

CHRISTCHURCH BUSINESS CLUB

PRESENTATION – MONDAY 9 JULY 2018

'PROFIT IS A DECISION – YOUR DECISION'

DEALING WITH CURRENT AND FUTURE ISSUES

- (1) The low interest rates and low inflation rates over the last ten years have camouflaged what your overall business expenses would have been on a historical basis - work on both of these key figures increasing over the next few years.
- (2) Your net business profit needs to be at least 50% higher than your personal drawings (including your income taxes) - at anything less than this, over time you will end up knowing your bank manager's cell phone number off by heart, which is a bad sign.
- (3) The price of food worldwide over the last 30 years has increased by a compound 2.6% every year - the 'Rule of 72' then tells us that the food price has doubled over 27.7 years - if this average compound figure was 4%, then the food price would have doubled over 18 years - at 2%, it would double every 36 years – if you work on say 3% then your food costs will double over the next 24 years.
- (4) Increasingly I am finding that sheep and beef and some cropping arrangements cannot justify irrigating their total potential irrigatable area simply because the cost/benefit analysis just does not stack up - with some of the earlier irrigation schemes this point does not apply, but you are talking about good schemes put in 25 - 30 years ago or more.
- (5) What does a good Canterbury couple with some irrigation gross from the different farming types per hectare:

Dairying	\$8,500 - \$9,500/ha
Cropping	\$3,500 - \$4,000/ha
Sheep and Beef	\$600 - \$900/ha
- (6) You must expect our banks (almost 90% owned by Australia) will start stress testing on New Zealand on-farm operations that they see as being under financial pressure or potential financial pressure - what would be a starting point for this? Any farming operation that was paying every year, say, 35% or more of its Gross Farm Income in interest and rent - and anywhere the interest payment cover is less than, say, 1.25.
- (7) If you can't afford it, you can't afford it.
- (8) If you are still getting job satisfaction and your health is workable, why do you need to retire at 65 years of age? Getting 90% job satisfaction is the key - don't retire early without a good reason - 65 years is too early for many today. Many 65 year-old men and women still have a ton of go in them and have had a ton of experience to make good decisions.
- (9) If your children successfully complete their NZ tertiary education qualifications, then it is perhaps worthwhile you looking to repay maybe 50% of the loan on their behalf - but let them be responsible for the remaining 50%.
- (10) If you can't count something or weigh it as a measure, then what this means is you can't properly price or cost it - consequently is the issue working or isn't it? Sometimes sitting down for an hour without interruption and working something out properly is the highest hourly rate you will have earned all the year by a country mile and may also curtail further issues and maybe further losses. Never forget that losses manage themselves very, very well – whereas managing profits is the exact reverse.

