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## **Time for a change?**

An investigation into how contract milking supports the progression of New Zealand dairy farmers.

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## EXECUTIVE SUMMARY

The current contract milking business model is no longer effective as a progression pathway in the NZ dairy industry. Research shows that 27% of contract milkers would be financially better off as a manager (Lee, 2024). This is an alarming amount and provides minimal incentive or ability for our farmers to progress within the industry. Throughout the literature reviewed for this project, there is some slight variation in people's opinions regarding contract milking and its place in the business structure. This is primarily due to publications regarding contract milking, often coming from the voices of high-level corporates and rural professionals and seldom from contract milkers out in the field experiencing the highs and lows of the contract milking business model. For business people, who would invest significant money and time and shift their family to go into business with someone they have only met for maybe two hours? The answer is very few if any, so why are contract milkers going into business under these conditions? Therefore, this project addresses whether the current business model of contract milking is fit for purpose and how it enables progression.

*“New Zealand dairy farming is a neat industry and still has some big opportunities but the business side is different. The contract milking model needs to be better equipped for today’s climate and work for all involved. Farm owners need to identify contract milkers as our next farm owners. These people are critical for the success of our industry.”*

*(Interviewee - Rural Professional)*

The key findings from this project are;

- There is a large skills gap for a large proportion of people taking the step to contract milking well before they are ready. To upskill, currently, the formal training available for farmers entering contract milking is unaffordable, challenging to access, and not timely according to events occurring on-farm.
- A role that bridges the gap between a manager and a herd-owning share milker is needed. This role needs to be a win-win for all parties involved.
- The views of farm owners, contract milkers, and rural professionals interviewed for this project are all very similar, and they feel that contract milking is a real issue in the industry that needs reviewing. The key findings of what needs to be reviewed within the current contract milking business model are:

- a) the relationship between the farm owner and contract milker frequently breaks down due to a misalignment of values and expectations, which begins at the recruitment stage.
  - b) Contract milkers need to be paid a premium above what a manager of the same scale farm would receive to compensate for the risks involved in being self-employed.
  - c) there are many options to reward contract milkers other than monetary that supports the growth and progression of the contract milker.
  - d) the lack of legal protection for contract milkers, particularly when compared to a VOSM who is protected under the Sharemilking Act 1937. This was seen as an issue as the responsibilities of a CM and VOSM are equal, therefore, should have the same protection.
- The critical components of a role that would benefit both the farm owner and contract milker are legal protection, the need for a premium, clarity within contracts, fair compensation, professionalisation, ownership and autonomy.
  - When looking into the business structures in the Australian dairy industry and the absence of contract milking within it, the concerns raised in relation to CM are the precise issues New Zealand's dairy industry is having with it. For example, small unviable positions, 'sham' contracts, and the unclear and risk of whether the role is one of an employee or a contractor.

The recommendations made as a result of this research project are to:

- Dissolve the title and role of contract milker. Following this, there will be a blending of the good points from the current variable order sharemilking and contract milking agreements, which will help form a new role that will be more suited to the current climate of dairy farming and encourage progression and retention within the industry. Additionally, a new name for the new role will be created, which could be titled an 'Operational Sharemilker' or 'Business Sharemilker'. The addition of the word 'sharemilker' into the title of the new role is essential to ensure inclusion and coverage under the Sharemilker Act, which is a crucial piece of legislation to support both the sharemilker and the farm owner.
- Adopt a revised payment structure to allow certainty and more favourability of bank lending, thus further enabling progression. This would include payment throughout the dairy season, and payment being compulsorily paid directly

from the dairy company the farmer supplies to, (payment will no longer be able to be paid by the farm owner to the contract milker/ sharemilker).

- Compulsory requirement of both parties to engage with a neutral professional when completing employment agreements.
- Benefits other than monetary compensation are considered such as the contract milker receiving a certain number of heifer replacement calves as a way of building their own herd, or it could be a bonus of some dairy company shares. These are only some of the many possible options.
- For all recommendations, dairy companies, Federated Farmers, DairyNZ, and local farmer representatives need to work together to ensure a seamless transition.

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## **ABBREVIATIONS**

<b>Abbreviation</b>	<b>Meaning</b>
CM	Contract milker
FO	Farm owner
SM	Sharemilker
Author	The person who wrote this research paper
RP	Rural Professional
SCC	Somatic Cell Count
\$ kg/MS	Payment made to contract milker based on a specific dollar amount per kilogram of milksolids produced
VOSM	Variable Order Share Milker
HOSM	Herd Owning Share Milker

## **1. INTRODUCTION**

Over the past seven years, the New Zealand dairy industry has seen a significant shift in business models and also the number of people progressing within it, (Dairy NZ & LIC, 2023).

The contract milking concept is thought to have originated from the Scottish sharefarming model, and the American share-cropping system, which saw sharefarming in Southland begin in the 1800s, (Bird & Hedley, 2021). However, the official introduction to the business model of contract milking was in 2012, when Federated Farmers New Zealand introduced a contract milking agreement, (Federated Farmers of New Zealand, 2020). The contract milking agreement was reviewed in 2015 when real traction was seen with many farm owners choosing this model for their business. The purpose of contract milking being included in the

hierarchy of roles in dairy farming was believed to be as a result of the largely volatile milk prices. Furthermore, contract milking was also introduced as an option for many farm owners who no longer wanted to operate the farm themselves, who needed to spread the costs and risk, and some owners even sought off-farm income. However, the low milk payout saw this new business model as not being a beneficial option to the contract milker, as the first group that raised concern when the payout forecast dropped in 2015 was variable order sharemilkers and contract milkers who had little or no equity and relatively fixed costs, (Farmers Weekly, 2016).

The definition of a contract milker is stated as “A self-employed farmer, managing the property and paid on a negotiated price per kilogram of milksolids (kgMS) produced. Typically, a CM will provide the labour and pay for shed costs, electricity, vehicles, fuel, and transport. They also pay their own administrative, ACC, and insurance costs,” (DairyNZ, 2023).

An interesting point made during the interview process for this research project was how unique New Zealand dairy farming is in relation to the strong need for ownership to feel successful. If we were to work in another industry, such as an insurance company, it would never cross our minds that we want to own it; at most, we may aim for CEO, so why do we need to own a farm to be seen as successful in the dairy industry? (Interviewee -Rural Professional, 2024).

## **2. PURPOSE OF THE PROJECT**

The purpose of this research was to understand why the level of progression in the dairy industry is diminishing and what support we can provide as an industry to change this. During discussions with a range of dairy industry figures and from the author’s personal experience with contract milking, it was noted that contract milkers were repeatedly mentioned as an at-risk group for exiting the industry and being unable to progress. Therefore, the author identified this as a critical issue in the industry and wanted to find out more, as it is much-needed research for the New Zealand dairy industry.

After identifying the contract milking group as a vulnerable group in terms of progression in the dairy industry, the crucial areas to unveil for this research were the benefits and limitations of contract milking in New Zealand. By revealing these components, conclusions could be made that would identify whether the current business model of contract milking is the most effective model for the dairy industry to aid progression. Additionally, if the role of contract milking is no longer the most effective in supporting progression, what are the other options? How would alternative roles be more beneficial compared to the current business model?

### **3. LITERATURE REVIEW**

During the research process, literature reviews were conducted. Within the reviews, initial indications highlighted the need to understand the basics first, such as what is progression, how does it differ across industries, and whether everyone wants progression.

The term 'progression' can mean various things and depends on the individual perspective. Although the term progression can still be varied in the NZ dairy industry, upon review, there seems to be a known and streamlined pathway of progression throughout the industry. As stated, "Growth looks different for different people. For some, this means getting bigger, employing staff, and milking more cows. For others, this means staying in a role that can be managed by a couple and investing off-farm" (Burling, 2020).

