# Wealth Creation

## Building equity in the dairy industry

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**Kellogg's Rural leadership course 2015**

## Contents

## Introduction

The New Zealand dairy industry in New Zealand is renowned for its ability to offer a wonderful career path for people to grow and progress through the industry. It is evident that there are plenty of success stories where people have built a sustainable future and lifestyle - where they have developed both on-farm and business knowledge and skills. .

People who have desire and hunger can be successful, working their way through the steps of farm staff to farm ownership and in many cases to become owners of multiple farms.

The challenges that we face today, to ensure that dairy farming is sustainable and attractive in the future, is different than the challenges faced in the last 30 years, including high land prices, labour issues, limited opportunities, increased volatility.

If you are an ambitious, young, new entrant to the dairy industry I hope that the contents of this report will give you the enthusiasm to take practical steps to ensure a viable future.

The opportunities are there, 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.

## Executive Summary

The New Zealand dairy industry has a broad range of career opportunities for people who are focused and disciplined to work their way through the stages of success. This report examines the pathways and steps to wealth creation within the dairy industry.

Research shows that career progression is not as clear cut in today's environment as it has been over the last 20 years. The world is changing quickly and, we have to be aware of what has changed, the challenges that we face today and those that we will face in the future. Positioning yourself to take advantage of opportunities starts from the beginning of your career with, goal setting, good habits and building networks with positive people around you. These key steps will ensure that you are on the right pathway to success.

The traditional pathway for dairy progression has being through the 50:50 share milking model, but in recent years there has being a decrease in the number of farm owners employing sharemilkers. Sharemilking has played a significant role in the dairy industry providing a pathway of progression for people with the desire and hunger to succeed. Based on the decreasing number of farmers selecting the sharemilking model it is inevitable that this traditional pathway could be under threat, making progression through the industry more challenging.

New innovative structures such as equity partnerships or joint ventures now provide people with the opportunity to progress into farm ownership if this is their desired end goal.

In conclusion, this report suggests that to create greater wealth in the dairy industry farmers need to be clear on what their goals are, remain focused and be prepared to face the hurdles that may be encountered along the way. Understand the power of compounding equity, ensure you have a budget, learn how to save and invest your money wisely. It is vital to continue learning and educating yourself so you can adapt and develop the skills required to keep progressing, even when changes are out of your control

## Report purpose

Through this report I hope to research the pathways and steps to wealth creation within the dairy industry. It will specify the disciplines to get on a progression pathway to build equity. The industry is constantly growing and developing and it is important that we protect wealth and career progression to ensure that we have the people with the skill set, knowledge and enthusiasm to ensure that we have a sustainable future for many generations to come.

## Fundamentals of wealth creation

Appendix One refers to a thought provoking speech given by Mark Townshend (a well-known New Zealand Dairy Farmer) which outlines 12 commandments he believes are required for wealth creation.

The twelve commandments have helped guide my development and success in recent years. I reflect back on these from time to time as I move forward in my career. I strongly believe that they form the basis of what is required to Creating Wealth.

## Make your money work for you

- Earn more than you spend.
- Focus on becoming a valuable team member; ask plenty of questions whether it be your employer, vets, consultants, bankers.
- The only dumb question is probably going to be the one you don't ask.
- Don't assume that you know it all, the day you stop learning will be the day you have lost the desire to succeed.
- Have a "can do" attitude and be prepared to go the extra mile. Earn the respect of those around you, build your networks and contacts so you are in high demand, be sure not to burn your bridges New Zealand is a very small country your reputation needs to remain intact.
- Complete a personal budget so you know where your money is going. Set yourself a good but realistic savings target. Make it easily accessible (perhaps attach it to your fridge).
- Develop good savings habits. Some people save some people spend. Learn and focus on the good habits of savers. Decide how much you can save a week/fortnight and put it into a savings account or even better get someone that is excellent with money to control the account, this enables you to be disciplined and controlled.
- Do not use credit card or hire purchase. If you can't pay cash for something then don't get it. All you are achieving by this is creating wealth for someone else incurring your interest cost.

## Invest your money well

You want to get your money growing for you on the +15% pathway, not the 5% pathway. The wealth creation pathway diagram shows the power of a compounding return. A lump sum of $20,000 will compound to $5.36m over a working lifetime of 40 years if invested at 15% compared to only $140k invested at 5%.

## *Getting a good rate of return*

For example, get 10-15% and enable time for the investment to grow. The power of compounding takes time to snowball. Even after 10 years there is not a huge difference in the amount invested, but the differences become enormous after 20 years.