- (11) How much income does a couple need if you want to both retire at 65 years of age? Probably about twice your gross combined National Superannuation before tax which is presently around \$35,000 - that is, in a broad sense, about \$70,000 which after tax will come back to around \$60,000 - that is about \$5,000 per month to cover everything but everything. Every couple will have a different requirement figure here, so my figure is just a broad guide - the extra \$35,000 required would represent a pre-tax return on around \$850,000 - \$1,000,000 invested or some employment income.
- (12) What does your car replacement/ownership cost per year on average? Let us say a family with two middle of the road cars worth, say, \$25,000 and \$20,000 at the present time. Let us say every three years one of them is replaced with the replacement being second-hand and both cars doing 12,000 km/year. Over a six year period, consequently, there is a purchase of \$25,000 and \$20,000, that is \$45,000 with the trade-ins being, say, \$5,000 and \$3,000 - that is a net replacement of \$37,000 or \$6,167 per year, or 26 cents per kilometre. Probably no problem when you are both working but much more of an issue when you are retiring, particularly as these will at that point also be no partial income tax claim.
- (13) The annual increases in the cost of your annual rates, house insurance and health insurance are almost certain to be higher than the annual inflation rate - your rates bill really is a non-repayable upwards creeping mortgage.
- (14) When you have pain, do something about it - men have a bad habit of thinking and feeling that coping and absorbing pain is what they should do - this is very hard on spouses and family - if this applied to an animal, they would probably be culled quickly and probably humanely.
- (15) What comes second after breathing? Your financial management and your family are probably second equal.
- (16) Yes, our society may need no cash in 20 years' time - in the meantime though, every time that you read in the media about another large company going into liquidation with employee redundancies, layoffs and shareholder losses, etc, just remember that the key issue will be that the company has run out of cash and working capital and the banks and the shareholders will not fund it any further.
- (17) Nail down your water rights, your water contracts etc - don't procrastinate on this issue. Wars around the world on water are coming and will keep coming. Fresh water is the new oil.
- (18) Is your Will up to date? It is much more important than getting your golf up to date.
- (19) When you are next interviewing someone for an employment position, ask them what their weaknesses are - strengths are always good and often clean, but weaknesses are often the key between yes and no from the potential employer perspective.
- (20) The future will always surprise you - expect these surprises.
- (21) Work on your dollar gradually purchasing less and less - 25 years ago it took two people to carry \$25 of groceries - today, a five year old can do it.
- (22) Don't leave things to chance - chance does not fix things - chance is yesterday's breakfast - it was good, but it is gone.
- (23) Your sound financial future will not be determined by big events - but much more by small concrete steps you put together every day.
- (24) The climb up your business hill is hard, but holding it all together at the top is where the real ability is required.
- (25) 100 years ago the gun was everything - today the pen is everything - surrender your gun and sharpen your pen.
- (26) Thinking that you are financially safe on all fronts is dangerous - always check for weakness - mental rust is the first sign of weakness. Sometimes with all that looking around, the problem is at 6 o'clock, that is, dead ahead of you.
- (27) We must be getting close to peak cows and peak immigration - sheep numbers are still slipping - at a certain point, we will have surplus freezing works - the cost of closing down a major works is around \$25 - \$30 million. There is no question as to who will pay for this - the question is more when this may take place.

- (28) Thailand has approximately 40 million tourists a year - this is an area that the NZ government could increase, but with some very considerable capital expenditure - I don't think, though, that the New Zealand people would accept a massive increase anywhere near Thailand, despite the export income potential.
- (29) Where is the biggest single risk for you and I and government? A major problem at our border security simply because New Zealand, as a country, is so dependent upon its exports.
- (30) There will be some business areas that will struggle with the coming minimum wage of \$20/hour (\$41,600/year) plus ACC, etc. The rest home, retail and hospitality industries will be significantly affected.
- (31) One of you or your spouse is looking as though you will get to above 90 years of age - plan for it. The retirement rest home cost at present is around \$45,000/year, of which one's tax paid National Superannuation will cover approximately \$15,000 of it (that is, it will cover about 33%), leaving a broad net cash cost of around \$30,000 for a single spouse the superannuation situation would cover about \$19,500 (that is, about 43%, leaving a net cost at present of around \$25,500).
- (32) The present New Zealand people home ownership is around 60% - 62% but has been slipping gradually - a situation where close to 50% of New Zealand households will still be renting is possible within, say, 20 years, based on present trends. Help your children and grandchildren into home ownership wherever possible - renting a house when you retire is more than unappealing, it will be real financial trouble for some. Germany has a relatively high rental population, but their rental laws support this to some degree re tenure and security, etc.
- (33) Head for a health insurance arrangement that covers, say 80% of surgery and you cover almost everything else - help your children and grandchildren start off well in this area. Don't cancel your health insurance policy as you get older because of cost - trim the policy down and pay more of the costs as you go from your own resources.
- (34) Don't have any of your children or grandchildren on the open roads on motorbikes - help them purchase cars with airbags and ABS brakes. I'm not talking fancy cars - rattle your piggy banks hard on this issue.
- (35) Don't become a Trustee for non-family situations without a lot of thought and a lot of homework - also worth your solicitor reading the Trust Deed before you sign anything.
- (36) Become a preferred employer. Filling employment is only going to get more difficult - people management is not always about dollars.
- (37) Aggressive men operate best in their own back paddock - some men in business are best in a Partnership on their own.
- (38) It will always be hard to make real progress without debt - take this point on board and work with it - don't get all one-eyed about debt - there is good debt, bad debt and ugly debt - discard the last two.
- (39) Listen to your spouse - he or she knows your weaknesses - many strong men don't really know their weaknesses nearly well enough. If your spouse disagrees with your plan and the actions required, then pause and take a three-day weekend - take your listening overalls with you.
- (40) I feel the New Zealand economy is cooling - suggest you pull back on your dreams a little and strengthen up your balance sheet a lot.
- (41) I feel synthetic meat and synthetic milk will have some commercial effect in New Zealand within 5 - 10 years or sooner. We need to cope with this, not spend a lot of money trying to fight it. There are presently about one billion people around the world who can comfortably afford a top quality food product.
- (42) Put on your listening and learning overalls whenever you get a chance to listen to a crackerjack from any business sector.
- (43) Water levies, emission levies, and environmental taxes look as though they are very much on the horizon and will have, if not a significant financial effect upon New Zealand farmers, then a very annoying effect - they can only be dollar negative. The word "environmental" will be the cornerstone word with these tax costs to keep on side with the urban voter.

