

DAIRY S.A. CONFERENCE

MT GAMBIER – THURSDAY 6 JUNE 2013

**SUGGESTIONS, THOUGHTS AND COMMENTS AS TO BUILDING FARM BUSINESSES THAT ARE
PROFITABLE, SUSTAINABLE AND PROVIDE LONG TERM JOB SATISFACTION**

(These comments would probably apply to many businesses, not only farming)

We must assume here that right at the outset you have had a good apprenticeship and you are not unduly under-capitalised for the pathway you have chosen. In New Zealand around 75% of all businesses that fail in the first five years are because of one or both of these issues.

1. Both spouses need to have significant horsepower and a passion for agriculture, particularly in these times when a whole raft of issues are coming downstream at you.
2. In years to come, if things go well, you can perhaps loosen up somewhat on the purse strings but almost certainly not in the first five to ten years – managing your business with no money is an essential attribute for this period – for both spouses. You need to get used to your overdraft looking like a telephone number.
3. Over this ten years or more period the cash result and the true net profit/net loss result are very often quite different things – your banker, your accountant and your farm advisor will each be talking to you in a different language. Why is this? - because of farm development, increased livestock numbers, special fertiliser, regrassing, water supply, irrigation, new buildings and the like. You must not fight this – you must learn these languages and use them to your advantage.
4. You will get absolutely sick of hearing the word ‘budget’ and the phrase ‘cash flow management’ but early on cash flow control is second only to breathing. What does the abbreviation CFIMITYM mean – ‘cash flow is more important than your mother’.
5. High personal drawings will slow you down for years but insufficient funds allocated to this key area will also cause major potential domestic problems – a balance is required.
6. You and I need to be viewed in the community as a preferred employer – get on top of this attribute because it can pay big dividends over time. Almost invariably you cannot do all the work yourself.
7. Listen to the crackerjacks in your sector at every opportunity - put on your listening and learning overalls. You don’t need to like them but you do need to respect them – the top operation in almost every business field usually has a very low advertising budget and that is why you need to get on their farm and go to their discussion days. How will you learn the most from them? - by face to face asking them the ‘what if’ type questions. That is, if they had another chance to change their decision on what or how they did something would they in hindsight do anything differently.

8. Do your homework before spending your hard earned cash. Don't spend anything until you are quite sure you understand the cost, the implementation issues and the probable result. Often I find it is better that you do the homework and get your advisor to then look over your shoulder rather than the reverse approach.
9. Remember the only difference I have long found between the top 10% farming sector and the next group down is in their timing.
10. Inside your own financial results you need to live your key financial and production benchmarks - just understanding them is barely enough. Why? - because constantly breaking one key benchmark is very expensive and represents poor management. It may take some years to get on top of these issues but the point is crystal clear. If you are constantly breaking two key benchmarks then you are heading for serious financial trouble. That is what I have found over some 35 years and I have had about 35 cases over that period who have found that breaking the key benchmarks like this swamped them completely.
11. Remember if you find your advisors difficult it may well mean that you have very good advisors.
12. Keep educating your children to the best of your ability. Education is about lighting fires and is the ultimate benefit of all of your hard work, thinking, pain and planning. Education costs are up there with fertiliser, grass renewal and people management as regards their relative importance.
13. Borrowing if you have to for some key family education costs is worth looking at because of its importance. Around the world unemployment issues are getting more serious – you and I need to encourage our children to build up their skills because this is their future. All of this needs to be well discussed and as much cash squeezed out of the farm budget as possible during the years the actual costs are incurred to reduce any borrowings.
14. It is absolutely imperative that you are getting top class accounting, legal, agronomy, banking, medical and animal health type advice. There is no halfway house here – don't just carry on with mum and dad's advisors if they are not right up to the mark. Face this issue and don't ever continue to receive poor advice if you are sure that is what it is.
15. Who do you need to be very careful of in today's business environment? – the articulate incompetent – they are around, they are smart and they are breeding.
16. Listen to your spouse when the going gets tough – he or she may not have your technical knowledge but they understand and know you – particularly your weaknesses. Containing your weaknesses is one of the best things your spouse can do for you.
17. When you have a section of your business making ongoing, significant losses for some reason, I have long found that rather than delegate someone else to get on top of this issue you are often better to do it yourself. People who have a lot of skin in the game, which will be you, are by far the best to substantially reduce or eliminate these losses.
18. Sound profits very much need your management but losses manage themselves and they do that very well. When you are in loss making country (and farming has more of this than most businesses) then don't turn the light off which is what many couples do because it is all so frustrating. Minimising your losses in this period is just as important as maximising your profits when things are going better.
19. Generally I have found that you are better to get your farm development done earlier rather than later. Carrying out your farm development out of net income has a good feel to it and if you can implement this over a reasonably short time frame then that is excellent but most New Zealand dairy businesses have to borrow at least in part to achieve this. It is all about cash management, interest rates, development costs, people, planning and not pushing the boundaries unduly. A top farm consultant can help enormously here. Providing the issues I have referred to are sensible over the years I have found that many couples have the horsepower for this approach. Many of the development costs are income tax deductible, the development costs should increase the gross and net income in time and getting this

