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TAKING STOCK: AN APPROACH TO ENGAGING THE AUSTRALIAN DAIRY INDUSTRY IN FARM BUSINESS MANAGEMENT

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ABSTRACT:

This paper describes the development and achievements of a farm management service available to all dairy farmers in Australia. Dairy businesses in Australia came under severe pressure between the years 2002 and 2004 when three events coincided: a prolonged drought; deregulation which removed protection on milk prices; a downturn in the global commodity price for milk. Taking Stock was developed as a farm management service to help businesses respond to these pressures. Significant development challenges were encountered to ensure services reached 9,500 farmers who were scattered across 7,682,300 square kilometres using vastly different production systems to farm under temperate, sub-tropical or Mediterranean climate zones. These businesses were receiving varying degrees of support from a variety of organisations in the service sector. We ask the question, to what extent can a program like Taking Stock build industry confidence and enable an industry to develop a more inquisitive business culture? We conclude that progress can be made as a whole of industry towards building confidence and to improve the level of inquiry among farmers if seven development factors are addressed by the program.

INTRODUCTION:

The Australian dairy industry is comprised of 9,500 farming businesses that supply approximately 10.5 billion litres of milk to a small number of major processing companies. Farm management services to these businesses are provided by private sector and public sector organisations.

In 2003 the Australian dairy industry was facing challenges not seen in magnitude since the mid-1970s. Some issues were regionally specific but most had common elements across the country. Farm sector issues included a severe lack of farmer and service provider confidence, reduced profitability, accelerated adjustment rates, system and resource uncertainty, and inadequate business environment understanding (Situation and Outlook, 2004).

Deregulation and drought were contributing factors, but industry commentators argued that this challenging period had exposed issues that had been latent for a number of years (Lacey, pers. comm.). Dairy farmers in most regions were under intense financial pressure, often as a consequence of maintaining production through the drought, and as a result had incurred significant, often short-term, debt.

Whilst farmers were experiencing financial difficulties, many were unable to clearly identify the source of this 'pain'. The industry felt that many farmers did not know how to adequately measure their farm's business performance or risk profile, and then often lacked the support to address these issues. This echoed earlier work (Shadbolt & Rawlings, 2000) which found farmers were generally inadequately informed about their financial position.

As a result of this incomplete understanding of farm business performance, many dairy farmers were uncertain about the ability of their businesses to offer choices - either in the operation of their farms, or for their families. This was despite significant investments in farm

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business management by the dairy industry in the past.

Taking Stock:

In this environment, more than fifty dairy industry groups developed an industry-supported program to address issues of confidence and future viability under the banner of ‘Dairy Moving Forward’. These organisations included dairy farmer organisations, dairy companies, government agencies and Dairy Australia (a Corporation responsible for investing funds from industry levies and Government for innovation and development outcomes). Dairy Australia was charged with building an appropriate response. In this environment, the investment in ‘industry good’ elements was a fundamental investment criterion.

A key objective of the program was to have “dairy farmers basing their decisions on the realities of the industry and their own farms”. One of the ultimate goals of the Dairy Moving Forward program was development of an inquisitive business culture in the population of dairy farmers. It also aimed to support that culture with an increasingly capable service sector. A three phase approach was used to achieve these outcomes. Phase one, called Situation and Outlook, used a combination of media releases, presentations by experts and surveying/ reporting methods to improve the information resources in the industry. Phase two, called Taking Stock, provided customised assistance to individual farming families to help them understand where their business is currently positioned and what opportunities exist for them to move forward. Phase three, called Taking Action, provided support over an entire season through group based projects that addressed issues arising from the Taking Stock phase. This paper will focus on the experiences and lessons arising from Taking Stock.

Taking Stock used a process that had five distinguishing features, Taking Stock:

- Engages dairy farm families in discussion, assessment and recognition of their current situation and future options;
- Is one-on-one based, using credible deliverers who have a solid understanding of farm management and dairy industry issues. The power of the process involves the informed discussion between the farmer and a trusted, reliable adviser;
- Has a specific format, including a software application that can be used as required, to structure the dialogue and provide analysis of a range of farm issues;
- Initiates action planning by dairy farm families and signposting to resources matched to their analysis and specific needs;
- Assists dairy farmers develop better ongoing advisory relationships.

