



Agribusiness

**Stephen Hannan, General Manager Agribusiness
Westpac**

Farm performance – where do family and corporate farms sit?

**ABARES Outlook Conference
Canberra, 1 March 2016**

Ladies and gentlemen, distinguished guests.

I'm proud to stand here today, in this first breakout group session at Outlook 2016, with such interesting speakers.

This year's theme of "investing in agriculture – growing our future", is clearly one dear to the heart of Westpac Agribusiness. Our more than 180 staff live and work in 50 rural locations across Australia. They come from the farm, 80% work within 300kms of where they grew up and all of our staff, who are active members of their communities, have a rural background, an agribusiness qualification, or both. We're all passionate about improving the quality of life for people in regional and rural communities, and I'm proud to acknowledge that we're into our third century of doing so.

Westpac Agribusiness continues to be heavily invested in the future of Australian agriculture, through our people, and through our desire to build strong and prosperous rural communities.

So how do we do that?

This session is about farm performance, specifically about where large family and corporate farms fit.

The way we see it, they fit quite neatly together because they are each other's best asset.

That's because in a nutshell, it's about collaboration. Now there's an interesting view for two completely different types of entities that have traditionally viewed themselves as competitors!

I should explain here: by “family farm” I don’t mean the 99% of Australian farms that are family-owned; I’m referring to “large family farms” — those with turnover in excess of \$5 million. And it’s inherent in this point on turnover, that while I said just before “two completely different types of entities”, if you look at large family farms and corporate farms, there really are a lot of similarities.

Agriculture’s current state of play

But before we explore why that is, let’s look at the state of play in agriculture today.

Agriculture is a unique sector, with a unique style of commerce. Investment in ag needs to be selective, forward thinking and geared around sustainability. Without sustainability, there will be no future. So a longer-term approach needs to be considered, which balances profitability with sustainability.

The greatest challenge to the large family-farm model is that the future of Australian agriculture depends largely on farmers’ ability to access capital. At the 2013 Global Food Forum held in Melbourne, it was suggested that ag faces an estimated \$500 billion funding gap if Australia does indeed grab hold of possible export opportunities worth more than \$1 trillion by 2050.

Agriculture is important to every Australian because of food production, and especially important to local rural communities because of the strong bonds farm businesses share with other businesses. So we need to make sure we fund agriculture properly. Part of that is the challenge for farmers to understand the right model for them: is it a corporate approach? A family-farm approach? Or collaborative approach with other family farmers under a corporate structure?

Model strengths

So what are the strengths of each?

Corporates have governance, a focus on performance management, they think strategically (*i.e.*, the medium to long term) as well as tactically (this season) they ration capital, risk-adjust returns, are conscious of risk management and have a longer-term investment horizon.

How can this benefit family farms? By offering better financial decision making, the optimal use of capital thus optimising profits, the opportunity to gain operating leverage without extra debt, a more patient capital-to-investment view of innovation and technology, and the ability to take reasonably well-established innovation, and bring it to market and to scale. Having worked for a corporate also offers pathways for passionate, quality individuals to return to their family farm, having gained knowledge and experience in the best practice of corporate operations.

And what about the strengths of the family farm model? Family farmers are very passionate stewards of valuable resources, are highly educated and well-travelled individuals, have operational know-how, a strong desire for operational leverage, a commitment to innovation, and a desire to try new things, see if they work, then swallow the cost if they don't and move on.

And in return, how can this benefit corporates? Firstly, the approach to innovation complements the corporate's approach well, while the fact they are usually highly educated and well-travelled individuals offers corporates a "growth highway" of talent. Other benefits to corporates include potentially less agency costs because families want the best for themselves not just monetarily, but generationally, and they are committed advocates of their local community, which flows benefits back to corporates.

Collaborative benefits

So corporates and large family farms have several key things in common. Importantly, a collaborative relationship can increase productivity several ways. Firstly, there's utilising the comparative advantages of partners. Then in governance and accountability, the pathways to newer, cheaper sources of capital are opened up. There's a new level of rigour to decision making; and the ability to feed the appetite for adopting technology and innovation. Finally, a lot of research never actually goes anywhere due to a lack of capital in bringing it to market. Large family farms and corporates working together can overcome that.

