Alternative Pathways for Progression in the NZ Dairy Industry

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Introduction

Ladies and gentlemen

In the late 1980's New Zealand agriculture was in terrible shape; low commodity prices, interest rates over 15%, having to beg bankers for loans – even the Prime Minister of the day David Lange called dairying and other traditional forms of New Zealand agriculture, sunset industries. Why then did a generation of successful dairy farmers become dairy entrepreneurs over the next 5 -10 years?

Over the next 25 minutes I want to try to uncover some of the answers to this question.

I hope if you are an ambitious, young, new entrant to the dairy industry **<u>or</u>** someone who has been in the industry for a while and has not made the progress desired **<u>or</u>** someone who has done quite well and wants to kick on further, that there will be some encouragement, some provocation, some lighting of your fire and some hope for you.

Returning to those that did well in the shadow of doom in the late 80's and early 90's; 80% of farmers of the time could not see opportunities opening. Compare that with today – not the same issues of concern – different barriers – high land price, labour issues, no opportunities. Again perhaps 80% can not see the next generation of opportunities.

The opportunities are there all right, but do not expect the solutions to be the same as 20 years ago because the barriers are different. Think about today's issues needing today's solutions not today's issues being answered by yesterday's solutions.

I want to walk you through my 12 Commandments to farm ownership – don't get hung up on only farm ownership because the same principles apply if you are thinking of buying a herd, or maybe you are a manager and have no intention to buy a farm, but want to use your cash surpluses to have your nest-egg in off-farm investment.

Perhaps think of it this way. My understanding is that the founder of McDonald's, Ronald McDonald did not see himself as a worldwide maker of burgers but rather, a prime real estate acquirer who cash-flowed his goal by selling burgers.

So, if you are in the top 33% as a dairy worker, manager, sharemilker or farm owner, replace selling burgers with generating dairy income to fund your target farm, commercial property, listed stock or other proposed investments.

The Twelve Commandments – (Remember when I refer to farm ownership it may apply to other investments)

Commandment No.1 - Desire

Farm ownership will not just happen. It will take focused targets and some sacrifices will need to be made. If you have an ambitious target it needs to be almost a single minded focus. For an initial period anyway, apart from being extremely disciplined about your growth focus, have no more than one of these distractions on your mind as well;

- Regular and expensive holidays
- Extensive time consuming community projects e.g. schools, churches, Lions club etc

- A thirst for a particular sport that takes time whether it be golf, rugby or any other (if it is something like motor sport you probably have 2 strikes against you as it takes time and costs plenty as well)
- Being the ultimate family person – do not take me wrong – parenting is perhaps the most important job we all have – but I see so many cases where people hit two strikes in one where they spend a lot of time with their kids and spend a lot of money on them as well. Your kids always need your time but sometimes it is better for them to learn the values of hard work and saving as well. This does not mean that you should not get involved in the community for the benefit of both the community and yourself, just make sure you have the balance right.

Summary

- Your desire to get a farm – strike one
- Your preoccupation with one of these worthy distractions – strike two
- More than one distraction – strike three and you're out – too many balls in the air

Commandment No. 2 – Ability to Save

If you want to financially succeed there is little choice but to learn to save. There is no option other than material things in moderation.

- Is someone happier if they:
- Have two dozen beers a week rather than half a dozen
- Hire DVD's to watch when there are free movies on TV every night
- Smoke
- Put $400 tyres on their car rather than $150 ones
- Eat out more than once per week

How long would you like me to make that list?

Summary

- Learn to budget then borrow – get the order right

Commandment No. 3 – Resistance to marketers

Some people are natural at selling. Those who are professionally trained and are trying to sell you things you do not really need are just downright dangerous. If they get to you they are likely to be more damaging to your business than droughts, bloat or bad labour.

Your business is to convert grass to milk as efficiently as you can – their business and training is to get you to part with your money – they are likely to be financially incentivised to be successful.

