the property by the 1<sup>st</sup> of June. If other positions, or options, are scarce or unfavourable, the sharemilker must either accept a contract that is less than desirable, or sell the cows. A common contract clause specifying notice of contract renewal enables action to be taken in a timely manner.
- A farm owner whose sharemilker is leaving on the 31<sup>st</sup> of May is also in a position that necessitates action. A new sharemilker must be contracted. Other options include purchasing livestock and plant and employing a manager, or land use other than dairying. A common contract clause specifying notice of contract renewal enables action to be taken in a timely manner.
- Finer details of contract conditions for 50/50 sharemilking are sometimes determined by the demand and supply of sharemilking positions/applicants. This can mean that some sharemilkers agree to contracts that are less than ideal financially. Also it can mean that sharemilkers accept on-farm conditions, which are less than ideal, impacting on both themselves and their staff.
- Because sharemilkers have a high degree of self-determination and choice, they can get themselves into difficult positions. The same opportunities that allow advancement, also allow people to extend themselves beyond their personal or financial resources. The effects of this can be mitigated with assistance from family, neighbours and friends, but can still have significant consequences for all involved.
- A poor sharemilking position can be a major setback. Sharemilking is a relatively demanding occupation. A farm that is not well set up, or a farm owner with unrealistic expectations can have a very negative effect on a sharemilker personally and also their financial situation. Too much work or pressure can be hard on family life. Sharemilkers can find themselves in the position of effectively being “driven out” of the industry through disillusionment or financial adversity.

---

<sup>14</sup> Most contracts run from the 1<sup>st</sup> of June to the 31<sup>st</sup> of May

# 8.0

# RISKS

In addition to normal risks associated with agriculture and particularly dairy farming, (such as climatic, exchange rate, interest rate or commodity price fluctuations) sharemilkers have several areas of specific risk.

Livestock, principally cows, are the primary asset. Consequently sharemilkers are vulnerable in the areas of:

- Livestock health. A quote from a banker:

“Where you have livestock, you have dead stock”

This is all too true. Losses are not commonly a significant business problem due to widespread sound animal husbandry. But, there are real risks. This past season saw widespread lameness resulting in poor mating performance. This has resulted in lower than normal in calf rates, with many sharemilkers needing to cull empty cows that must be replaced to fulfil their contractual obligations. Outbreaks of bloat, Neospora abortion storms, Tuberculosis and things like lightning strikes, stock on roads and floods, are not common, but do occur and are real risks. An outbreak of foot and mouth disease in New Zealand would decimate sharemilking.

- Fluctuations in value of livestock. Dairy livestock prices are affected by the cyclical commodity price trends and the demand and supply of stock. As discussed previously this may result in sharemilkers being unwilling sellers in a weak market. In extreme cases this can also result in a significant change in a sharemilkers balance sheet, which can lead financiers to question their level of equity.

Sharemilkers are often “highly geared” financially. This means that they carry a high debt burden, which can be difficult if income levels drop due to adverse climatic or international market conditions. High debt levels can also create problems if interest rates rise significantly.

As the “occupiers” of the land sharemilkers assume some of the risks associated with owning land without the control of ownership. A good contract should minimise this risk. Examples include:

- Prosecution for incorrect disposal of effluent, when the system provided is inadequate
- Liability for escaped stock, when boundary fences are not in good repair.
- Some responsibility for visitors, contractors or staff on the farm with regard to occupational health and safety.

Sharemilkers assume the responsibility for the employment of labour and the risks and responsibilities associated with that.

As discussed in *Weaknesses*, there is a risk associated with being unable to find a suitable position to move to when a contract ends and having to either accept a less than desirable position or sell cows into a weak market. To mitigate this risk many sharemilkers and farm owners usually agree to notify one another of a decision to finish a contract with plenty of notice. Commonly from December, but at least from February for 31<sup>st</sup> of May conclusion.

It is not uncommon for sharemilkers to take on positions where the infrastructure of the farm is not up to the standard required. Sometimes the property has not been maintained adequately, or in other cases the farm may have been only recently converted to dairy production. Sharemilkers can either “box on” or more commonly address the inadequacies themselves, with or without the assistance of the farm owner. In these situations sharemilkers often spend money and time, beyond their contractual requirements, improving the farm infrastructure. The benefits to them are the potential for improved production, which they will receive a portion of, and improved conditions for themselves, their staff and their livestock. Should the sharemilker finish their contract, the improvements carried out are rarely portable, so are rarely of lasting benefit to them. This is a predicament faced to some degree by many sharemilkers. It is widely accepted that the “general maintenance” that is required, as part of a sharemilking contract should include some degree of developmental assistance. Where individuals draw that line is often a matter of circumstance. An often-unrecognised benefit of sharemilkers going “above and beyond the call of duty” is the statement that this makes about their character and attitude. Personal satisfaction can be gained by improving properties, but is also looked upon favourably by farm owners when sharemilkers apply for future positions.