The Taking Stock concept was collaboratively developed by a number of dairy industry organisations, predominantly milk processors. Program development was rapid, to address the immediate needs of the industry, and was based on the following requirements:

- Delivered to individual dairy farmers by company field staff and other service providers, many with a wide variety of skills and experience;
- Completed in a relatively short period of time (3-4 hours) to ensure adequate coverage of farmers;
- Uses a simple generic application, that is based on agreed, consistent physical and financial indicators to identify issues within a farm business;
- Has a focus on cash flow and cost issues in the short-term. Whilst recognising that true profit incorporates non-cash items, the particular need from farmers is to address cash and debt issues in most cases;



- Is linked to, and uses, information provided in the other phases of Dairy Moving Forward activities (e.g. Situation & Outlook)
- As well as providing a current assessment of the health status of the farm business, Taking Stock must identify the vulnerabilities and risks of a business, and prioritise these for action;
- Provides 'sign-posting' to direct participants towards appropriate activities, programs and support based on their individual assessment and needs;

Over a twelve month period Taking Stock evolved from a spreadsheet tool for quick assessment of finances in post-drought circumstances, to an advisory process that enabled farmers to review physical, financial and human components, thereby contributing to a culture of business analysis and understanding on dairy farms. Evaluation activities were still in progress at the time of writing. Both summative and formative evaluation is being used by the program, including the capture of data through routine aspects of Taking Stock (e.g. the collation of issues emerging from action plans) to independent telephone surveying of respondents etc. Over 1,000 farmers participated in Taking Stock within the first 12 months of Dairy Moving Forward. Quantitative and qualitative analysis of formative evaluation data has identified seven key factors that have been responsible for the success of Taking Stock.

Elements of the approach:

There were seven key factors that drove the success of Taking Stock:

Accessibility

Taking Stock was designed to be easily accessible by a broad audience of farmers. It was judged that the barriers to involvement for the majority of farmers must be minimised and the process must not be onerous in terms of data collection. Some service providers characterised this approach as 'quick and dirty'. This was despite limited uptake to date of many programs with higher degrees of formality and rigour.

Anecdotally, one deliverer in Northern Victoria estimates that more than 40 per cent of his sixty completed Taking Stock visits have been with farmers he has not seen before, despite being active in the region for over ten years. This has been echoed by experiences in other regions.

Taking Stock's approach positioned the level of rigour in relation to the purpose of the analysis. A current assessment of the financial and physical health status of a farm business, and identification of the highest priority issues, can usually be completed without tedious in-depth analysis.

This approach reflects the understanding of many experienced operatives in the field; that after exhaustively collecting all data, a large portion of the generated information or indicators remain unused. Focus on meaningful indicators and the bare minimum of data became a fundamental design guideline. This echoes Parminster & Wilson's (2001) finding that "we have not adequately described how farmers actually use financial information in decision making". It was established early in the program development that Taking Stock would not be another benchmarking exercise. For many farmers submitting data for comparative farm analysis or benchmarking was identified as a barrier to completing farm analysis.

Taking Stock clearly positioned itself as the 'entry level' to farm business analysis and understanding, in a market that is well serviced by in-depth analysis packages. The resources and time available to undertake substantial in-depth analysis by farmers is often limited - "I don't have the time" remains a frequent justification for not undertaking any level of business analysis.

Limited number of indicators

Associated with maximising accessibility was the focus on ensuring all key performance indicators used in the analysis were meaningful to a widespread audience of farmers. In fact, the challenge to collaborators on the project was to nominate only six key indicators of farm financial and physical health.

This reiterated feedback from the field, that whilst farmers readily identified indicators such as Return on Capital (ROC) and Asset Turnover Ratio (ATO), they seemed unsure about how to apply these in their decision-making. Many experienced extension personnel felt that the more economic financial decision-making tools contributed little to farmers' tactical decision-making.