Watch for blow-waved hair and sporty cars.

Each month you are likely to get more than 100 free pamphlets, magazines or brochures through a rural delivery box - all indirectly paid for by those who buy. Perhaps seek out those good quality products that do not have to support glossies – they should be cheaper.

Summary

- Work out what is essential
- What is nice to have
- What is just downright extravagant

Commandment No. 4 – Investment returns

The Rule of 72 is very simple – why is it then that so few people know it?

Divide 72 by the return you expect to get on your investment and that tells you how many years it will take for your investment to double.

If you are getting a 6% return and re-investing then your equity will double in 12 years

At 12% it will double every 6 years

At 18% it will double every 4 years

An investment of $100,000 today, in 24 years time at a 6% return will be worth $400,000

The same investment of $100,000 today, in 24 years time at an 18% return will be worth $5.3m.

Summary

- If you understand this rule of 72 you will start ahead of 90% of the population – I do not know why, but if you do understand it, it is very likely you did not learn it at school.

Commandment No. 5 – Mentors

Successful people in farming have generally worked hard, saved hard and had the courage to invest when opportunities appeared. I would be very surprised if those who have succeeded over the last twenty years did not contribute some of their success to two or three mentors who would have helped them with free or paid advice. And, those providers of advice would have felt some satisfaction from helping someone.

Here though lies the challenge. Line up ten grey haired farmers who have succeeded in their time, the chances are only one out of the ten will be able to steer you in the direction to succeed in today's environment. The other nine, as good as their intentions are, will give you very good advice that just happens to be 20 years out of date.

I consider that I was privileged by the mentoring I received from my parents and grandparents. It was forward thinking. I have used other people as well for mentors. Today I still have mentors but for different things than what I used to require them for.

For those of you who are on family farms or working with parents, no hard and fast rules here, but the chances are that your parents will steer you down the same course they went. In my opinion, greater than 75% of those who go onto family farms will not fulfil their own potential because they are not allowed to make their own mistakes, are not challenged because their parents are controlling decision making and they are robbed of their own sense of self-achievement.

I notice that many of the young star performers of today were not brought up on farms, did not leave school and go on farms. No. They educated themselves, learnt different skills and entered farming with no preconceived ideas.

Summary

- Some people say you can only get ahead if you have family support. If it were true (and I don't think it is), sort out whether the beneficiaries of the family support get ahead because they are given money or whether is it because they learn how to save, how to invest and how to go for opportunities when they are there. I suspect if you do not have family support to farm ownership it is not the money you are missing but rather the guidance, the support, the encouragement to take an opportunity or maybe someone to guarantee a loan for a short period of time. With regard to a guarantee it is amazing how many former employers are happy to guarantee a loan for a year or two to worthy recipients.

Commandment No. 6 - Sort out what appreciates in value and what rusts

Diane and I have a beach house in Whitianga. Some old family acquaintances have a 2000 acre hill block overlooking the whole of the Mercury Bay. In 1950 the grandfather had the choice of buying 2000 acres of, at that time, harsh hill country, or for the same money, a new Fergie tractor. He chose the farm and now the grandson approves of his foresight.

Chances are if you buy ten cows today that in ten years their value will be higher and you will have more of them.

Chances are if you buy land today that in ten years its value will be higher.

Chances are if you buy a tractor today, in ten years its value will be halved.

Chances are if you buy a farm motorbike today, in ten years it will be worthless.

Summary

- If you buy land or livestock and look after them, and can cashflow them, you will create real wealth.
- If you buy anything that needs petrol, diesel, or grease, make sure you spend no more than what is required to efficiently run your farm business.

Commandment No 7 - Choose your partner wisely

I do not wish to offend anyone here but I see many people start out with the potential to do well in dairying.

Perhaps the most defining decision they make is selecting their life partner.