“Set off” is a term used to describe the contractual ability of a farm owner to withhold money due to a sharemilker, should the sharemilker fail to complete his or her obligations. This will be covered further in the dispute section, but there is a risk that unscrupulous farm owners will unjustifiably “set off” money that the sharemilker has to go through a dispute resolution process to retrieve. Unfortunately there are a small minority of farm owners who do this on a regular basis and some sharemilkers decide the cost of retrieving the money is too high to pursue.

## 9.0

# WHO AND WHY

It has been common over the last fifteen to twenty years for young consultants or advisors to see the rewards associated with sharemilking and to decide to go sharemilking themselves. However over the last five to ten years there has been an influx to the dairy industry of people from a wide variety of trades and professions, such as chefs, bank personnel, teachers, nurses, electricians, accountants, plumbers, drivers, foresters and horticulturalists. Many of these people are taking the sharemilking path to farm ownership.

Usually in their 20's and 30's these people are seeing and grasping the opportunities available. They often bring some capital, business knowledge, maturity and a fresh approach. They are well represented in the ranks of Sharemilker Of The Year regional placegetters.

Many people are still following the traditional pathways to sharemilking and there are also some who become involved with the encouragement of family members who own a farm and would like to see their children or a relative reaching the position to be able to purchase the farm.

As discussed a major reason for going sharemilking is the intention to build capital, often with the intention to buy a dairy farm, but quite possibly to buy a dry stock farm or other type of small to medium business.

The average owner-operator dairy farm capital value is approximately \$1 950 000<sup>15</sup>. Many sharemilkers aim to own a dairy farm so therefore have a strong focus on capital growth. The capital value of the average sharemilking operation is approximately \$450 000<sup>16</sup>. *(To put the above figures in perspective, the average New Zealand home has a capital value of \$186 000.<sup>17</sup>)* To grow a business to this value is a significant achievement in itself, but quite possible as a sharemilker. The step to farm ownership is a large one, but also achievable with strong equity growth, as explained below;

- Banks have been willing to lend to sharemilkers up to 66% of the conservative value of their assets. If interest rates are below 10% and sharemilkers are able to achieve an average **return on capital (ROC) of 20%**, then their **return on equity can be 29%**<sup>18</sup>.

---

<sup>15</sup> See Appendix 1

<sup>16</sup> See Appendix 1

<sup>17</sup> Quotable Value NZ website

<sup>18</sup> See Appendix 1

Sharemilkers can also achieve equity growth by:

- Entering the market at a low point and purchasing cows, which then increase in value over subsequent years.
- Minimising stock losses and involuntary culling to enable the leasing out of additional cows.
- Rearing extra young stock and either selling them or grazing them through to milk or lease out.

Another major attraction of dairy farming generally, is the fact that most people working on dairy farms also live on the farms. This means minimal travel time to work, most meal times at home and high family contact time. The work can be hard and the hours long at busy times, but the opportunity to interact with family on a more regular basis than some other professions is a major advantage.

Sharemilkers have the added benefit over salaried staff of the greater ability to structure their time input to suit their family. There are also intangible benefits (and responsibilities) of “being your own boss”.

Farm owners have a variety of reasons for engaging sharemilkers. Some include:

- Not wishing to have the day-to-day responsibility associated with milking or owning cows.
- Semi or permanent retirement.
- Absentee farm ownership.
- The ability to devote more time to other farming, business or personal interests.
- The ability to free up capital previously tied up in livestock for business or personal use.
- Being able to invest in the dairy industry without the need to be physically involved or have the necessary knowledge or skills.
- Accessing people with strong motivation and good, up-to-date management skills.
- A much easier, less hassles option than employing staff.

# 10.0 CAREER PATHS

New Zealand's 50/50 sharemilking business has never been easy to get into, and farm ownership is not a simple achievement. As our industry evolves, opportunities change. Not all sharemilkers attain farm ownership or stay in the industry, and not all aiming for that first sharemilking position, get there.

## 10.1 PAST

Traditionally a young person started dairy farming at an entry-level position. Practical experience was gained and there was widespread use of "trade certificate" type qualifications, usually obtained through daytime classes held once a fortnight in rural areas. In time people took on more responsibility and may have become herd managers before progressing to Variable Order<sup>19</sup> sharemilking. During this period they would be saving money and perhaps begin to own some livestock, so that they could take the next step to Herd Owning<sup>20</sup> or 50/50 sharemilking when they had built their ability. The first 50/50 job was normally a one-person operation (say 150 cows in the 1980's but now 180 to 200 cows) where perhaps their spouse could help at busy times such as calving. After time a step was taken to a larger 50/50 job, which normally meant employing fulltime labour. From this position, sharemilkers either increased herd size again or continued to build capital, either off farm or by growing stock numbers through leasing or use of a run-off<sup>21</sup>. When the time was right sharemilkers would finish their contract, sell all or a portion of their herd, and use that money as a deposit on a small (usually back to the one person unit) farm of their own. It was not uncommon for these people to continue growing their capital over and above mortgage repayments and in time purchase larger farms. In time many would end up employing sharemilkers themselves.