out of the way before having education costs start (which can often run for ten years or more) is worth keeping in mind.

20. Don't get too carried away about developing the farm to 100%. I have found somewhere around 93% is where optimum production is and 93% is about where maximum profitability will be. The last 7% approximately of marginal income is often more than offset by the last 7% of marginal costs. I suggest 93% is excellence and you are better to head for excellence rather than perfection at 100%. At 100% everything including you will tend to be under maximum pressure. No difference here to operating a large specialised farm accounting practice.
21. What is the most important on farm issue for all of our New Zealand farming clients? – the steady upwards creep of their farm working expenses. We talk in New Zealand about a cost price index including inflation of only about 1.5 – 2% approximately but by the time it gets to the farm gate it is always higher than that. If you remember your mathematical 'rule of 72' you will know that if the on farm working costs increase an average, say, 4% compound over the years then this would mean the on farm working expenses would double every 18 years. If the increase averaged 5% compound then these working expenses would double every 14.4 years and at 6% the farm working expenses would double every 12 years. Containing/controlling your farm working expenses must not be delegated to anyone but you.
22. One of the best things your milk supply company can do is give you as much warning as possible of any pending milk payout drop. You then need to cut your cloth as soon as possible as sometimes any pull back cannot be immediate. Do not keep sailing on if your main income stream is going to drop and perhaps sharply. It is very noticeable in our top group how they almost always get more for their sale stock. In a difficult period balancing your cash income and cash expenditure can be a very sound result. Usually in a difficult period it is your lack of gross income that really slaughters you.
23. Make sure the male spouse does not have 'iron disease' – a love of plant. This is a very frustrating disease and over the years I have found the only antidote is hard-nosed discipline and a hard-nosed spouse – there is no cure for this disease as it is in the genes. Your farm needs as few wheels as possible but what wheels you do have must be in good order. Never let a man with 'iron disease' have complete control of the cheque book.
24. If you said to me what are three issues that have caused considerable frustration for farming couples in a business planning and progress sense? I would say:
 - Unrealistic expectations – we all need sound goals and plans but unrealistic goals and expectations waste a tremendous amount of time and resources.
 - Procrastination – Some men love to procrastinate and they feel it is part and parcel of business planning and negotiation but when you get down to it, it is all about doing the homework and making a decision and then moving on accordingly.
 - Prioritising the available cash, the available resources and the available time – some couples are very good at one of these but you must be competent with all three.
25. Celebrate small successes in your business and in your life – not enough people do this.
26. The most important file in your office is your own – don't just pass over this comment. Many people go through life without grasping this fundamental issue – never knowingly subsidises someone else's profits at the expense of your own – no farming sector is strong enough to do this.
27. Farms are the best bottomless pits you will ever strike – a farm will absorb as much hard-earned cash as you like to bulldoze into it. Don't get caught up in this trap. You must manage the farm not the farm manage you. Some men are compulsive developers and are very good at it but sometimes both spouses and their key advisors need to make sure they have a helicopter view of where they are in terms of the farm's maturity which I would argue in financial terms is about 93% of its production potential.