A strong view throughout the research of this project was how equity growth is crucial to supporting contract milkers through the pathways to reach farm ownership, and ironically equity growth is often the missing link in contract milking roles, (Bird & Hedley, 2021). It was also noted during the interview sessions that many contract milkers want to progress, although the FO either cannot (financially) or will not offer that opportunity. Therefore, this pushes more CMs out of business if they cannot progress.

#### **3.1 Progression pathways**

For many New Zealand dairy farmers, the traditional pathway of progression is as follows:

**Farm Assistant ----- Herd Manager----- Farm Manager ---- Contract Milker -----  
HOSM ----- Farm Owner**

There may be some slight variation (if you look into other options, such as Operations Manager or Equity Partner), but for the vast majority, the illustration above is the common progression pathway in the NZ dairy industry.

Historically, a 'traditional' progression pathway was a successful option, however with the decreasing number of VOSM and Sharemilker roles available now, the

likelihood for many of reaching farm ownership is quickly dwindling. As stated, due to the decline of sharemilking roles, “This has an impact on the traditional path into dairy farming, the traditional dairy farming career ladder, and may reduce the appeal of dairy farming as an occupation or job with a prospect of capital gain,” (Tipples & Wilson, 2008). Table 1 clearly illustrates the large shift from owner-operators to contract milkers once it was a business option in 2016/17.

**Table 1.** The trend in operating structures on NZ dairy farms over the past 10 years, (Dairy NZ & LIC, 2023).

Operating structure	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Owner-operators	65.5	67.3	69.8	72.4	59.9	57.2	56.1	56.2	56.0	56.2
Contract Milklers					12.4	12.8	14.3	14.4	14.5	13.5
Sharemilkers:										
less than 20%	1.7	1.5	1.3	1.1	1.1	1.2	1.3	1.1	1.1	1.1
20-29%	9.7	8.8	6.9	5.0	5.1	5.2	5.5	4.8	4.5	4.6
30-49%	1.5	1.4	1.5	1.3	1.4	1.4	1.4	1.3	1.4	1.3
50/50	18.5	17.1	16.8	16.4	15.9	16.9	16.6	16.6	16.8	16.8
over 50%	2.9	3.6	3.5	3.5	3.7	4.6	4.0	4.7	4.8	5.5
All sharemilkers	34.2	32.4	30.0	27.3	27.3	29.3	28.9	28.5	28.6	29.3
Other/Unknown	0.3	0.3	0.3	0.3	0.4	0.7	0.8	0.8	0.9	1.1

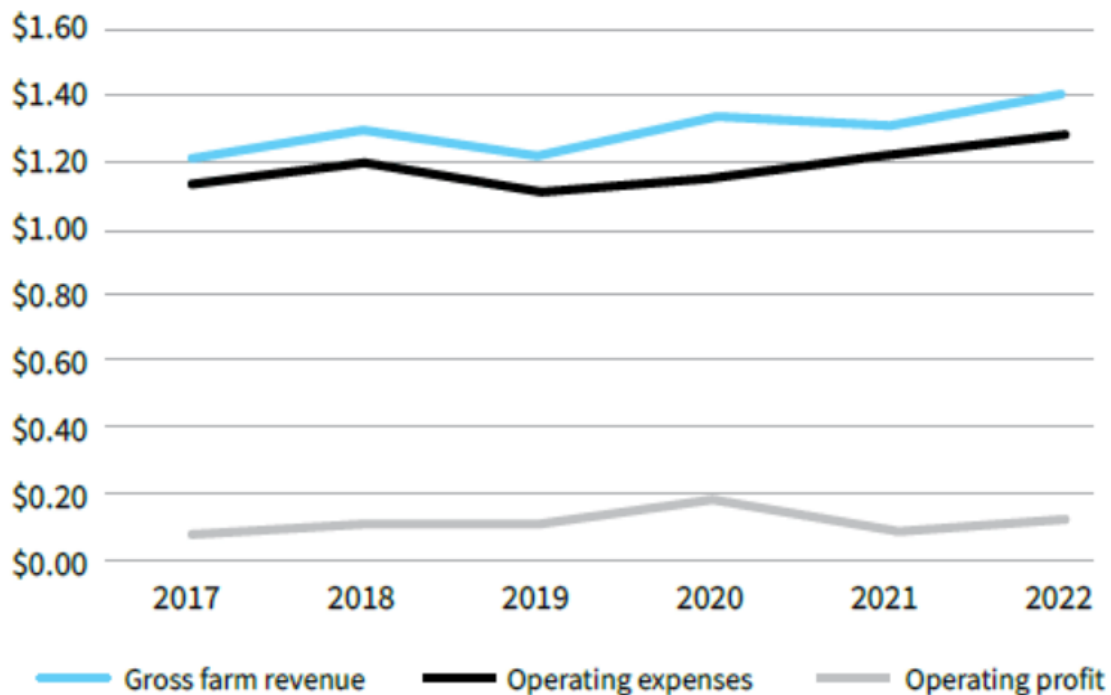
Table 1 highlights the considerable decline in sharemilkers (both VOSM and HOSM), and the number of owner-operators over the past ten years. Ultimately, as there are fewer and fewer HOSM (50/50) and VOSM roles, the progression journey now goes from contract milking to what? In addition, most of those in the HOSM roles tend to stay in the position for a considerable term, as the risk of not gaining another sharemilking role is too great. This, in turn, eliminates the opportunity for others wanting to get into HOSM, as the vacancies are not there.

Within a report reviewed for this project, farm owners reflected on their pathway to ownership, and all had travelled along the HOSM route. These farm owners preferred the VO/HOSM models as they involve a ‘share’ in the whole farming operation and allow faster equity, (Bird & Hedley, 2021). Therefore, should the dairy industry not then review farmers that have achieved ownership and how they got there, and ensure those models are well supported? It is imperative to have a farmer involvement when reviewing the business models within the dairy industry, to ensure what works and what does not work are captured and used to support the next generation of farm owners.

### 3.2 Financial statistics

Throughout the literature reviewed, the median premium needed for a contract milker to be in a worthwhile position that supports equity growth is \$26,000/ year, based on studies conducted during the 2018-2021 period, as illustrated in Appendix 4, (Lee, Contract milkers miss out on premium, 2024).

Unfortunately, the average operating profit for contract milkers “has been about \$0.11/kg milksolids. The average bottom 75% had an equity growth rate slower than they may be expecting, while only earning an average farm manager’s wage, with an operating profit of about -\$0.03/kg milksolids.” (Bird P. , 2023). The average operating profit can be seen in Figure 1 below.



Graphs based on DairyBase data which has approximately 80 contract milkers across the country.

**Figure 1.** Contract Milker Gross Farm Revenue, Operating Expenses and Operating Profit \$/kg milksolids. Retrieved from Dairy Exporter Website (Bird, 2023).

Looking further into this profit margin, it demonstrates the true problem most contract milking roles have in providing any form of financial progression. As shown in the above graph, three-quarters of contract milkers are making a mediocre manager’s wage whilst incurring the risk, time commitment, limited time-off, and expertise required, making this an unattractive option for many. For example, with the average

operating profit for the bottom three-quarters on a 280-cow farm producing 100,000 kg/MS, for the contract milker it will be *costing* them \$3000 per annum once expenses are paid. Even when comparing the average overall operating profit of \$0.11/kg milksolids, for the same 280 cow farm producing 100,000 kg/MS, the CM will only be creating an operating profit of \$11,000 per annum. Here is a huge cause for concern, as this limited profit would make it incredibly difficult to progress in the dairy industry quickly, (if at all). What is more, even if a 400-cow farm which was producing 420kg/MS/cow/year (400 cows x 420kg/MS/cow/year = 168,000 kg/MS at \$0.11 per kg/MS) would amount to an operating profit of \$18,480, so while slightly better, the ability to progress quickly (if at all) is severely limited, and more risk is involved with higher stock numbers due to the need for more staff employed.

This information clearly shows how difficult it is for a contract milker to progress within the industry.