It was not uncommon in the 1980's for people to be in the position to purchase a 140-cow farm after 6 to 9 years of 50/50 sharemilking. It must be noted that until the early 1980's concessional interest rates were available to many first farm buyers and this was of considerable assistance.

---

<sup>19</sup> See 15.1 Variable Order sharemilking contracts

<sup>20</sup> See 15.2 Herd Owning sharemilking contracts

<sup>21</sup> A "run off" is an area of land used that is not an integral part of a farm. E.g. 20 hectares 10 kilometres away

## 10.2 PRESENT

To some degree the above still is possible, but the scale of farms is increasing, as is the size of an economic one-person unit. Consequently the capital required to start 50/50 sharemilking is higher, as is the price of dairy farms. The ratio of cow value to land value is decreasing resulting in the need for sharemilkers to accumulate more cows or capital before attaining farm ownership.

Farm purchase is still a realistic goal for many sharemilkers, however, some statistics are discouraging in this respect. In 1973, existing farmers purchased 58% of all dairy farm land traded. In 1995, they purchased 83%.<sup>22</sup> In 1973, first time farm buyers purchased 36% of all dairy farm land traded. In 1995, they purchased only 10%.<sup>23</sup> Anecdotally this trend is continuing. Farmers purchasing adjacent properties and amalgamating them into one unit contributes significantly to these numbers. Some of the farms purchased would be of questionable value as stand alone units.

In 1995 a sharemilker required 980 cows to provide sufficient equity to purchase and stock a first farm. This was equivalent to 3.84 times the average herd size of a sharemilker. In 1972/73, sharemilkers required the equivalent of only 1.9 times the average herd size. As a consequence the age of first farm purchasers was on average 40 years in 1995 compared to 30 in 1973<sup>24</sup>.

It is now not uncommon for sharemilkers to retain their existing positions and take on additional sharemilking contracts as a means to grow cow numbers and their capital base, while utilising their skills over multiple properties. Some sharemilkers have decided that they prefer to remain sharemilking on larger properties than purchase small dairy farms. Sharemilking usually has a higher return on capital (*and higher risk level!*) than owning a dairy farm. This enables faster business growth and contributes to the reluctance of some sharemilkers to tie up large amounts of capital in land. To some degree, these sharemilkers not "moving on" means that some opportunities are not opening up for others coming through the system.

There are also many more large-scale dairy farms, with the advantage of economies of scale available, both to purchase and as sharemilking positions. There has been an emergence and then decline of corporate dairy farming with single entities owning large numbers of sizable dairy farms, which operated sharemilking contracts. There are now private individuals and companies owning growing numbers of large farms. Many large farms still engage sharemilkers, but a development over the last five to ten years has been "Equity Partnerships"<sup>25</sup> as an alternative for sharemilkers looking to enter farm ownership.

---

<sup>22</sup> A Review of Sharemilking 1972 –1996. Geoffrey Taylor, Agriculture New Zealand Ltd. 1996 ISBN 0-478-07436-0

<sup>23</sup> A Review of Sharemilking 1972 –1996. Geoffrey Taylor, Agriculture New Zealand Ltd. 1996 ISBN 0-478-07436-0

<sup>24</sup> A Review of Sharemilking 1972 –1996. Geoffrey Taylor, Agriculture New Zealand Ltd. 1996 ISBN 0-478-07436-0

<sup>25</sup> Explained in 11.3 Career paths; Future

The growing number of large-scale properties (anything from 500 to 2000 cows) is opening opportunities for herd and farm managers. These people need significant skills and are financially rewarded accordingly. This is now another way of building capital for 50/50 sharemilking or equity partnership. These people analyse potential career steps and are unlikely to move unless it is advantageous.

As discussed previously a growing number of people are coming into sharemilking from other careers. They often spend several years gaining hands-on experience, management knowledge and qualifications before starting 50/50 sharemilking. They commonly have some capital built up through home ownership and use this to assist with the purchase of their first herd.

There are still a number of people achieving their objectives and farm ownership through sharemilking. But greater innovation and determination is required than in the past.

## 10.3 FUTURE

As discussed, the paths to sharemilking and dairy farm ownership are changing and probably will continue to. The Dairy Industry Restructuring Act 2001, the formation of Fonterra (which is currently the fourth largest dairy-oriented company in the world<sup>26</sup>) and the potential for greater competition for the purchase of raw milk, will all have an impact on the attractiveness of, and opportunities available, in dairy farming and sharemilking. Should good opportunities remain, the industry will continue to attract capable well-motivated people and sharemilking will remain as a pathway to farm ownership.