28. Are you working in your business or are you working on your business? There is a key difference. We all spent time working in the business because that's how life is but after a period you need to stand back and also work on the business for much of the time. Don't tell me that you are too busy for this. That's not an answer as that may be why you have constrained your own business growth to date.
29. If you think some people are difficult to deal with you need to remember that probably 20% of the people you deal with are against everything all of the time – don't feel hurt about this just deal in a business sense with the other 80%.
30. Don't retire before you are ready – but make sure you retire if your Partners and your spouse think the work is beyond you.
31. 'For every imprudent borrower there is an imprudent lender' Some banks and bank managers need to have this sign up in the bank foyer and in the manager's office – most New Zealand banks have lost some credibility over the last few years or so re this issue.
32. When you have strong taxable profits think about using the Farm Income Equalisation Scheme (as it is called in New Zealand). This scheme enables you to take off the peaks in your taxable income and fill in the troughs in your taxable income. Don't start losing hard earned cash in income taxes until you are reasonably well through your development and growth plan. Never hesitate to build up your financial reserves although this will almost invariably happen later. Don't though get hung up about income taxes – get top advice and move on and upwards. Income taxes are but a symptom of your success like continuing to breath.
33. Never, never forget that production is vanity and profit is sanity.
34. Never forget also that real financial progress is much more about your direction than your speed.
35. What are you reading? On average I am spending an hour a day reading usually technical data of some kind and would have thought that if you want to stay on the top of your game that you should be doing something similar.
36. You cannot make money lending it to your bank. If they pay you 10% for it it will only be because inflation is running rampant. By the time you allow for income tax and inflation on your return there isn't much, if any, real return but with good decisions in agricultural terms you can make money borrowing from your bank because it will enable you to increase your options and improve your leverage without going overboard with your overall term debt.
37. There is good debt, bad debt and awful debt. Not liking debt is a sound personal attribute but unfortunately in NZ agriculture you won't usually make any progress without it and I don't see this changing. Managing your debt is the key – you don't need to like your bank manager or your accountant but if you have good ones you need to listen to them and communicate with them whenever required. In NZ terms I would suggest a sound, capable dairy farming owner operator couple could/should face up to a leveraged position of probably 60%-65% equity, 35%-40% debt – insufficient leverage is often just as bad as the reverse because you could restrict your potential for many years – maybe forever.
38. Agriculture being what it is re high assets, low profits and probably more volatility than most industries, a couple often find they have to make what at the time seems like a very bold step. The real point here though is that it is a calculated bold step. Don't get all conservative on me with this issue because it is really no different to many other businesses. Many, many self employed and business people have taken this bold step over the years – not all have worked but many have. If you have the ability and the spousal support and the support of your advisors, always have a look at the opportunities that cross your bows. I am not talking about rash decisions or actions, I am talking about actions that you feel have an 80% chance of working. Don't wait for 100% because that will probably mean nothing will happen except you will get older.