#### **4. METHODOLOGY**

An invaluable information source for this research is the voice of those involved with contract milking, whether it be directly as contract milkers or those who support them in a rural professional sense. Therefore, to gather a range of viewpoints, a total of fifteen semi-structured interviews were conducted with participants from NZ and Australia. The interviewees included rural professionals (rural dispute companies, rural recruitment companies, rural bankers, farm consultants, and industry-good professionals), current and past CM, and farm owners who either have been a CM themselves or have employed contract milkers. Each participant was asked a series of questions (as listed in Appendix 1 and 2), which then prompted further detail from the interviewee. Following the interviews, a qualitative analysis method was used by performing a thematic analysis (Braun & Clarke, 2006). This analysis was completed to identify commonalities amongst the group to understand participants' views throughout the industry. As defined, "A thematic analysis is a qualitative data analysis method that involves reading through a data set (such as transcripts from in-depth interviews or focus groups), and identifying patterns in meaning across the data to derive themes" (Delve Tool, 2023). The use of Delve Qualitative Analytical Tool was adopted within the analysis to support the coding of responses and highlight the common themes identified.

As the interviews were semi-structured, participants were asked open-ended questions and were conducted face-to-face (in person or via Teams). It was found participants were very willing and supported to speak openly and honestly. Due to the nature of the interviews and the topic of this project, the specific questions that were asked would not provide a definitive answer to the research question directly. Instead, themes that arose throughout the interviews illustrated alternate yet like-

mindful views of all participants. During the interview stage, a separate set of questions were asked for CM, rural professionals, and FO (as seen in Appendix 1 and 2). This was done to ensure the questions were relevant to the different roles within the industry and to gain a broader understanding of how people in different roles viewed CM and whether it supported progression or needed to be reviewed.

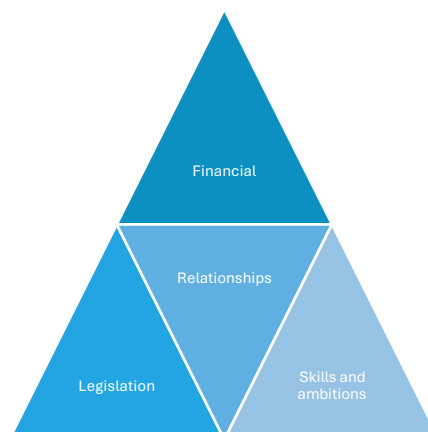
The occupations, locations, and whether interviewee participants are currently in those roles are shown in Table 2, below.

**Table 2.** Interview participants and their roles within the dairy industry.

Farmers	Past	Present
Contract Milker	2	4
Farm Owner	1	2
Rural Professionals	North Island	South Island
Rural HR Company	2	
Rural Banker		1
Dairy Consultant	1	1
Dairy Consultant (Australia)	1	
Sub-Total=	7	8
<b>TOTAL =</b>	<b>15</b>	

It was important for this study to collect information from throughout New Zealand to gain a good overview of how people view the contract milking structure in relation to progression within the industry. In addition to this, the author also interviewed and had discussions with rural professionals in Australia to compare the structures used there and how they compare to New Zealand in terms of the number of people progressing within the industry. Furthermore, it was seen as necessary to interview past and present CM and past and present FO to compare and contrast participants' views and identify whether all parties shared the same or similar views.

The questions participants were asked were broken down into themes of:

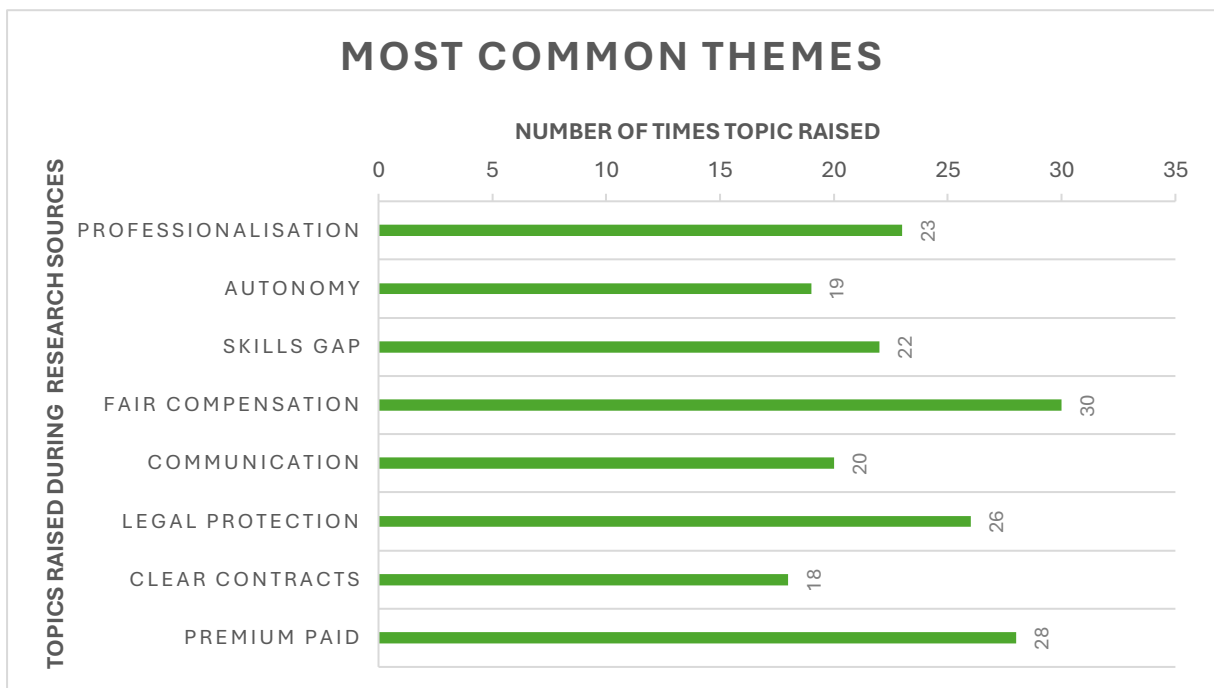


**Figure 2.** Themes covered during the interviewing process

These themes were essential to cover within the interviews as they are contentious issues, and where the gaps were throughout the literature reviews completed. Therefore, the author aimed to dive deep into the views of those currently in the industry (or previously were), to ensure their position was noted and to gain a thorough understanding of what is happening in the field from both a hands-on and a professional perspective.

## 5. ANALYSIS

After the interviews and literature reviews were completed, an analysis was done to identify any key themes that arose from these. This was completed by coding each of the responses from the interviewees and literature into a group of ten themes that were raised more than a total of five times amongst the resources. From here, the codes were then reviewed and scaled in order of most mentioned to least, with the top eight themes shown in Figure 3, below:



**Figure 3.** Demonstrates the most common themes throughout the research sources (literature and interviews).

As seen in Figure 3, the most popular themes found throughout the review of literature and interview responses were 1) fair compensation, 2) premium needing to be paid, 3) legal protection needed, 4) professionalising the role and relationships between farm owner and contract milker, 5) the large skills gap seen within the contractors of contract milking, 6) clear communication of the expectations of both parties within the business relationship.



## **6. FINDINGS AND DISCUSSIONS**

So, is contract milking the best fit for the progression and support of our top-class farmers, as they will be our next generation of farm owners and/ or sector leaders? While the research for this project has identified some areas of CM that are encouraging such as minimal financial outlay required to start in the role and the ability to be self-employed, it also has some significant risks and downfalls that limit progression for some. As shown throughout the findings, no, the current contract milking structure is not the most effective structure to support progression and the information supporting this statement can be seen below.

*“There is still a place for contract milking. If you do it right and do it well, (both parties), it does work. A challenge is a lot of people have advanced to contract milking before actually being ready and therefore a lot have failed because of this. The model needs a win/win strategy, and currently it is only a win/lose scenario in favour of the owner the majority of the time. The contract milker should have the opportunity to make and take risks, but have an element of a security blanket, as a risk/reward situation. This is because the contract milker has to deal with staff and machinery which both are extremely high risk, where the farm owner has bricks and mortar. Needs to be a better balance.”*

*(Interviewee- Rural Professional)*

Moreover, the deeper the investigation of this research topic, the more a question arose, “Is progression in the industry still something people are looking for, or is it becoming more common for people to be satisfied as a professional contract milker or sharemilker?” This often comes down to mindset, as discussed frequently throughout the interviews conducted in this study, and while shifting the perspective of an entire industry is a challenging task, it is not impossible.