It will be hard, and in fact extremely rare to succeed, unless you both have a common goal of achievement and a shared discipline to spending and saving.

What I notice is that those who choose their partner wisely keep doubling their assets. Those who choose poorly keep dividing by two.

Summary

- I am no expert on marriage guidance but this is a decision that is worth getting right.

Commandment No. 8 - Eat an elephant in small pieces

When starting out the end goal seems so far away. At the start the perceived lack of progress almost seems depressing, and the answers of how to achieve the end goal are just not there.

Appendix A details a twenty five year plan from zero to self dependence - self dependence being where you work because you want to work, not because you have to. It involves incremental saving and targeting a reasonable return on investment.

It takes discipline to save.

It takes courage to invest.

It takes tenacity and support when things are not going well because at times equity will stagnate and then asset values will take off and you will be back on track.

Summary

- The 25 year plan I have illustrated is a guide that you can modify for your own needs. You then need to commit to it and take ownership of it.
- You need to look out no further than the next two years at any point in time. All you need is some idea of;

    can you find the funds?

    can you achieve the return on investment?

- Always have a rolling two year plan in front of you.
- Do not get too cocky if you are well ahead of the target, it may be the stage of a cycle.

- Do not get too down if you fall a bit behind the target, it may be the stage of a cycle.

Commandment No. 9 - Ride the waves

New Zealand dairying has always been cyclical and will continue to be so.

Look upon volatility as a positive not a negative - you can't change it anyway.

At any point in time people in all fields and worldwide, are usually overly optimistic or overly pessimistic.

Think about the opportunities that presents.

Every downturn delivers both achievers and victims. The victims are those who are asset rich and cash poor, they are usually inheritors of wealth rather than creators of wealth. They are the people who bail out often even before they take a cut in their high and accustomed personal drawings.

The achievers are those with skills, with energy, with a desire to achieve who have saved and invested wisely and have the courage to move when their instincts are that things are coming right.

Those who wait until everything is aligned will miss the boat.

Summary

- Volatility is the friend of the entrepreneur.
- An entrepreneur can pick what is a cycle, as opposed to a permanent new trend.
- Cyclical downturns make the tough tougher and the wimps bigger wimps.

Commandment No. 10 - Continuing Education

Never stop learning because two things happen.

1. The world continues to change
2. As you move up the equity building ladder you will need different skills.

The mentors you have today need to be respected friends of tomorrow. That is because if you are progressing financially and in your own thought processes, you will need to choose new mentors as time goes on.

Summary

- Set aside hours each month for self education and knowledge improvement. Perhaps diary for the first day of each month to nominate what the self education target for that month would be. Despite an extremely busy stage of life currently for me, I will try to set aside two hours each week for self education and a further two hours each week for helping people progress.

Commandment No 11 - Honesty

Not many people consider themselves dishonest, but how many people do you really trust.

Impeccable honesty opens many doors while dishonesty closes them, maybe not immediately, but people do not forget.

Think about the effects of honesty:

- With your employers
- In never selling stock you would not want to buy
- In being honest with yourself in finishing out a sharemilking contract with conviction
- In never giving a false impression to someone who is asking your advice on a work reference for some other party.

Think about the doors you open or close for life with regard to honesty.

Summary

- Honesty is a black and white issue. There’s no room for grey.

Commandment No. 12 - Moving to where opportunities offer themselves

It would be nice to never have to upset family life and move and start again. Strangely enough, though, those who have done it see positive effects for both business and the family.

Consider this:

- Before the evolution of sophisticated society, if ancient man did not move to the next valley where there was food, he starved.
- If your parents, grandparents, great grandparents did not have the drive to shift to New Zealand for better opportunities would they have been better off?
- Those who saw the opportunities in the South Island when land prices were low, have been extremely well rewarded for some short term family inconvenience.

Summary

- If an opportunity presents itself and you really want to get ahead, you may have to get off your arse and take the opportunity that is there.