- (44) Many NZ children expect to quite quickly earn more than their parents, but certainly not work as hard as their parents. The writer has always had a poor work/life balance, so can relate to this issue and hopefully learn from it.
- (45) You are going to read more and more about UBI (Universal Business Income), with its main theme being to reduce the inequality of people's income and the inequality of people's assets around the world - the cost, though, for New Zealand would be more than substantial, but several developed countries have had a good look at it. It's a bit like bringing National Superannuation forward 45 years. Some people, though, take bold risks, think, plan and work a lot harder than others, so they deserve to have some inequality of income and assets.
- (46) A bird in your hand is worth ten in the bush, but about 20 in your bank - there is always a big gap between what's on your mind and what's in your bank - narrow that gap, that's what the top operators do in every business sector.
- (47) With, to date, about 50% of immigrants into New Zealand staying in Auckland, it will only be a few years before where Auckland people vote, New Zealand will have to go.
- (48) Within a few years the minimum cost of wages, ACC and the related costs of employment for two employees will be \$100,000 - with the predominance of many small businesses in New Zealand, this will become a real issue.
- (49) Drive slowly in carparks - there are few injuries, but lots of insurance claims - there are not many, even minor, collision repairs below \$1,000.
- (50) We are getting to the situation where many New Zealand farming couples need more income - for many USA family farms (they call them ranches) the off-farm net income exceeds the on-farm net income.
- (51) You will remember your business highs and low, but you will not remember your averages - what is the message here? The message is that your memory will be interesting, but not very bankable.
- (52) Commit key issues to writing - signed, dated and, where necessary, witnessed - sooner or later not doing this will cost you significantly and, what's more, you will be annoyed about it for years and years and years.
- (53) The era of tree planting on farm is going to come again - partly because it can, in today's terms, be worth \$35,000 - \$40,000/ha after all expenses in, say, 27 years' time, but the second reward is the benefit of carbon credits - this combination will lift sheep and beef farming in particular onto a higher financial plane which is required. Yes, I know for many it is an investment for your grandchildren, but they are still you.
- (54) The USA Health issues and the health industry structure is not something New Zealand will ever want - the average USA farming family (and their employer where relevant) presently spends around three times as much as an average New Zealand farming family for no better result - a number of USA States are really struggling right now with health issues and pension issues, and they have not found any solution to it other than spending a lot less on other public issues. The way the USA is going there will be a dialysis machine in every street, in every town and city, within 20 years.
- (55) The equity sharing of large New Zealand farms re ownership and operation often starts off with a hiss and a roar but over time tends to weaken, particularly in down cycles - there are always exceptions, but over a 25 year period many accountants and bankers have discussed this issue with the writer.
- (56) The world is a changing place - in India a cow's urine is presently considered a health drink - a new dollar billionaire is created every five days in China - Cape town in South Africa, of some four million people, is very close to running out of fresh water - Mexico City and California have severe fresh water problems. New Zealand will perhaps be exporting big quantities of fresh water within ten years in big boats.
- (57) The highest return in many New Zealand businesses is those hours the owner with 100% skin in the game spends inside his messy, not well lit office on administration, budgeting, testing gross margins and focusing on loss areas - it may not for some represent job satisfaction, but its importance for some is a very close second after breathing.
- (58) With family business succession issues, the real key, if it can be coped with, is to pay out some capital cash as much as possible and as early as possible to those family members not taking over the family business - the time value of money is very, very real - at an inflation value of, say, 3% the purchasing power of money halves every 24 years - at 4%, every 18 years.