For example, the NZ dairy industry needed to review the level and skills required to be a contract milker and where this role sits regarding the progression ladder. This was seen in 2010, in the NZ Dairy Industry Awards, where contract milkers were entered in the same category as farm managers, whereas VOSM was put in with HOSM. Did this mean there was less value placed on a contract milker than a VOSM? How do these roles actually differ from one another? Following this, there was a revamp of the award categories in 2015, and contract milkers were now put in a category of self-employed people, known as the Share Farmer Category. This is an excellent move from key leaders in the industry and demonstrates equality and a shift in the sector.

Furthermore, the statement below was published by trusted leaders in the dairy industry and could be interpreted in a negative light. The example states;

*“Contract milkers are contracted to milk a herd at a set price per kilogram of milksolids produced. The rate is set according to the amount of farm work done.”*

(Dairy NZ & LIC, 2019)

This statement alone, particularly at the end, is very blurred, as it states the rate is determined by identifying how much farm work is done. While this has a slight truth behind it (e.g., if you had to operate additional blocks, do all the cultivating on-farm, etc., for cropping), very few actually get paid for the additional work. Instead, it is just expected that the contract milker is not paid anything extra, as it is seen ‘as part of the job’ (Interviewee-Farmer, 2024). Therefore, it ultimately is not set based on the amount of work done, but rather the agreement the FO and CM come to, making the above statement by such a trusted source misleading and could sway the opinion of others to thinking the same.

During the research, those using hybrid systems between CM and VOSM has created some comfort for both the owner and the CM when there is a low payout. CM expenses are well set regardless of the payout, and in low payout years, owners will be looking to cut costs. This may involve lowering the feed system or drying off early, and therefore negatively effecting the income for the contract milker and their ability to cover farm working expenses to continue operating.

An option is for both parties to look into alternative benefits other than \$/kg/MS, as this could benefit all, including allowing the contract milker to grow equity. For instance, possible benefits could include Fonterra shares and ‘X’ number of heifer replacement calves, with the option of free-leasing them back to the owner when they come back as in-calf heifers. These benefits are a great option to consider when, financially, the FO cannot provide monetary gains, such as a pay rise for the CM, whilst still giving the CM the opportunity for wealth equity to increase.

The information gained through the literature review and analysis of the interviews highlighted the need to blend contract milking and VOSM. The reason for this, is to allow people to have a minimum amount paid based on production to ensure the ability to cover costs with a premium over and above that of a manager role of the same scale. In addition, the benefit of gaining an increase in money is scaled when the milk price rises above a set amount (to be agreed upon between CM and the farm owner) to allow equity growth and progression.

Another concern from farm owners, contract milkers and rural professionals included in this research was the lack of legal protection contract milkers have, despite VOSM being covered by the Sharemilking Act 2011, when fundamentally they are the same from a business perspective.

Furthermore, unfortunately, many farm owners use the business model of contract milking when there are better options for their business, such as management positions or HOSM. As noted, “because lower order sharemilkers on farms with less than 300 cows must be paid a minimum of 21 percent of the milk cheque, most smaller farmers opt to use contract milkers instead,” (Tipples & Wilson, 2008). This is a great concern; 21% in a \$7 payout year is only equal to \$1.47 per milksolid, which a contract milker requires on a farm of less than 300 cows, if usual costs such as labour, vehicles, chemicals, rubberware, and electricity are cost included in their contract. Therefore, if owners choose contract milking as their preferred role in their business to pay less than the 21% amount, the potential of equity growth is severely compromised ultimately restricting the possibility of progressing.

## **6.1 Interview responses**

### ***6.1.1 Benefits contract milkers are currently receiving.***

When the participants of the interviews were asked what current benefits they receive on top of the \$/kgMS, there was a varied response. However, the top responses were; no benefits at all, two received bonuses for low SCC and/or low empty rates, and two had the offer of up to 10 (beef) weaner calves. There were some exceptional owners and contract milkers among the interview participants who demonstrated some great benefits to CM in helping to encourage progression and equity growth. Some of the responses from participants were captured below of benefits they receive:

*“20 weaner heifer replacements per season, bonus if SCC under 100,000 for each 10-day period that is under that threshold. Also, receive a portion of the winter milk premium on top of the regular contract rate.”*

*(Interviewee - Farmer)*

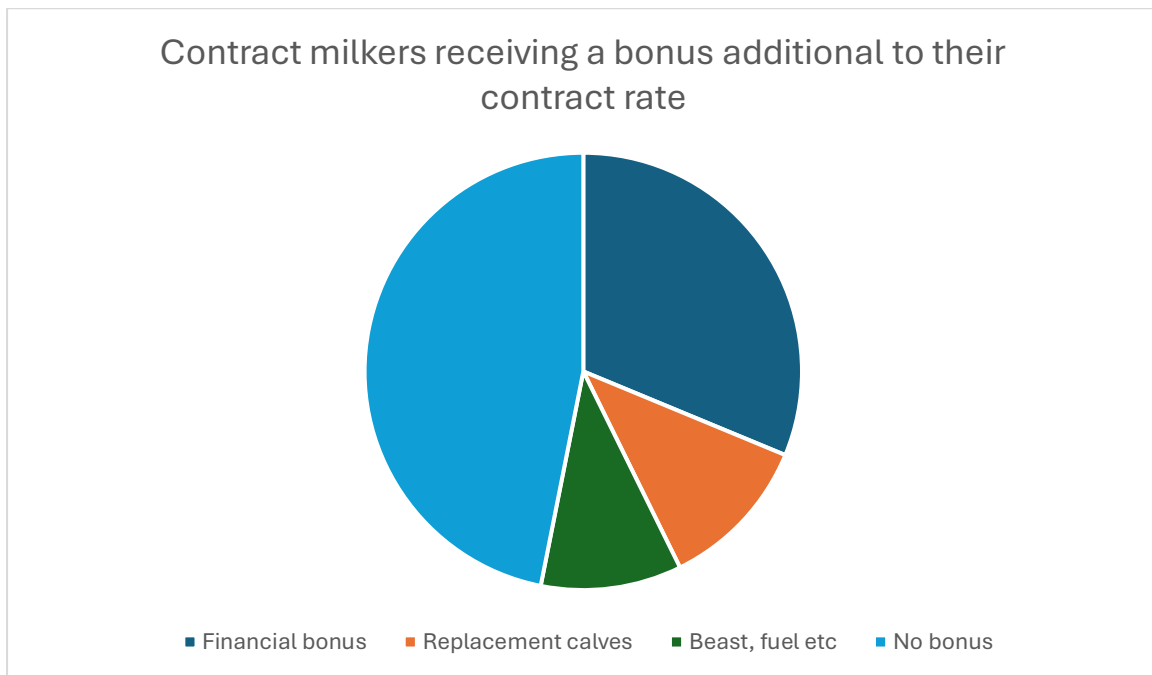
*“The owner pays a good contract rate and then pays an additional \$0.20/kgMS to make sure the contract milker can take every second weekend off.”*

*(Interviewee - Rural professional).*

*“Contract milkers are given a calf-rearing bonus and low empty-rate bonus to ensure standards were lifted and therefore rewarded as a result.”*

*(Interviewee -Farmer)*

Although it was comforting to see some contract milkers receiving additional bonuses or benefits, unfortunately, as illustrated in the graph below, the number of contract milkers who do not receive any benefit in addition to their contract rate, is the most represented group, which can severely slow the rate of progression.