39. Most of our New Zealand clients have had tons of practice at dealing with the low parts of their business cycle almost invariably arising from insufficient prices being received for the only products they have available for sale. They have learnt to build their financial reserves, keep all family members in the loop, make sure they are getting top advice, move heaven and earth to balance their cash income and cash expenses, minimise any loss, not back off key on farm expenditure and maximise their net profit when the cycle turns. A reasonable sense of humour is an essential trait for farming couples to cope with these cycles.
40. What is the biggest on farm risk in good times or bad – your marriage falling over – move on.
41. If you have a key farm or financial problem then only wage one war at a time. Never, never let yourself wage two major wars on farm or off farm at the same point in time. I have watched strong men do this many times over the years – waging war on two fronts is almost always a mistake.
42. I have learnt that money certainly isn't everything but it still comes second after oxygen. You can go fancy in all sorts of farm management ways but never, never get yourself divorced from that side of your business which converts ideas into plans, plans into profits and profits into cash. Some of our top clients don't spend a lot of time managing computers but they do spend a lot of time managing profits and cash.
43. When you make a mistake – do something about it straight away. Remember it is not the mistake but the fixing of the mistake that makes the difference and leaves the lasting impression. Never, never leave these mistakes to the lawyers as often this is not progress.
44. Learn to say no - it is so much easier to say yes - but no can be an absolutely key decision and the correct one in many situations. Anyone can package 'yes' but the ability to package 'no' will be much more useful than your ability to remember an old rugby score or an old girlfriend or your first car.
45. Make sure that when the wrong financial signals are coming through you pick them up and run with them hard. One of the saddest things I struck over the years with my trouble-shooting role was just how many farming couples and their advisers did not pick up the signals which were loud and clear often over a five - ten year period and the whole problem simply compounded, usually with a disastrous end.
46. The real driver of farm profits is the production system. You can get top advice in many areas but in the production area, it will tend to get your profits going and in time you will have choices as to what you want to further look at. Think though a whole farm approach re your production system.
47. Generally the people and companies you will have the most trouble with will themselves have poor or weak Balance Sheets – burn this into your memory bank.
48. What is your end game? That is, where do you want to be in five - ten - fifteen years' time? You need a basic direction and plan here even though it will get kicked around all over the place over the five - ten - fifteen years. Your advisers can add much more value if they know what your end game vision is. There is no point in continually 'kicking into the mist' which is what many couples working 'in the business' rather than 'on the business' actually keep doing.
49. With our business dealings on all fronts, we all need to under-promise and over-perform. This will confirm and consolidate your business relationships. A weak business relationship is another risk you simply cannot afford to run. Your integrity, credibility and sincerity in this area is not for sale at any price.
50. If you cannot afford to live within your income, then increase your income or reduce your drawings, or both. Grasp the nettle here because living beyond your income for anything other than a short period means you won't have a business and that will be more than a major risk.
51. Never confuse motion with progress - a rocking horse has a ton of motion but makes no progress. A decision on the other hand not to strongly criticise your wife's personal spending involves no motion at all but it will probably be real progress.

52. Create your future – don't waste time defending your past - it is so noticeable how the top operators look forward and how the poorer operators in all fields look back. If we could change the past this approach would be a valid one and we would all be at it. Whether you like it or not, the future is out there in front of you – grasp it.
53. Success doesn't come to you - you go to it. Simple maybe but it is the absolute difference between the top and bottom quartile in every business sector. Don't wait for action - once you have done your homework get into action while others are procrastinating.
54. Do you know your true cost of production per unit or per kilogram of product produced per average cow milked or per effective hectare? What is your trend line of this cost of production over the last three - five years? Knowledge is power and power is profit and profit always copes better with risk and the future.
55. Remember, unless you work in demolition, don't burn your bridges. Keep your options open for as long as you can. Be ruthless with money and gracious with people.
56. A farming couple need to be hungry for profit but patient for growth - when a couple find themselves in a difficult situation it is just like being stuck in quicksand. The harder they struggle the faster they sink. They have to stop struggling and start thinking.
57. The further backwards you can look and remember then the further forward you are likely to see - don't write off history - just write off the things that history has proven don't work for you.
58. Spend your time before you spend your money - get the sequence the right way around.
59. A person without a sense of humour is like a wagon without springs. He or she is jolted by every pebble on the road. Your sense of humour is not for sale at any price.
60. Your vision of where or who you want to be is probably the greatest asset you have – burn this into your memory banks.
61. Pausing and thinking are hand in hand with your profits and your cash flow.
62. Don't make promises you cannot keep. In the end all this does is make any negotiation harder and it weakens your position with all concerned. Follow up in writing immediately if you feel there is possibly some misunderstanding with what you have said. Your integrity is everything when it comes to business dealings - don't leave any doubt in anyone's mind.
63. Keep a good diary. Read back over your old dairies from time to time. Keep a record of key dates, key numbers, key figures, key events. The top operators in every business field tend to keep a good diary which they refer to from time to time.
64. Remember people listen much better when they are in a down cycle than when they are in an up cycle.
65. If businesses were always in up cycles, everybody would be in business.
66. Prioritise your capital spending ruthlessly.
67. In a down cycle, to protect your business you often have to go that extra mile - you will find that there are though no traffic jams on that extra mile.
68. If your spouse doesn't like the plan - stop dead - take a three day weekend and work it out.
69. When you visit someone's business who has completed the development/expansion/growth you are intending, take your video camera, your notepad with pen attached, your tape measure and your spouse - on the second trip take your consultant also.