- (59) Growing the size of the cake is the economic key, but many New Zealanders just don't get the hang of this - any fool can spend it - make sure you not only take this point on board, but actively practice it.
- (60) Successful people in all walks of life often don't live or act the part - some have a very low advertising budget - give people at least an hour to demonstrate this attribute before you make a long term judgement decision.
- (61) What is one of the key words in our language? It is how well you package "No" - how well or not well you package "no" will crop up again and again and again.
- (62) When you are warming your backside against the fire - think forward at the same time - my best thinking is in the long hot shower - men and women who can concentrate like this and follow through on it can make real progress.
- (63) Many people who have money now have been through a long period when they had no money - memories of having no money are very strong memories - this, as it has turned out, has been a major plank in their apprenticeship and their decision making ability.
- (64) What are you going to hear about from America other than rising interest rates, rising inflation rates, rising wages, immigration issues, trade tariffs and fake news? Certainly the growing importance of almonds, capital being spent on synthetic fish and synthetic eggs, and volatility in the car industry.
- (65) A fortnight ago I came back from my sixth farm study tour in the USA - what have I learnt that may be of use back home? The USA has a much more continental climate than New Zealand - that is, much higher and much lower temperatures - the noisy Americans tend to visit New Zealand - the ones that stay at home are quieter and are very friendly towards New Zealanders - holding down good grass is harder - maize is absolutely crucial - their beef cattle are on grass for the first 12 - 18 months of their life, then on a Club Med diet in feedlots for the last 100 - 120 days of their life with maize being about 50% - 60% of their diet - there are only five million sheep in the USA - their pork and poultry industries are huge - the USA subsidises USA farms with about US\$20 billion a year, mainly re insurance, but it is only about half of one percent of the USA government total budget - the key dairy issues, apart from the actual payout per 100 cwt of milk supplied is their feed cost to payout receipt ratio - there are almost no cows out on farm, they are all housed under cover - I have seen a number of 3,000 cow dairy operations that only own around 60 acres (25 ha) but the lower land cost is offset by substantial building costs - sometimes in certain part of America you can drive for 200 miles and there will be maize grown on both sides of the road - about 14% of USA farm land is irrigated, but droughts have a serious effect, usually because the cost of maize increases. The USA has too many guns and far too many lawyers. When you go through an American town the three best maintained buildings are always the bank, the fire brigade and the churches - the cemeteries are often on a slope for the view, and there are new storage unit complexes on both ends of the town. Even in Texas, though, there are a number of empty shops in the smaller towns. So what have been my take-home messages? Damn all really, but I love drifting around in the USA, 500 - 550 km per day, talking to American farmers, ranchers, university extension officers and USA bankers.
- (66) As a country we are a long way from accepting that many New Zealanders will never own their own home, but this realisation will gradually come - we will need though to tighten up house rental management to provide renters with more security of tenure etc.
- (67) For many New Zealand children, the bank of Momma and Poppa will continue to be as important as ever - you and I need to take this on board and run with it re early home life, early education, tertiary education, cars, house deposits, marriage breakdowns and various emergencies and unforeseen events.
- (68) In many big cities around the world a much better use of waste water within 10 years will be an asset like gold.
- (69) Once you have done the homework, convinced your spouse and convinced your bank, don't back off those hard decisions - hard decisions very rarely fix themselves - the best person to make hard decision is the person who has substantial skin in the game.
- (70) If you don't own it then be careful what you spend on it that cannot be recovered - and clearly recovered - don't overlook all this because you can so easily get locked in - if you are not going to be highly profitable then make sure you can see some inflation gains over time.
- (71) There are quite a number of people around the world who are trying very hard not to work - a work ethic though is still critical - ask anybody who you feel has done well throughout their life - it may not be financial health, it could well be added value in all sorts of ways - many social workers have a passion for their work and add real value to people's lives.