**Figure 4.** The results shown illustrate the bonus or benefit received (if any) by contract milkers in addition to their standard contract rate. The responses are from the group representing contract milkers for the purpose of this project.

### 6.1.2 Benefits contract milkers would like to see in their package

‘Nice to haves’ or benefits the contract milking group of interviewees saw as being a great incentive for them to stay in the industry, and the opportunity to progress is not what most would believe to be, a monetary reward. Instead, the number one benefit contract milkers would like to see to facilitate their progression is the addition of receiving even 10 replacement weaner heifer calves, with the opportunity to free-release them back to the owner (if still on the same farm) when they return as in-calf heifers. This option is a great compromise, as the number of in-calf heifers the contract milker would have returning into the herd is not significant enough to affect the stock numbers for the farm owner or sharemilker. It also requires no financial outlay for owners or sharemilkers and (providing they had excess heifer calf numbers) is an excellent way to reduce bobby numbers.

*“I would like to get 20 heifer weaned replacement calves instead of beefies as it will be building towards herd ownership, and then I would also like the ability to free lease them back to the herd when returning as in-calf heifers.”*

*(Interviewee - Farmer)*

*“To receive some of the Co-operative difference (or incentive program that aligns with your dairy company), as we as the contract milker also have to do a lot of behind-the-scenes work on an on-going basis to ensure it is achieved.”*

*(Interviewee - Farmer)*

### **6.1.3 Why contract milking relationships do not work?**

When a contract milking relationship is unsuccessful, it takes a toll on either or both parties. It can lead to disputes, toxic environments, owners no longer employing contract milkers, or even, in extreme cases, contract milkers exiting the industry. When participants of the interviews (rural professionals, farm owners, and contract milkers) for this project were asked what they saw as crucial reasons why contract milking relationships do not work, the common themes were a) lack of clear or misaligned expectations, b) poor communication, and c) unfair profit distribution.

These themes can create frustration and helplessness should they occur. For example, many contract milkers find themselves better off financially as managers rather than contract milkers, leading to dissatisfaction and potential financial strain (Delve Tool, 2023).

*“Ultimately a farm owner is usually after consistent production and a smooth working relationship. However, a contract milker is usually after increasing production and therefore profit as this is the purpose of the role. From this, straight away, you have a misalignment of drivers and, therefore, an immediate problem for the relationship.”*

*(Interviewee - Rural Professional)*

*“FO often want a herd manager as they don’t want to let go. They choose the CM structure solely because they don’t want to deal with staffing issues. That’s it. This shows errors straight away.”*

*(Interviewee - Rural Professional)*

*“There is a tight labour supply market, so extremely difficult to find good capability between the FO and CM.”*

*(Interviewee - Farmer)*

#### **6.1.4 What key attributes support contract milkers to progress?**

Business models and opportunities varied immensely during the literature review and discussions for this project. However, it was encouraging to see several individual farms strongly supporting the progression of their contract milkers. In fact, many of the corporate farms strongly aimed to support and encourage progression within their own group and discover ways to ensure they retain top-class operators. Contract milkers who are progressing have been identified as:

*“If you think of contract milkers that have done well, what stood out? Very good relationship-wise- proactive, engaging, build and maintain good relationships. They know their finances- cash flows, returns on investment, saving, investing, creating wealth.”*

*(Interviewee - Rural Professional)*

*“It is hard to get it right with smaller farms and no opportunity usually for progression. Corporate businesses create structures to promote progression within their own business.”*

*(Interviewee - Rural Professional)*

#### **6.1.5 How are contract milkers tracking to reach their goals?**

When asked how contract milkers were tracking to reaching their farm career goals, the responses were greatly disappointing and highlighted a real problem and, ultimately, a restriction for good operators to progress. When participants were asked how they were tracking to achieving their goals, the responses were:

*“I am a fair way off reaching my farming goal. I am uncertain if I will ever reach it, but that’s what I am aiming for—farm ownership. I am not getting anywhere fast. If this goal ever becomes a reality, I will need an equity partner, and that is another obstacle- finding one.”*

*(Interviewee -Contract milker)*

*“My goal is or was to own a farm, but I don’t know about that anymore. More realistic would be 50/50 sharemilking, and I am about halfway to achieving this goal.”*

*(Interviewee - Contract milker)*

*“We are not anywhere near reaching the goal of farm ownership, as the last contract milking role ate through savings due to such poor profit driven by hidden costs due to lack of transparency, and husband and wife were to work full-time but wife expected to be a free labour unit ultimately.”*

*(Interviewee - Contract milker)*

### **6.1.6 Does there need to be a premium paid?**

When the interviewees were asked whether they feel there needs to be a premium paid to contract milkers above what a manager would receive for a similar job and scale to account for risks and costs, the responses were unanimous that yes, there needs to be a premium paid. Unfortunately, from all the research done, not many farmers pay a premium. The participants interviewed within this research project said that the premium expected now is very different due to the rise in costs and cost of living.

As identified by an interview participant, “with scale comes more risk as there is more staff, etc., so there should be more premium to cover this” (Interviewee -Rural professional, 2024). This question held huge importance as it was asked to all the participants, but also, this proved to be an area that, if the premium is not met, it makes the majority of roles unviable and therefore restricts contract milkers from being able to progress. As a result of this finding, it identifies how minimal the margin is for progression between succeeding and not. Therefore, is contract milking the best business model for our NZ dairy farmers and the industry? The following responses were collected during the interviewing process when asked: ‘Should a contract milker receive any premium to account for risk, etc, above what a manager would receive in a similar role and why? If yes, how much approximately how much?’

*“25% above the \$kg/MS as opposed to a manager (would be scaled), e.g., if a manager would get \$75,000, a contract milker would have to have \$100,000.”*

*(Interviewee - Farmer)*

*“A first-year contract milker who requires farm-owner input and direction on a small farm would be about \$10k-20k premium.”*

*(Interviewee - Rural professional)*

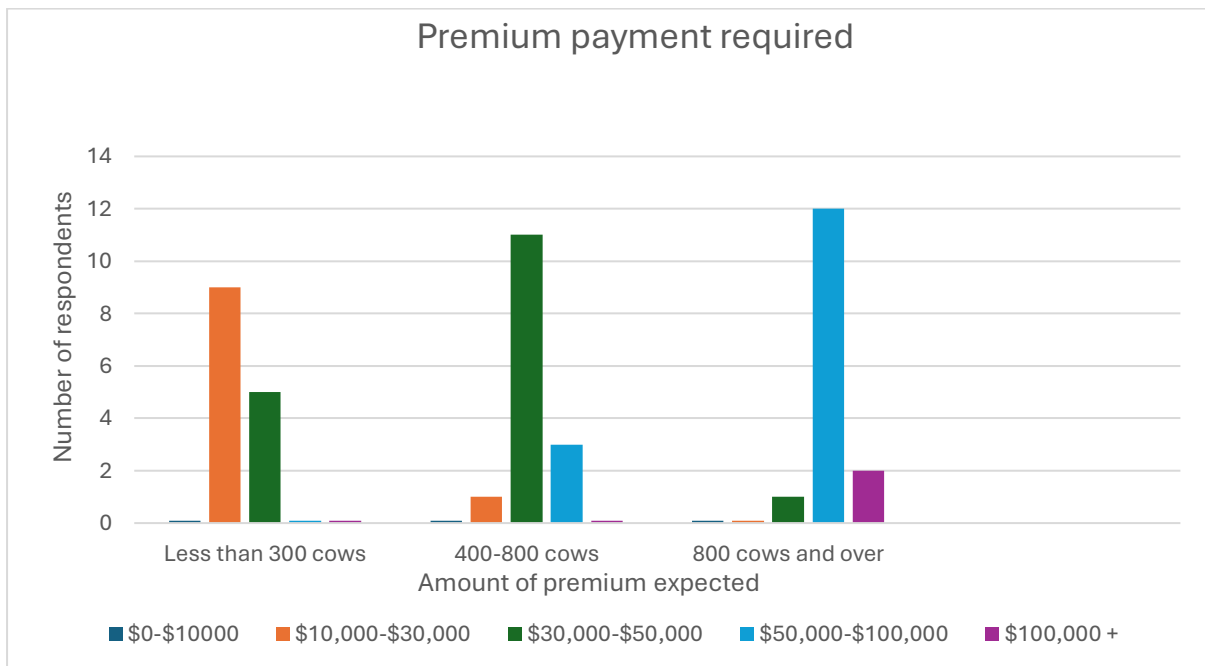
*“A contract milker on a large-scale farm and who is completely independent would be looking at \$50k-100k premium over 800 cows.”*