Many sharemilkers now see an equity partnership on a large-scale property as being more attractive than total ownership of a smaller property. An equity partnership is an arrangement where a number of people bring portions of capital to a legal entity, which then purchases a farm and all the livestock and equipment to operate it. The profits are shared among the “partners” in proportion to the capital that they have provided. It is common for one of the partners (often an ex sharemilker) to be involved in the running of the property and to receive a salary as an employee of the partnership. A sharemilker who has reached the position of being able to purchase a 150 cow farm, may find it more attractive in the long term to become the “on farm managing partner” of a 450 cow farm in which he or she has a one third ownership as an equity partner.

Large-scale properties will continue to provide opportunities for sharemilking contracts, but some will also employ managers and these people may be able to take a direct step from large-scale management to equity partnership. This will obviously depend on their ability to build capital.

---

<sup>26</sup> Rabobank dairy industry report 2002

There is some discussion about the potential for equity partnership to make sharemilking obsolete. This is most unlikely to be the case. Equity partnership, by its nature is a much more permanent arrangement and usually requires significant capital, even from the smaller or managing partner. Many of the managing, or on farm, partners need to spend time sharemilking to build the capital and experience needed to be valuable equity partners. Many farm owners in the 180 to 500-cow range see fewer benefits in equity partnership than sharemilking. A significant factor is the human tendency to value sole ownership and the control that that technically brings. The greater need for base capital associated with large properties is one of the factors that make equity partnership attractive for multiple partners. This need is not as pronounced on smaller properties.

Sharemilking will remain an integral part of the industry as it allows capital growth. The value of a “hands-on” opportunity to run a business should also not be underestimated.

# 11.0

# CULTURE

Integrity and trust are essential from both parties to any contract. This is particularly relevant to sharemilking contracts. This requirement has an impact on the type of people who progress in sharemilking. Those who respect the objectives of their business partners tend to find it easier to achieve their own objectives. The ability to “get on” with people in a business sense may not be vital, but is a common trait with successful sharemilkers. A sharemilker must have the ability to work with several farm owners during their farming career and, as their operations grow in size, there is a growing need to be able to manage staff effectively.

A reputation for good on farm performance and the ability to have a good working relationship with a farm owner are very important when applying for future sharemilking positions. In some ways there is a “natural selection” process with fixed term contracts. Those who do not develop a good reputation find it difficult to obtain a good position and end up considering another occupation.

As with any group, there are a wide variety of people involved. There are however some generalisations that can be made, covering perhaps 60 to 70% of sharemilkers. The other 30 to 40% are probably either a mix of the following two or totally uncategorisable!

- A large group of sharemilkers are highly motivated. They are strongly focused on optimising production, profitability and capital growth. They are determined to advance to farm ownership or something similar. These people tend to have gained academic qualifications, make good use of the research and extension services available, and attend industry field days and conferences. They are often involved with the Sharemilker Of The Year competition. As people become involved and interact with this group they find that it is easier to stay motivated, and that they increase their knowledge of sharemilking. Strong networks develop and many sharemilking positions are heard about through “word of mouth” within these networks. The virtues or otherwise of some positions or districts are often known within these networks. Real and tangible examples of people achieving their objectives are close at hand for people in this group. These people tend to be positively rather than negatively focused. While they are aware of the realities of business and farming, if they have a concern or problem they tend to address it rather than complain.
- Another group of sharemilkers are more easygoing, have worked hard to get where they are and probably still work quite hard. They haven’t ever, or no longer have a burning desire to own a farm, but still make a good living and enjoy the occupation. When cow prices climb, as we have seen in the last couple of years, all sharemilkers need to consider the option of realising the

value of their asset. People in this group are probably among those most likely to exit at these times. This is particularly the case if there are other factors such as changing family circumstances or health problems, which are aggravated by the physical nature of farming.

It must be noted that people's circumstances and objectives change with time. A significant number of sharemilkers decide at various stages of their career to take a different direction. Often this involves selling their cows. Many of these people find that sharemilking has served them well. Frequently the capital they have built enables them to purchase a home or business. Some sharemilkers' objectives consistently relate to areas outside dairy farming. Sharemilking was a common path to the ownership of a dry stock farm in the 60's and 70's.

Involvement with the land and livestock can bring about philosophical thought. A recent poem titled "SHAREMILKING" is included in appendix 2.

# 12.0 SHAREMILKER SECTION OF FEDERATED FARMERS

Federated Farmers of New Zealand (FFNZ) is an industry organisation that represents approximately 17,000 members and which has a long history of representing the interests of rural farming communities throughout New Zealand.