- (72) Negative circumstances in business often come up in front of you which are often nothing to do with decisions you have made - they are just about being in business. This is always annoying, but the better operators often pause and think hard about how they can turn the negative, or part of the negative, into a positive - this attribute is quite noticeable inside the practice - it is a characteristic worth thinking about.
- (73) Never forget that about 25% of New Zealand people are just no good with money throughout their life - that does not mean they are not good, maybe very good in other areas. The best thing you can do if you are in this group is to be aware of it and cope accordingly in all sorts of ways - top advice at your shoulder will work, but only if you listen.
- (74) Pay yourself first - you started the business, you guaranteed the bank debt, you deal with the losses, you paid the taxes, you paid for the house additions, you bury the dead livestock, you helped the kids purchase cars, not motorbikes, you work every day, you are on a much lower hourly rate than the contractors you employ, you deal with all Income Tax correspondence and, lastly, you have got used to dealing with younger and younger bank managers whose annual income is similar to a telephone number - you can't afford to go overboard on this issue, but the concept should be crystal clear.
- (75) In business financial terms, one marriage is enough.
- (76) Never forget that probably the best single thing a man can do for his children is to love their mother.
- (77) With all of this, though:
- | | |
|--|-------|
| Is New Zealand a good place to live? | - Yes |
| Is New Zealand a good place to bring up children? | - Yes |
| Within reason, is the New Zealand government stable and sound? | - Yes |
| Climatically, is New Zealand reasonable? | - Yes |
| Is New Zealand strong on fresh water? | - Yes |
| Does the New Zealand government have a reasonably low term debt? | - Yes |
| is the writer getting job satisfaction for 90% of the time? | - Yes |
- (78) The certainties in life now are:
- | | |
|-----------|---|
| - Death | } Prolong the first one;
minimise the second one;
face up well to the third one;
and make sure the fourth one is wide. |
| - Taxes | |
| - Change | |
| - Choices | |
- (79) Mr Trump is a master of disruption – some of that disruption will come to NZ. Consequently, focus and build your financial reserves and live well within your income – do not rely on Government for anything useful in this area.
- (80) Owning and managing many NZ businesses is much harder than 25 years ago. The transactional type actions are mainly computer/internet based – business loyalty is not what it used to be – product price wars are on every day – being reactive is not a solution, being proactive is essential – business accessibility is now well beyond 8 hours – being average is nothing like good enough – job satisfaction is getting harder – your Smart Phone is everything – nobody thinks cash is important until they have no money. This though is the world we live in – many will not cope but you and I must cope, must do well and must keep making sound forward plans and decisions. The world and business is changing and you and I must change and change well with it. My recent business trip into America and Canada very much brought all of these points home to me.



Pita Alexander