*(Interviewee - Rural professional)*

*“There needs a document regarding the premium to spell it out- depends on the scale of it. For a small job needs a minimum an extra \$20-\$30k, Big jobs need to make an extra \$50-100k.”*

*(Interviewee - Rural professional)*

From these results, an average premium of what a contract milker is expected to receive depending on the scale of the farm was able to be determined as shown in Figure 5 below:



**Figure 5.** The above figure displays the premium interview respondents identified as needed according to cow numbers.

From the research collated from this research project it shows the following median premium amount required:

- Less than 300 cows: \$10,000 - \$30,000
- 400-800 cows: \$30,000 - \$50,000
- 800 cows and over: \$50,000 - \$100,000



### 6.1.7 The most significant concerns within the current contract milking structure

A significant concern of contract milking is the misalignment of expectations and values between the farm owner and the contract milker. This can lead to issues such as lack of clear communication, unrealistic financial expectations, differences in farming philosophies, and dissatisfaction with the working relationship. This misalignment can hinder the success and progress of both parties involved.

*“Due to cost, the dream and reality of farm ownership is less and less. The big step from being a manager to being a contract milker is large, and a lot of people struggle to move from being an employee to being self-employed. In the first year or two years as a contract milker, it will either make or break you.”*

*(Interviewee - Rural professional)*

*“It benefits the FO more than the CM due to lack of protection for the CM legally and no real understanding of what each party is signing in the contract.”*

*(Interviewee - Farmer)*

*“A contract milker needs to have the same legal protection as a sharemilker does under the Sharemilking Act.”*

*(Interviewee - Rural professional)*

*“Struggle to see how CM supports progression. In fact, I feel it holds people back. Disparity between the contract milker and farm owner and what the structure actually means for both of them.”*

*(Interviewee - Rural professional)*

The responses across all the interview participants (farm owners, contract milkers, and rural professionals) were all conclusive from each respondent that there must be a better alternative to contract milking that is more suited to support progression. Sensitivity analysis needs to be done between FO, CM, and mutual party prior to the signing of the employment contract to ensure the contract milker can still perform their duties according to the contract if production is reduced due to such events as drought, lack of feed, low stock numbers, or other weather events.

Moreover, this research found a significant skills gap between many people who are taking the step to contract milking well before they are ready. In order to upskill, the

formal and informal training needed for farmers entering into contract milking are unaffordable, challenging to access, and not timely according to events occurring on-farm

## 5.1 Key Themes

From this, it showed there are six critical themes noted of what is needed and desired from participants:

- **Need for partnership**

There is a recurring theme of emphasising the need for a partnership model between farm owners and contract milkers rather than a traditional employer-employee relationship.

*“The structure needs to focus more on the partnership of the business- scrap the contract milker title, and maybe call it some kind of partnership.”*

*(Interviewee- Rural professional)*

- **Legal protection**

Contract milkers should have legal protections similar to sharemilkers for clarity and security in their agreements. The analysis shows that people are genuinely concerned about the lack of legal protection contract milkers have, particularly when compared to VOSM. For VOSM they are “protected under the Sharemilking Agreements Act 1937, which was set up to protect those who were working their way up the dairy ladder to farm ownership.” (Thompson, 2019).

*“Any VOSM Agreement links back to the Order and the Act. The contractor, on the other hand, is linked back to the contract they signed, which may be minimal.”*

*(Thompson, 2019).*

- **Clarity in contracts**

It is crucial for contracts to be simple, straightforward, and easily understood by all parties involved to prevent misunderstandings and ensure equality. By

clearly stating expectations, both parties know what they need to do to fulfil their obligations and have a successful relationship.

*“When completing a contract, it needs to be clearly written, and both parties need to be informed of what they are agreeing to, and clear expectations from both parties to ensure a good working relationship right from the start.”*

*(Interviewee – Rural professional)*

- **Fair compensation**

Fair profit sharing and a transparent budgeting process are called for to ensure both farm owners and contract milkers benefit financially. The research shows that “what we’ve found is that 27% of contract milkers would actually be better off financially if they were managing” (Lee, 2024). These statistics are unacceptable and are hindering the growth within the industry, which will be devastating.

*“Receiving a fair return for contract milking helps provide stability from year to year so good people remain on farm and, in the long- term, allows them to grow their wealth so they can become the farm owners of the future” (Lee, 2024).*

- **Professionalisation**

The relationship between farm owners and contract milkers needs to be professionalised to support business growth and attract professional support. This would see people support the idea of professional contract milking as a top-level success, which in the current market is a more realistic goal than farm ownership.

*“Farm owners and contract milkers need to professionalise the relationship by having regular farm meetings, setting KPIs, and exploring multiple roles as a way of progressing.”*

*(Interviewee- Rural professional).*

- **Skills gap**

Skills are essential in the contract milking sector, focusing on the need for technical and financial competencies among contract milkers. Therefore, what

is the gap in training that could support professional development? Further investigation is needed, which needs to include farmer groups, industry-good providers, and rural recruitment companies to ensure training is made available that covers the gaps in people entering into contract milking.

*"The industry does not prepare or train people enough to be successful and resilient when challenges arise."*

*(Interviewee – Farm owner)*

## 6.2 Progression pathways for Australian dairy farmers

Currently, Australia does not have contract milking and likely will not offer it within its dairy industry. When the current management structure of dairy farms was researched (as seen in Figure 6 below), most were family-owned farms. As there are more options for lease farms and sharefarming in Australia, the need for a contract milking structure does not exist.

**How would you describe the ownership/management structure of your dairy enterprise?**



**Figure 6.** The business structure illustrated above is from a survey of Australian dairy farmers, (Dairy Australia, 2021). This figure shows the ownership/ management structure of dairy farms.

From researching and discussing where contract milking fits in the Australian Dairy Industry, in short, it does not. The reasons for it not having a place in the Australian dairy farming business models are believed to be a combination of the following:

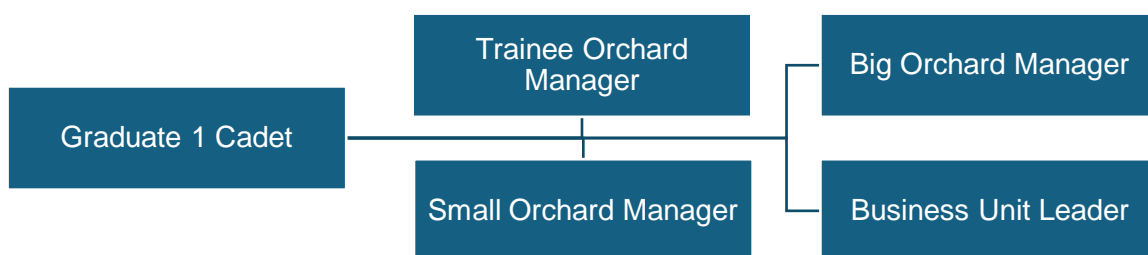
- Large farms employing farm managers rather than going into share farming/contract milking – to provide an option for equity in the business.

- The number of small herds still in Australia would create unviable financial positions.
- Lack of clarity on whether the relationship is one of employment or independent contracting.
- Heightened risk to the business from a CM and FO perspective.
- No comprehensive legal definition of what constitutes a ‘share farmer or contract milker.’
- There are increasing concerns over ‘sham contracts’ - representing an employment relationship as independent contracting or dismissing an independent contractor.