FFNZ has several internal “industry groups”, including Dairy Farmers of New Zealand (DFNZ) and the Sharemilkers Section. Approximately 2500 sharemilkers belong to the sharemilkers section of FFNZ. This represents 15% of total FFNZ membership. FFNZ and DFNZ monitor and comment on issues arising at local and national government level. They also monitor and comment on actions of various industry groups relating to both agriculture generally and dairy farming specifically. The Sharemilkers Section focuses on issues directly relating to sharemilking. It has a national council made up of chairpersons from provincial Sharemilker Sections.

The Sharemilkers Section meets in person three times a year. It lobbies for and speaks on behalf of sharemilkers. The Sharemilkers Section contributed to the industry restructuring debate and made submissions to the Dairy Industry Restructuring Act select committee. It has input to animal health regulations and reviews, industry good initiatives and works with other industry bodies and companies. The Section periodically reviews industry standard contracts and is involved in organising Sharemilker Conferences from time to time.

FFNZ also provides access to advice and assistance to sharemilkers and farm owners, who have questions about, or problems with, their contractual arrangements.

The Sharemilkers Section nominates a negotiating team when the conditions of the “Sharemilking Agreements Act 1937” order in parliament, are renegotiated (this relates to variable order sharemilking). There is also a Sharemilker Employers section, which nominates a negotiating team to represent farm owners.

The Sharemilkers Section operates the Sharemilker Of The Year Competition (SMOTY). It nominates a national management committee and the Sharemilkers Section, with the backing of FFNZ, is ultimately responsible for the competition.

# 13.0 SHAREMILKER OF THE YEAR COMPETITION

The New Zealand Sharemilker Of The Year (SMOTY) competition is well established as one of the most prestigious, professionally run and promoted events on the New Zealand agricultural calendar.

The competition began as a regional event in 1975, with a national competition being held annually since 1989. Competitions are held in up to 12 regions around New Zealand, each of which generates significant local interest and media coverage. The results are reported extensively in the farming and regional media. National and regional sponsors play a significant role in the promotion of the competition. The services of a public relations company are used both to promote the event and its sponsors, and to script the awards evenings.

The competition is owned by FFNZ Sharemilkers' Section, and is managed and organised by a Management Committee comprising of representatives of the Sharemilkers Section, a National Convenor, and a number of Regional Convenors. The Management Committee and the National Convenor work with the regional convenors, each of whom has their own committee to organise their local event.

Entrants fill out a comprehensive entry form and return it with their past year's financial accounts. Social events are often held prior to judging, both to encourage entries, and also to educate participants. Initial judging is carried out to determine merit award winners and regional finalists. Most regions carry out a second judging round to determine the regional placegetters. Prizes are presented at regional Awards evenings, drawing up to 350 supporters and contestants. These are formal evenings with professional audiovisual entertainment and recognised MC's. The field days, which are held on winners' farms soon after, are consistently popular. Many sharemilkers and dairy farmers attend in order to benchmark themselves against "the best" and learn in detail about the management used and career path to date. A flyer is usually produced to summarise the operation and contains an analysis of production, expenses, income and key performance indicators compared to district averages.

The regional winners are judged again, this time by a national judging panel and the National Sharemilker Of The Year is announced at the national awards evening. This is normally held in the province of last year's winners. Again this is a showcase event with anywhere from 350 to 500 attending, including industry and political leaders.

The effect of the SMOTY on sharemilking and consequently dairy farming is profound.

The effect of the SMOTY on individuals can literally be life changing. The enthusiastic atmosphere, acknowledgement of achievement and raised awareness of possibilities often has a lasting effect. It has contributed to many sharemilkers motivation. The competition often has a large effect on those who may not have entered, but attend a field day or awards evening, their self esteem often rises as they see recognition of achievement that they can identify with and realise that they too can be a part of all this. An increase in confidence is also often noticed in first or second time entrants. This is particularly the case if they win a merit award, but just being in the company of leaders in their field is often a boost in itself. Also, young people have decided on dairy farming as a career after experiencing an awards evening. The enthusiasm also spills over, with examples of non-dairying attendees analysing their careers on the journey home and consequently taking big steps to fulfil their potential.

Participants find that even the act of entering the competition is of benefit when seeking further sharemilking positions. Farm owners recognise that by entering, people show a willingness to scrutinise their own performance and seek to improve aspects that could be better. Success or receiving a merit or place is often quoted in the curriculum vitae of sharemilkers and is also valued by lending institutions as a measure of capability. It is common for regional or national winners to be approached by potential business partners with the possibility of larger sharemilking jobs, equity partnerships or other business possibilities.

Below is a summary of the criteria judged.<sup>27</sup> There is a strong focus on business management.