70. Do not believe everything a consultant tells you - their decisions must make sense to you.
71. After expansion, you will tend to become more of a people manager and less of a product manager - don't fight this.
72. If the whole exercise is not going to bring about all of:
 - (a) An increase in profitability and return on capital.
 - (b) More labour efficiencies
 - (c) More quality time
 - (d) Improved systems*Then why are you doing it?*
73. The dates in the calendar are much closer than they appear.
74. I have learned to look beyond the alligators. It is so easy to forget that the reason for being in business is to drain the swamp. We all need to be able to stick to the business plan even when the alligators and the swamp are very much slowing us down.
75. Our 20 year old daughters are likely to have more husbands than children so think about asset protection for them.
76. Death and taxes are now not the only certainties in life – volatility is here to stay and it definitely looks like it will have more effect over the next 20 years than the last 20 years.
77. There will be wars about water in countries, cities, towns and farms. Nail down your water rights, water easements and water issues now – do not procrastinate in this area.
78. The bottom two quartiles in farming do not measure or monitor their financial position or results partly because it is not working well, partly because it is no fun and partly because they take the view that their bank is looking after this area in any event. This will not change and you should not spend any time trying to solve this issue – this is what a democracy is all about – that is that everybody has the right to see how things don't work. This of course is no different to any other business or industry sector.
79. At present there is an enormous amount of money sloshing around the world and it is still being printed daily. Sooner or later much of this money will start looking for a permanent home. The smart players will look for real assets and good farm land is a very good example of this.
80. High quality and high cost will always have a place but sound quality at a moderate cost is probably a more long term sustainable model – and it suits 80% of farming operations. You need to think about what is optimal for your farming business as regards you, your family, your locality, your soil type, your debt, your mission statement and your profitability.
81. In future, when you can see trouble coming, go to meet it 50 miles out from the cliff top. Nothing but nothing gets resolved well at the cliff top. All that happens at the cliff top is that people push one another off.
82. Remember, long shots almost always miss the mark – there is nothing wrong with using some of your powder on the odd long shot but play the percentages and the averages for a good 90% of the time.
83. If you have to check with your diary, your spouse or your bank manager about what your Business Plan is, it means your Business Plan either does not exist or it is too complicated to remember. Don't laugh about this because I strike exactly this about once a month, every month of the year.
84. I have learnt that wealth is not as important as health but I am revisiting the concept on a monthly basis and suggest you do the same. I am sure that if I can be a little bit more wealthy, then I can be a little more healthy. I have learnt, for example, that growing old is not so bad when you consider the alternative.

85. Generally you will find that many people seem to be able to talk the talk about running a good business but you will find that a much, much fewer number of people can actually walk the walk and say very little about it but build a profitable sustainable long term business.
86. So what are the key business risks that you need to cover here?
- (a) Sufficient life assurance cover
 - (b) Sufficient income protection insurance cover
 - (c) A basic family health insurance cover (say 80% of key surgery etc)
 - (d) Both spouses' Wills in place and up to date
 - (e) All buildings insured on a replacement basis
 - (f) Sufficient public liability insurance cover in place
 - (g) Making sure your business interruption insurance cover is robust and in place (a major weakness here for many Christchurch, New Zealand business owners following the earthquakes.)
 - (h) A personal indemnity document for both spouses in place
 - (i) All key vehicle and plant items comprehensively insured
 - (j) A strong robust regularly reviewed business plan or mission statement
 - (k) Top advice on all business and personal fronts
 - (l) Easements, water rights, legal consents and the like to all be legally nailed down
 - (m) Fitting a top education for your children and its funding into your mission statement
 - (n) Developing a real pride in your financial affairs
 - (o) Never forgetting that some things are not for sale – your honesty, your sincerity and your integrity
 - (p) Never forgetting that production is vanity and profit is sanity
 - (q) Never forgetting that the families of workaholics need three day weekends off farm and workaholics need to run with this
 - (r) Never forgetting that each spouse needs to treat the other like gold

There are 18 points here – make sure you can tick off no less than 12 of these straight off and then work on the remaining 6.