These findings highlight that Australia's concerns regarding contract milking are the same issues the New Zealand dairy industry faces with the structure. Therefore, these findings strongly enforce the question, ‘Why does the New Zealand dairy industry continue to use the contract milking model?’

### 6.3 Comparison of progression pathways in the kiwifruit industry versus the dairy industry

To gain a further understanding and compare the progression pathways of other industries, an analysis was completed with a focus on the New Zealand kiwifruit industry due to similarities in hierarchy. Upon research, it was identified that the usual steps for progression in the kiwifruit industry are as shown in Figure 7 below:



**Figure 7.** The above figure displays common steps of progression within the New Zealand kiwifruit industry.

When comparing the above progression figure to the dairy industry pathway, there are both similarities and significant differences between the two. For example, when comparing the small orchard manager, this would be likened to a farm manager in the dairy industry. Also, when people are in the small orchard manager roles, they often start with a 10-hectare orchard, and build to approximately 40-60 hectares.

When comparing the increase of the orchard sizes, it is similar to going from a 50-cow dairy farm to a 700-cow farm. The critical differences noted between the industries and what makes the kiwifruit industry a solid pathway of progression are;

- The Kiwifruit managers have incredible transparency with their financials. They have a budget to work towards and are involved with the business's profit and loss.
- The training available, usually through Toi Ohomai, is affordable, accessible and many training options are available to suit the learner's needs.
- Most people, once they have reached the role of big orchard manager, will stay in that role, as they have excellent remuneration and in an operational role.
- Many people accept the likelihood of owning their own orchard is unobtainable (as 1ha of kiwifruit land is estimated to cost \$1 million). However, people are ok with this answer, and like many other businesses, there is no need to own the business.

After identifying the kiwifruit industry's strengths and comparing them to the current situation in the dairy industry, it highlighted how other industries value progression to keep people in the industry. As noted above, the concerns of the current contract milking business model are training, autonomy, and fair remuneration, all of which the kiwifruit industry is doing exceptionally well and needs to adopt in the dairy industry.

## **7. CONCLUSIONS**

After analysing the data retrieved for this project, the answer is clear: The current contract milking structure does not support progression opportunities for many farmers. While this is disappointing, the information collated has identified areas that are working, which could be included in a revised business model.

From the interviewees, as well as those who have contributed their views to this project, the contract milkers who are given bonuses such as being provided with heifer replacement weaners and the ability to free lease them back to the herd when in calf are the group that is closer to reaching goals of SM or FO albeit very slowly.

Also, the issues that are creating poor progression for many contract milkers highlighted throughout both the interviews and the literature view were:

- TRAINING - Lack of capability and skills (financial, business, personal drive)
- COMMUNICATION - Relationships between CM and FO failing due to misalignment of expectations

- FINANCIAL - Profit is not shared, causing no win/ win approach; limited control over expenses
- LEGAL PROTECTION- Contract milking is not under the Sharemilking Act (or something similar).
- PREMIUM—Contract milkers identified as needing to be paid a premium over a manager’s wage for a role of similar scale. The amounts noted as being required throughout the research are \$10,000 - \$30,000 for farms under 300 cows, \$30,000 - \$50,000 for farms with 400-800 cows, and \$50,000 - \$100,000 for farms over 800 cows.
- GOAL CHANGES—Contract milkers perceived a need to change their goals of farm ownership to HOSM instead, as farm ownership appears to be unrealistic in today’s market.

For contract milkers, a significant financial issue is that their costs are firmly set, and there is no option of reducing the use of the costs they are liable for (power, labour, acids and detergents), as this would affect the operation and most likely be in breach of their employment agreement. As labour is the most costly expense for the majority of contract milkers and this is not GST recuperable, there often are high GST bills to pay, which can put immense financial pressure on the CM and can lead to a range of emotions, feeling like they are not rewarded for the work they do, a potential for leaving the industry, mental health decline and restrictions for being able to pay the bills let alone progress. This is where the premium is vital to ensure the operation can continue should there be increased costs throughout the season or having to dry off early.

Excellent resources are available (see Appendix 3) to support both parties' due diligence and ensure a smoother relationship, however, are rarely utilised. The findings and analysis for this project highlighted that the contract milking business model undoubtedly needs to change.

## **8. RECOMMENDATIONS**

Indicative results from this research project have illustrated that the current contract milking business model is not the most effective for the progression of dairy farmers in New Zealand and often restricts progression. Therefore, there are several key recommendations for the New Zealand dairy industry. These are:

- **Removing contract milking from possible business options**

To remove CM and VOSM from the available business models and include the key benefits from the old models in creating one new business model.

The name 'Contract Milker' is particularly important to be removed, as the term contract milker implies there is an expectation from either party that milking is the sole focus of the role, and it is only for a limited contract term. The potential solutions of a name could be "Operational Sharemilker or Business Sharemilker." This is a vital addition to the name, as this group of farmers are responsible for much more than merely milking. By including the use of the term Sharemilker, it demonstrates the 'skin in the game' they have, as well as being included and covered under the Sharemilker Act which is a crucial piece of legislation to support both parties.

The evolution of the new role will include input from people such as industry-good providers, farmer-focused groups, Federated Farmers, and government bodies. In addition to this, the business models from other similar industries and what works well, such as the kiwifruit industry (as discussed in previous sections), will be considered in the design of the new role.

- **New payment structure**

The payment structure of this new role will be throughout the season rather than only during the time of supply and paid directly from the dairy companies. This could be structured by a set amount (such as 90% of the contract rate paid directly by the dairy company), which would be paid through the terms of supply. The remaining 10% of the contract rate would be paid in June, July, and August (for Spring supply farms), of the following season based on the rate and production. Implementing this gives the sharemilker better cash flow to continue an effective operation, which would then flow onto purchases at rural suppliers. What is more, this payment structure would give more confidence to banks in terms of debt servicing, etc, and lending would, in turn, become more favourable, which would further support progression in a more timely manner.

- **Benefits other than monetary**

Parties of the farming business need to look for benefits other than monetary to support the contract milker. For example, a bonus of some Fonterra shares, a certain number of heifer replacement calves per year to help build their own herd, and the option to lease back in-calf heifers to the farm owner.



- **Neutral party to support completion of contract**

As the parties are going into business together, a mutual professional party must assist in completing the employment agreement. This allows either party to ask for clarification to ensure a complete understanding of the agreement by all.

For all these recommendations, dairy companies, Federated Farmers, DairyNZ, and local farmer representatives must work together to ensure a seamless process.

*“We need to think as an industry, how do we work together to solve the issues?”*

(Interviewee - Rural Professional)

## **9. LIMITATIONS OF THIS STUDY**

Limitations of this study were the time restraints required to interview a larger pool of participants. This would ultimately provide a more reliable understanding of how people in the NZ dairy industry view the structure of contract milking and its place within the progression structure. In addition to this, the limited number of peer-reviewed resources was evident due to contract milking being a relatively young business model, which narrowed the field of available resources to review.

Also, looking into other countries' progression scales, particularly those that have now adopted the contract milking structure and the highs and lows they have experienced to date, would be particularly interesting and valuable. In addition to this, due to the time constraints of this project, the author would have liked to dive deeper into the alternative business models in other industries that may lead to a form of ownership to be able to compare and consider how they could potentially be adopted into the dairy farming industry.

The points raised as limitations are largely due to the research being indicative of a large trend that has been illustrated throughout this project. Therefore, the greater the information and perspectives accumulated, the stronger the understanding and definitive answers could be created.

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## **11. APPENDICES**

### **Appendix 1:**

Interview questions for **contract milkers** (both past and present):

- Tell me a bit about your current farming operation (cow numbers/ staff/ feed system)
- 1) Why did you initially go contract milking?
  - 2) How long have you been farming? What roles?
  - 3) a) What additional benefits (aside from the \$/kgMS) do you have built in to your package?  
b) What would you like to have?
  - 4) a) What are your long-term farming goals?  
b) How are you tracking to achieve these farming goals?
  - 5) How much 'premium' do you feel a Contract Milker needs (on top of the \$/kgMS) to compensate for risks, etc.?
  - 6) What is the 'ideal' Contract Milking agreement? (Inclusions etc)
  - 7) Why do you feel some Contract Milking arrangements do not work out?
  - 8) Is there anything extra you would like to add that I haven't already covered?