- The biggest category is **Financial management and performance**, which includes planning, recording and monitoring, key performance indicators, taxation and business growth. Then,
- **Making the most of the property**, which includes physical constraints, stage of development/improvements, inputs and use of resources available, production levels, plans for and pride in property, financial resource and input of farm owner.
- **Human resource management**, which includes staff management and/or self-management, farm owner communication, reporting and decision-making.
- **Livestock management**, which includes records - understanding and use of, policy on - breeding, culling, replacements and herd testing, animal health and herd husbandry, animal welfare issues.
- **Pasture management**, which includes planning and recording, seasonal strategies and management, fertiliser usage, understanding, re-grassing and supplementary crops.

---

<sup>27</sup> From SMOTY judging criteria 2002

- **Future aims and attitudes**, which includes commitment and direction, goal setting, ability to achieve and leadership.
- **Communication**, which includes presentation and planning, delivery of information, ability to express an opinion and communication skills.
- **Farm safety and health**, which includes procedures and documentation, training, on farm practices and physical evidence.
- **Farm dairy hygiene**, which includes tidiness, cleanliness and procedures and programmes in place.
- **Environmental management**, which includes effluent, waterway, soil and fertiliser management.
- **Family and community interests**, which includes the extent and importance of family and leisure time and industry and community involvement.

# 14.0 LEADERSHIP

Many of the leaders in the dairy industry are former sharemilkers, from discussion group convenors<sup>28</sup> to past chairmen of the New Zealand Dairy Board. Several current Fonterra directors are past Sharemilker Of The Year winners.

As in many agricultural sectors, the essentially voluntary nature of many of leadership type positions means that fewer people are now motivated to become involved. Time commitment is an issue and focus on career can exclude some from becoming involved in leadership opportunities. Those that do, however, often comment that the personal benefits outweigh the disadvantages. Both Sharemilker Of The Year and the Sharemilkers Section are good groups for leadership development. The dairy industry will need to ensure that people continue to be encouraged to participate actively in the leadership of the industry, as there are plenty of other competing demands for sharemilkers' commitments.

---

<sup>28</sup> Discussion Group = a group of farmers and staff who meet regularly to discuss management and share ideas and experience. Usually with the assistance of a consultant.

# 15.0 CONTRACTS AND POSITIONS

There are two main types of sharemilking contracts.

## 15.1 VARIABLE ORDER SHAREMILKING CONTRACTS

Variable Order (VO) sharemilking is an arrangement where the sharemilker usually provides no livestock and minimal machinery but has the day-to-day managerial and operational responsibility to run a dairy farm. The proportion of income and expenses shared are subject to negotiation.

Terms and conditions for VO sharemilking are determined by the Sharemilking Agreements Act 1937. This sets out many of the minimum contract conditions. The conditions are renegotiated by representatives of sharemilkers and farm owners as discussed previously in section 12.0. The Act was implemented in 1937 with the express intent of “protecting sharemilkers’ interests”. Without this legislation VO sharemilkers could not be classified as self employed and would be covered by the Employment Contracts Act. This would provide greater protection regarding hours worked, minimum income and holidays, but would also remove the benefits of self-employment. The most recent renegotiation of the Sharemilking Agreements Act 1937, order in council of 2001, has resulted in a minimum net labour reward of 21% of the milk income for the sharemilker.

One of the big advantages of VO sharemilking to a farm owner is that the sharemilker is responsible for ensuring that the cows are milked twice a day for their entire lactation, thereby removing the responsibility to organise labour from the farm owner. The VO sharemilker, with a farm consultant or advisor, can often run the farm in the case of an absentee farm owner.

VO sharemilking contracts are normally signed on an annual basis. Statistics are not available on average time VO sharemilkers spend at a position, but anecdotally approximately half would stay for two to three years. Some will stay for much longer. Some may eventually buy the herd on the farm that they have been working on with favourable repayment terms from the farm owner. This is sometimes the case when family members sharemilk for the farm owner.

While the majority of VO contracts work well, this is the first experience of self-employment for many people and unfortunately there are examples of serious business errors occurring, or naive people being taken advantage of.

## 15.2 HERD OWNING SHAREMILKING CONTRACTS

Herd owning sharemilking is an arrangement where the sharemilker provides the livestock and all mobile machinery. The two parties commonly share the farm income on a 50% basis. There is no specific legislation relating to herd owning sharemilking. These contracts are covered under normal contract law. Consequently they are totally negotiable. Commonly referred to as 50% or 50/50 sharemilking, the percentage split of income and expenses is totally up to the individuals negotiating the contract. A 50/50 split is by far the most common arrangement as it is recognised as being “fair” and results in strong motivation of both parties. Sharemilkers or farm owners who stray outside the 50/50 split find that the other party to the agreement will look harder at alternative options before considering the contract.

To some degree the conditions of 50/50 contracts are affected by the conditions of the Variable Order Agreement. If a variable order sharemilker cannot see a financial reward for the extra responsibility and investment associated with herd owning sharemilking then they will be less likely to take that step. This, along with any other alternative people may have for their capital and time maintains the bottom line for herd owning sharemilking. There are obviously exceptions and also price fluctuations for milk and cows, but by and large this principle holds true.