Similar programs in the past (e.g. dairy processing company workshops for farmers) had been extremely useful. The key to their success had been in providing simple guidance in assessing business performance, recognising that farmers use the minimum of financial measures to assist them in their decisions. Similarly a survey in Victoria (Parminter & Wilson, 2001) found calculating "farm operating profit" the most widespread measure that contributed to dairy farmer decision making.

Building on this, the Operating Surplus approach was used in the construction and delivery of Taking Stock. One of the legacies of the program has been adoption of this approach by the majority of the industry. This legacy is contributing to an emerging consensus across the industry on common definitions and methods of calculation and an agreed set of farm performance indicators.

Engagement

Taking Stock is delivered one-on-one to individual farm families by selected service providers. The key element the success of Taking Stock is the level of engagement between the service provider and the farm family. This is highly dependent on the trust and credibility of the service provider, and was often under-estimated by some past efforts.

Engagement in this situation is defined as participation by all members of the farm family and wider group. It involves making meaningful links between the deliverer and the farm family, and between family members and staff, to jointly identify issues and opportunities and implement a shared action plan. The degree of engagement is a critical factor in whether a particular Taking Stock assessment continues. If the service provider believes that the farm family have not truly engaged or that all members of the business are not present, they can wrap up and reschedule the visit.

The level of engagement is specifically driven by service providers understanding and acknowledging the farm family's goals and focus. Parminter & Wilson (2001) recommend that farmers' farming goals should be identified and used as the focus of service provider's advice. Some external agencies in a servicing relationship with farmers have undervalued the power of engagement ('bull in a china shop' approach) and yet are surprised by lack of implementation of their advice or uptake of their services.

Interactions with University of Melbourne social researchers during development put the farm family at the centre of Taking Stock farm business analysis. Approaches to engagement also borrowed heavily from work by Gasson and Errington (1993) in being orientated towards the farm family business. The Taking Stock approach recognised that profit maximisation was not the sole or key focus for many farmers, and that there are multiple decision makers in each business that may not have a shared understanding of the business. This has posed challenges for getting adequate engagement where members of the family may not share the same objec-



tives (Gasson et al, 1988) or where there is demonstrated conflict between family or business members regarding the purpose of the business (Byles et al, 2002).

Advisor training and support

The training of advisors and service providers in understanding farm business performance and developing better ongoing advisory relationships will be a principal legacy of the program. 156 service providers have been trained, and about half are independent of the dairy companies.

It would be fair to say that although there has been a large recruitment of experienced people to deliver Taking Stock, it has also been a steep learning curve for many. Investment by the private service sector to build capacity of their staff in these areas has been insufficient in the past. Many dairy companies acknowledged this, as only 30 per cent of service providers felt confident in assessing the financial and physical health of a farm business and prioritising these issues for action prior to their participation in Taking Stock (Nettle, pers. comm.). Evaluation of service providers delivering Taking Stock who had completed a training module of the program found 67 per cent better able to assess farm businesses, 82 per cent confident that their Taking Stock assessments were delivering quality outcomes for farmers, 54 per cent believed the actions plans completed with farmers have prompted action, and 93 per cent were confident in the Taking Stock application (tool).

Advisors and service providers also identified ongoing support and mentoring as a key requirement as well as regular training. Support provided includes regular update sessions, an e-mail discussion group, access to a regional coordinator to handle enquiries and provide support, and improved organisational mentoring.

The capacity building of the service industry sector through Taking Stock has had multiple elements:

- ☐ The fundamental development of farm biophysical and financial skills across a range of advisors and service providers, learning together and off each other;
- ☐ The development of interpretive skills and systems understanding of service providers on farm – an understand that farmers and farms vary and how to look for keys on particular farms;
- ☐ The building or re-energising of networks and people understanding the capacity of others and their organisations - this generates further development and collaboration;
- ☐ The development of the ‘people’ issues – building advisory relationships, managing conflict, understanding farmers’ goals, etc.
- ☐ The improvement of industry understanding and context through information provided in other Dairy Moving Forward activities.