Our customers are looking to find precise structures and models that can be replicated for success. Today I'll run very briefly through just four of the many, many examples we have of Westpac Agribusiness large family farm customers working collaboratively.

The first example is a young man, who came from a 20,000ha of farming broadacre cropping and grazing property. He left the family business to work in the corporate world, but when he returned, he brought corporate rigour to running the enterprise, which he's expanded, adopting new practices, and has generated great productivity gains. This young man is now considered one of the leading agricultural professionals in his field, and an industry thought-leader.

The fellow in the second example has a similar background. When he worked overseas, it was in industries closely associated with his family business where he worked from the ground up, learning the supply chain's characteristics. When he returned home, he developed a fully vertically integrated farming, breeding, intensive agribusiness, and is now a leading exporter.

The third example is a young husband and wife team in horticulture. Their family business now runs a corporate model, packing and marketing for multiple growers. The growers have lower costs in bringing their produce to market, which is sold under a high-quality brand, while the couple gets volume, and has diversified cash flows but without the risk — they only market the other produce, not buy it. This set-up sees them delivering productivity and premiums to other industry participants.

The fourth example are farming brothers who grew oil crops organically, then entered a JV with a corporate, and now are part of a seed-crushing operation. The original idea was to diversify away from their farm; today, they've benefited from scale, opening new markets and investment.

It's also worth noting other collaborative models including virtual vertical integration, or VVI. An excellent example of VVI is meat processors collaborating with local graziers to shore up supply. It's "virtual" because the graziers are an essential part of the supply chain, but the meatworks do not own them. And vice versa. This situation highlights the idea of collaborating to exploit comparative advantage — that is, the grazer knows how to manage livestock, while the processor knows how to process meat and market product. Other types of collaborative models include horizontal collaboration, for instance, egg producers working with grain growers for feed supply.

All of these collaborations lower marketing costs and give certainty of market options.

You'll note in each of the four case examples, I mentioned "young person". This way of collaborating is how young people think, we are going to see more decision makers in the 30-40 years age bracket. A shift from the traditional 60 years plus. And with a change of mindset such as this, we can really challenge the paradigm of traditional farms — particularly when it comes to financing and strategic innovation. For me, this is a very exciting part because it's how we bring new entrants into agriculture, and we're doing it in a way where everybody benefits along the journey.

So what's next?

We believe Westpac's approach sets us apart. Having worked with farm families for the past 200 years — and corporates — we hear the issues our farmers face. These revolve around how do farmers find someone who understands the issues in their business? How do they find someone who is knowledgeable in their business and then willing — and able — to take that business to the next level?

Some notable trends that we're already seeing emerge include psychographic changes in farmers' decision-making trends. We're seeing family farms enter into partnerships with corporates. We're seeing equity stakes of family enterprises being opened for investment, and farmers looking for scale and new practices, tapping in to the resources of corporate operators. We're also seeing corporates looking for stronger ownership, and leveraging the passion and vocation of family families, and we're also seeing a corporate governance approach in large family farms, with structure, having a board of directors and how risk management is approached.

Successful farming families need the right tools in the shed, and Westpac's role in facilitating and supporting this collaborative growth is important, through demonstrating our expertise and knowledge of industry sectors, through proving that we know their business and by our commitment to service and innovation. Our track record sets us apart: we're relationship based, we value longevity and we're a third-century start up. Our higher purpose is to make Australian Agribusiness stronger. To earn the right for our bank to grow we have to first do everything we can to help Australian Agribusiness grow.

Conclusion

I leave you with these thoughts... Australian agriculture cannot be funded in the future the way it's been funded in the past. The future is about collaboration — “we not me” so to speak. Westpac Agribusiness is very proud to be actively pursuing this new approach with farm businesses who are already benefiting. But it's not just about us. This is one way to improve productivity in the sector, but is not the only way.

Today we've begun this conversation, and I'd like to encourage you to think about the possibilities. After all, the future of agriculture is a collaborative effort...

Ends