There are a number of herd owning sharemilking contracts available. Like any contract they can be as brief as a statement and two signatures written on the back of an envelope (*apparently this has happened!*). However, the most common contract used is produced by Federated Framers of New Zealand. This is the product of extensive industry-wide consultation and is a comprehensive document. Using anything other than a comprehensive, tried and tested contract is unwise.

Statistics are not available on the average time 50/50 sharemilkers spend at a position, but anecdotally approximately half would continue a normal three year contract, either for a further 3 year term, or on an annual basis. Some may eventually buy the farm they have been working on with favourable repayment terms from the farm owner. This is sometimes the case when family members sharemilk for the farm owner.

A recent development is the ability for herd owning sharemilkers to hold shares in co-operative dairy companies. This is one of the requirements of the Dairy Industry Restructuring Act 2001. Sharemilkers will now be able to participate in the ownership of the companies to which they supply over 40% of the product. This will allow greater flexibility of capital use on farms that engage sharemilkers, particularly if the objectives of the parties differ. This is becoming more of an issue now that co-operative shares are being valued at close to their true worth, rather than at a nominal value. As an investment this will often be less attractive to a sharemilker than buying more cows, but in some circumstances, particularly if they are reluctant

to move, it will be a useful option. The purchase of Dairy Company shares may also be a method of gradually purchasing the farm by an existing sharemilker. This is sometimes the case with family arrangements. As the shares do not currently have a separate dividend stream, most sharemilkers would expect the percentage of the milk income received to change to reflect their capital invested in the farm operation.

## 15.3 POSITIONS

As discussed there are several factors that affect the desirability of various sharemilking positions. Due to amalgamations of smaller properties resulting in inadequate infrastructure, incomplete conversions from other land use or deterioration of facilities, some farms are less attractive to sharemilkers than others. The following are some of the other factors that sharemilkers consider when looking at positions

- Production and profitability potential of a property. Affected by pasture, fertility, drainage, infrastructure, layout, climate and conditions for staff.
- The attitude, mind set or objectives of some farm owners may make some farms less attractive to sharemilkers.
- Milking times. Ideally farm infrastructure will allow milking to be completed with the milkers leaving the cowshed within two hours of the first "cups on". The time spent milking can make a big difference as to whether this is a task that is enjoyed, just carried out, or endured. This is now changing on many larger properties. With increased staff numbers, milking can be carried out on a "shift" or "rotation" basis which allows proportionally smaller cowsheds to service large herds. These are variations from common "rules of thumb" such as "one set of cups at the cow shed for every ten cows" or "in for breakfast by 8.00am and out on the farm again by 9.00am".
- Average distance for cows to walk to the cowshed. Some, even large farms can have a maximum walk to the shed of 30 minutes, on other farms it can take up to an hour and a half.
- Natural disadvantages such as being flood prone, dissected by roads, steep or hilly contour, climatic conditions or physical location.
- State of repair of the property including races/roadways, fences, water supply, houses and buildings, etc.
- Stage of development of the property or other factors that will increase the time required, such as weed problems, irrigation systems or elaborate effluent disposal requirements.
- Herd size. This affects labour requirements, e.g. one person can deal with most of the work required on a 180 to 220 cow position, but a 240 to 280 cow position is too big for one person but cannot really justify a fulltime additional staff member.

Taking on a position that will result in providing difficult or trying conditions for staff, can result in a poor reputation as an employer for the sharemilker. This is a distinct

long-term disadvantage, although some sharemilkers successfully use innovative ideas to minimise the effects of difficult conditions.

## 15.4 DISPUTES

A quote from Ralph du Faur<sup>29</sup>:

“The best way of settling disputes is to prevent them from occurring in the first place!”

A good business relationship and strong contract, thoroughly understood by both parties will minimise the potential for disputes. Unfortunately as with any contractual arrangement, disputes do occur. Both sharemilkers and farm owners can be at fault. The industry standard contracts contain clauses outlining the process to be followed if disputes arise. The options range from mediation, to conciliation, to arbitration, to the court system, each more expensive than the last.

The sooner any problems or disputes are resolved the better. Misunderstandings, disagreements or arguments usually get worse with time and the parties can become more entrenched and bitter. This often means the outcomes are even less satisfactory and probably more expensive!

Some disputes or disagreements arise simply because the farm owner and sharemilker come from different generations or have differing views on best practice. “Normal farm practice” does change over time and this can lead to problems. The use of regular visits by a farm consultant can be a useful forum to discuss management and plans, which can avoid disagreements arising.