Choice

An essential tenet guiding the development of the program was that all dairy farmers must have genuine choice in who delivers Taking Stock to them. This recognised the success of the dialogue being dependent on the trust and credibility of the service provider. On that basis, dairy farmers must be able to nominate their preferred deliverer, whilst at the same time ensuring there was adequate quality control of those delivering. This also raises the issue of when to phase in fee-for-service delivery as part of a transition by farm businesses towards a sustained demand for quality services.

This required recruitment of a range of service providers, including dairy company field staff, agriculture department extension personnel, rural financial counsellors, farm manage-

ment consultants, and accountants. During development it was acknowledged that company field staff provided a significant human resource but that not all farmers would choose to access the program through them, and not all companies would seek to support or be directly involved in Taking Stock activities (although 93 per cent of Australian dairy farmers were covered by participating milk processors).

Thirty four companies and organisations have committed to delivering Taking Stock – giving every farmer genuine choice in whom they use. Many of these organisations are contributing significant resources to the project. Involvement of such a large number of organisations has been a major achievement, and has required a significant amount of new interaction and relationship development. The model for delivery with participating organisations has been based on co-investment - with a reasonable sum negotiated per farm serviced and a co-funding arrangement of 50:50. This has enabled significant additional resources, in both cash and in-kind, to be leveraged off the initial funding by Dairy Australia. However to date there has been very limited demand for fee-paying services above and beyond Taking Stock (Nettle, pers.comm.).

Action planning and follow up

Taking Stock initiates action planning by dairy farm families and signposting to resources matched to their analysis and specific needs. Participation in Taking Stock is about providing the stimulus for farmers to want to change and take action to address the vulnerabilities, risks and opportunities identified. The Taking Stock process and dialogue with the deliverer gives farmers the confidence to take responsibility for these actions. Some preceding programs had adequately identified risks and issues on-farm but did not provide sufficient follow-up or support for implementation of plans.

The development of an action plan is the key outcome of the process and provides ‘sign-posting’ to direct participants towards appropriate activities, programs and support based on their specific assessment and needs. Follow-up support is a critical element in ensuring action is taken – in not only assisting the farmer to identify appropriate actions, but also monitoring progress and providing encouragement.

A substantial component of deliverer training focused on reducing the variation in the degree of follow-through after the Taking Stock assessment and action plan development.

Co-development

Designing Taking Stock was truly a collaborative effort that involved major input from a number of milk processors and other dairy industry participants, particularly farm consultants and bankers. A truly collaborative development process means that the form of the final product cannot be determined at the outset. Dairy Australia provided a central pivot but did not impose a model or a pre-determined approach.

Answering the challenges facing the industry generally and in relation to building a more inquisitive business culture was beyond one partner. These challenges include the fact that there were already a number of existing financial programs, some milk processors did not see it as their role initially to support such as program, farmers may have been sceptical about exposing their financial situation to the milk companies, a new delivery force needed to be trained, and the wide-ranging diversity of dairy farm businesses. The industry response that led to the formation of Dairy Moving Forward can be seen as collaboration that initiated change and one that gave organisations an impetus to seek out solutions together. For Dairy Australia collaboration has enabled it to activate a new delivery capacity in the industry for their farm business management and change concepts.



Communication and trust among participating organisations are keys to successful collaboration, as are ownership and willingness. Collaboration is about negotiating expectations, sharing solutions and developing capacity to innovate and move forward together.

Observations and Conclusions

The development of an industry-wide approach, with uniform, agreed parameters and a one-to-one delivery mechanism, via trained advisers, has been achieved through a collaborative development approach.

The 'reach' of Taking Stock to date has been broad with coverage of every State in Australia and delivery to over 1,000 farm businesses. Furthermore, anecdotal evidence is suggesting it is providing service providers with opportunities to connect with a wider range of farmers.

The key factors that drove the success of Taking Stock have been identified and documented and provide guidelines for development of future farm business management and other extension programs. Taking Stock is now at a critical stage, as farmers in all regions have had access to the program and many have taken it up. The next stage will investigate ways of increasing farmer uptake and embedding the Taking Stock principles further into the service and farm sectors.

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