Additional: For those who have left CM:

- 9) What role did you move onto following the exit of you CM business?
- 10) a) What were your reasons for leaving CM?  
b) During your CM experiences, were there are key areas you saw as in relationship between CM an FO that helped progression

## **Appendix 2:**

### Interview questions for **rural professionals:**

- 1) Please briefly describe your current role and involvement with the NZ dairy industry.
- 2) In what capacity do you have involvement and/or knowledge of contract milking in NZ?
- 3) How do you feel the current contract milking structure supports the opportunity of progression within the industry?
- 4) From your experience, what were the key areas that caused the biggest issues in a contract milking relationship? What worked?
- 5) A) How much 'premium' do you feel a contract milker needs (on top of the \$/kgMS) to compensate for risks etc as opposed to being a Manager?  
  
b) Why have you arrived at this amount?
- 6) a) What do you see as the 'ideal' contract milking agreement? (Inclusions etc)  
  
b) How would this support the opportunity for progression?
- 7) What do you think is the limiting factor is for people who have come up through the industry in reaching farm ownership/ sharemilking?


## Appendix 3

# Sharemilking & progressing farmers checklist

## Do your homework before you sign

Following a thorough due diligence process (or in other words, doing your homework) is key to establishing a successful sharemilking or contract milking arrangement. This checklist will help you consider your options and decide whether a role is right for you and start the relationship on a good footing.

Answer 'yes' only to those questions you are 100 percent sure of. If you have answered 'no' or you would like more information visit [www.dairynz.co.nz/homework](http://www.dairynz.co.nz/homework).

 <b>What do I need to know about my situation?</b>	Yes <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>
1. Do I have a clear understanding of different types of operating structures?	<input type="checkbox"/>	<input type="checkbox"/>
2. Do I know my short and long term goals?	<input type="checkbox"/>	<input type="checkbox"/>
3. Do I understand my values?	<input type="checkbox"/>	<input type="checkbox"/>
4. Do I know my current financial position?	<input type="checkbox"/>	<input type="checkbox"/>
5. I can clearly communicate my non-negotiables.	<input type="checkbox"/>	<input type="checkbox"/>
6. I know my strengths and weaknesses	<input type="checkbox"/>	<input type="checkbox"/>
7. I have trusted advisers that can help me	<input type="checkbox"/>	<input type="checkbox"/>
 <b>What do I need to know about any potential business partners?</b>	Yes <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>
1. Have I asked around to find out more about this person?	<input type="checkbox"/>	<input type="checkbox"/>
2. Are their core values and farming philosophies similar to mine?	<input type="checkbox"/>	<input type="checkbox"/>
3. Will working with them help me achieve my long term goals?	<input type="checkbox"/>	<input type="checkbox"/>
4. Can I see our relationship being a good fit?	<input type="checkbox"/>	<input type="checkbox"/>
 <b>What do I need to know about the farm business?</b>	Yes <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>
1. Is there a farm policy and how does it fit with my ideas, values and needs?	<input type="checkbox"/>	<input type="checkbox"/>
2. Do I understand how the management policies will affect me in terms of time and cost e.g. feeding systems, cropping and regrassing?	<input type="checkbox"/>	<input type="checkbox"/>
3. Have I verified that production, farm working expenses and any other targets are realistic?	<input type="checkbox"/>	<input type="checkbox"/>
4. Have I found out about all the aspects of the farm that will affect my time/labour/costs, including infrastructure such as housing, shedding, effluent, irrigation, troughs?	<input type="checkbox"/>	<input type="checkbox"/>
5. Are there differences specific to the particular region this farm is located in? Will these impact on the way I run my business?	<input type="checkbox"/>	<input type="checkbox"/>
 <b>Before I sign the contract</b>	Yes <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>
1. I have completed a budget and considered sensitivity to milk price, production, or expense changes.	<input type="checkbox"/>	<input type="checkbox"/>
2. The contract I have been presented with is an up-to-date version.	<input type="checkbox"/>	<input type="checkbox"/>
3. I clearly understand the implications of all terms and conditions.	<input type="checkbox"/>	<input type="checkbox"/>
4. We have worked through the contract together and agreed on terms.	<input type="checkbox"/>	<input type="checkbox"/>
5. I have a trusted adviser that I can get to look over the contract before I sign.	<input type="checkbox"/>	<input type="checkbox"/>
 <b>After I sign the contract</b>	Yes <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>
1. Do I have a plan to keep the relationship on a good business footing?	<input type="checkbox"/>	<input type="checkbox"/>
2. We are developing a shared business plan for the season.	<input type="checkbox"/>	<input type="checkbox"/>

For more information visit [www.dairynz.co.nz/homework](http://www.dairynz.co.nz/homework).

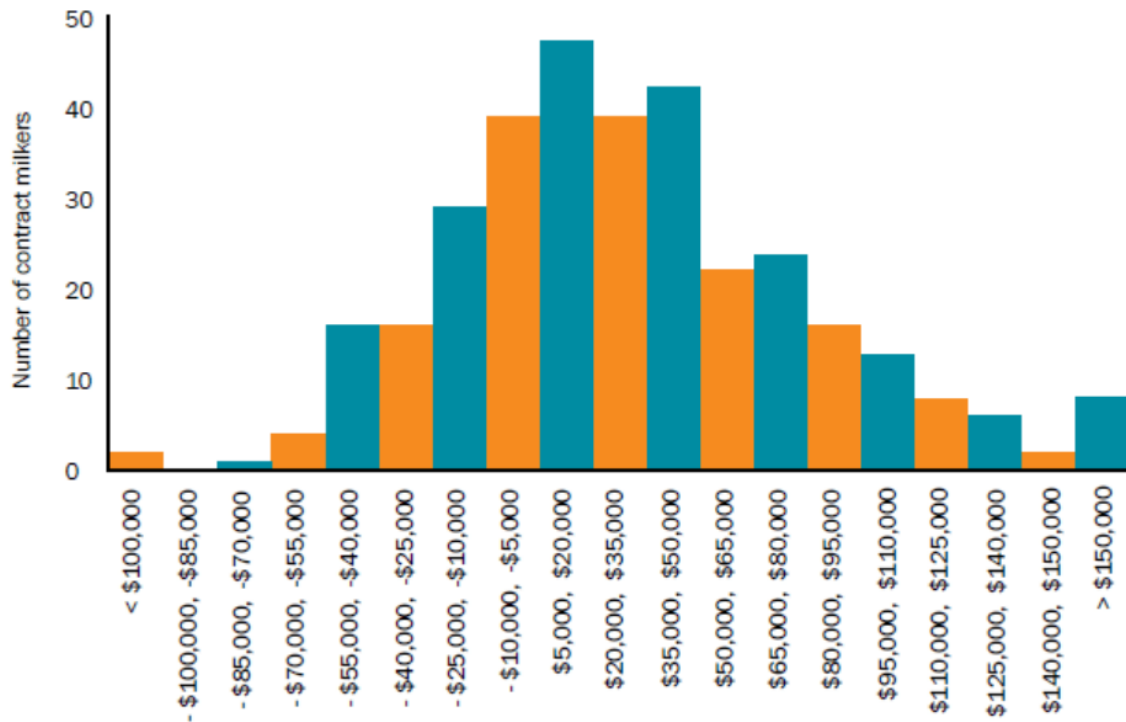




## Appendix 4

### Contractor milker premium per season 2018-2021

(Premium equals the difference between contract milkers incomes and manager income)



Appendix 4 (Figure 8 showing the average premium paid to contract milkers, (Lee, Contract milkers miss out on premium, 2024).

## Question Tree