As discussed under RISKS at 9.0 many contracts include a “Set off” clause. This allows a farm owner to withhold money due to a sharemilker, should the sharemilker fail to complete his or her obligations. This is to cover events such as the total feed on a farm being lower than agreed at the end of a contract. There is debate around the necessity and effects of this clause. The recent renegotiation of the Variable Order agreement attempted to put stricter requirements around the implementation of “setoff”.

---

<sup>29</sup> From the book “SHAREMILKING, How sharemilking agreements can benefit both parties” By Ralph Du Faur, Edited and updated by Penny Webster.

# 16.0 CONCLUSION

New Zealand dairy industry restructuring, the advent of the fair value share, peak notes, the ability of sharemilkers to hold shares and the continuing growth in size of the average farm all change the environment for sharemilking.

It is my strong belief that sharemilking will continue to be an important part of the New Zealand dairy industry because of its' fundamental strengths. It is a win/win arrangement, allows capital growth, progression and farm ownership by new farmers. It also fills a need for many existing farm owners. The system will continue to adapt, as it has from its origins in the late 19<sup>th</sup> century.

The dairy industry itself has some fundamental strength. The largest is its raw product, milk. New discoveries are continually being made about milk and its components, opening the way to greater versatility in its use. However, the bulk of New Zealand's dairy products are still exported as commodities, and consequently subject to the continual decline in price over time.

There will continue to be turnover within sharemilking as people achieve or change their objectives. Sharemilkers will continue to need integrity, good business skills, strategic thinking and the ability to work hard. The continuing evolution of the "average farm size" will have an effect on sharemilkers' long-term objectives. Sharemilkers will continue to work in a changing environment.

The pathways prior to, and end destinations may vary in the future, but the fundamentals of sharemilking are strong and will continue to be so.

# APPENDIX 1

The capital values used here are an estimate, without statistical backing, but give a fair indication. Income and expense data has been drawn from the *dexcel* Profit Watch programme 2001/2002.

## The Average Sharemilking Position:

285 cows @ \$1200 =	\$342 000
65 replacements @ \$600 =	\$39 000
Plant @	\$70 000
<b>TOTAL CAPITAL =</b>	<b>\$451 000</b>

<b>Gross Income =</b>	<b>\$289 500</b>
less Farm Expenses =	\$135 400
less Depreciation & Labour adjustment =	\$65 300
<b>NET INCOME =</b>	<b>\$88 800</b>

Net income / Total Capital = **Return on capital (ROC) of 19.7%**

## NOTE

- This ROC is an average figure. Top operators would achieve greater returns. Conversely below average performance results in lower or even negative ROC. There are no guarantees!
- Milk income reached higher than average levels in this season. This also had an effect on cow value, thereby increasing the cost of capital.
- Many sharemilkers have a level of equity of only 40 to 60%. After deducting the cost of finance the return on equity is higher again.  
E.g. Total Equity @ 50% = \$225 500,  
Extra expense associated with debt = \$22 500 (the other \$225 000 @ 10% interest).  
Results in the calculation of resultant net income of \$66250 divided by equity of \$225 500 giving a  
**RETURN ON EQUITY OF 29.4%**
- To reach this average herd size, sharemilkers would have spent some time in the industry building their capital. This level of ROC helps explain how the capital growth is possible. To put this in perspective though, many sharemilkers aim to own a farm. The average sized owner operator dairy farm of 230 cows producing 72 000 kilograms of milk solids (kgMS), would have a total capital value of approximately \$1 945 000. (Farm @ \$22/kgMS, cows @ \$1200, 50 replacements @ \$600, plant @ \$55 000) An ambitious goal!

# APPENDIX 2

## Sharemilking a poem by Keith Austen

The farmer that I sharemilk for  
Is a really great old bloke  
We don't just share the income –  
We like to share a joke.

He knows I'd like to own a farm  
He sees my point of view  
Because back in his younger days  
He saved and sharemilked too.

I'm lucky that we hit it off  
It's always been the same  
That either party in his deal  
Might play a crooked game.

But he's a typical old-timer  
And how his eyes will glaze  
As he tells me endless stories  
About the "good old days".

But strangely every anecdote  
Describes in detail how  
It was so tough in his young day  
While things are easy now.

"A walk-through shed would fix you son,"  
He tells me with a smirk  
"That rotary I've built for you  
Means milking's hardly work".

I keep my peace and humour him -  
I know that in his shed  
The old bloke never ever milked  
Much over eighty head.

How he laughs at my computer  
And projections that I've done  
He sniggers at my budgeting  
An says "Now listen, son -

You've got so many figures there  
You'd get Einstein quite confused  
A notebook and a pencil  
Was all I ever used."

I keep my peace and humour him  
Because I'm quite aware  
With Britain taking all our goods  
He didn't have a care.

But one thing we agree on  
And it's as true as sure as hell  
No matter what our methods are  
We serve New Zealand well.

For our country must have export  
funds  
A fact one can't refute  
And just about a quarter  
Is what **We** contribute.