Think of this another way. Let's assume we are sitting among a group of 20 year olds and each person has $20,000. Those that grow their money at 15% will have over $5m by the time they are 60 years old, while those that grow at 5% will have $140,000.

**Tables 1 to 4 show the effect of saving $50 to $400 a week for up to 40 years, at various rates of return.**

**Table 1: Saving $50 per week**

| Years ('000s) | 5 | 10 | 20 | 40 |
|---|---|---|---|---|
| **O%** | 13 | 26 | 52 | 104, |
| **2.5%** | 13.8 | 29.5 | 67 | 177 |
| **5%** | 14.7 | 33.5 | 88 | 321 |
| **10%** | 16.6 | 43.4 | 156 | 1,200 |
| **15%** | 18.8 | 56.9 | 285 | 5,000 |
| **20%** | 21.2 | 73.9 | 531 | 20,000 |

**Table 2: Saving $100 per week**

| Years ('000s) | 5 | 10 | 20 | 40 |
|---|---|---|---|---|
| **O%** | 26 | 52 | 104 | 208 |
| **2.5%** | 27.6 | 59 | 134 | 354 |
| **5%** | 29.4 | 67 | 176 | 642 |
| **10%** | 33.2 | 86.8 | 312 | 2,400 |
| **15%** | 37.6 | 113.2 | 571 | 10,000 |
| **20%** | 42.3 | 148 | | 40,000 |

**Table 3: Saving $200 per week**

| Years ('000s) | 5 | 10 | 20 | 40 |
|---|---|---|---|---|
| **O%** | 52 | 104 | 208 | 416 |
| **2.5%** | 55,200 | 118 | 269 | 708 |
| **5%** | 58.8 | 134,000 | 352,000 | 1,300 |
| **10%** | 66.4 | 173.6 | 624,000 | 4,800 |
| **15%** | 75.2 | 226.4 | 1, 142 | 20,000 |
| **20%** | 84.6 | 296 | 2,100 | 80,000 |

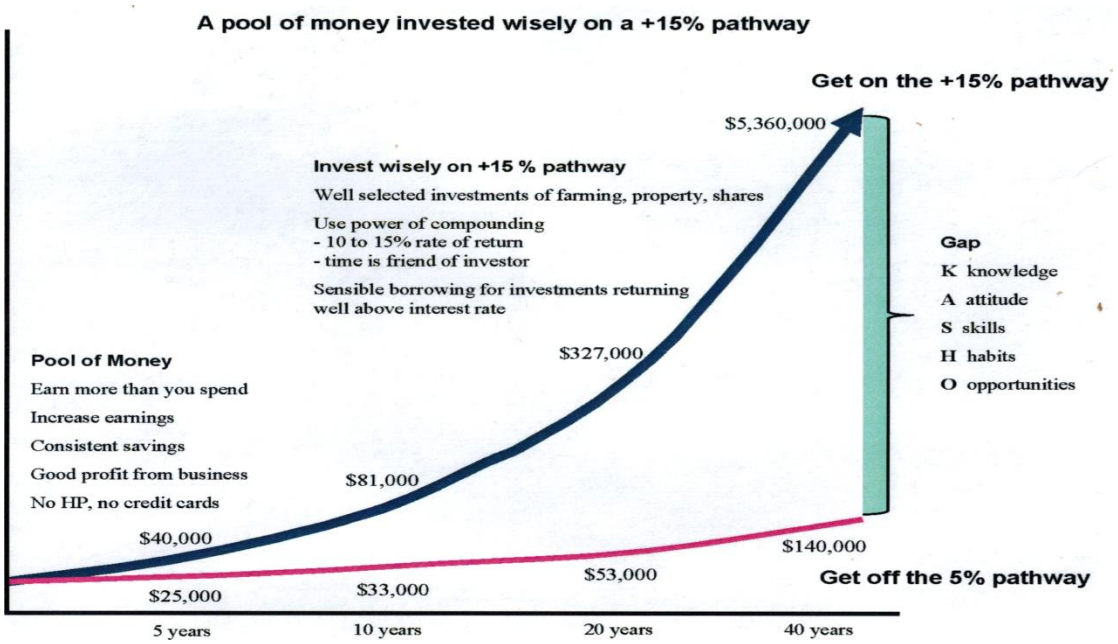
**Table: Saving $400 per week**

| Years ('000s) | 5 | 10 | 20 | 40 |
|---|---|---|---|---|
| **O%** | 104 | 208 | 416 | 832 |
| **2.5%** | 110.4 | 236 | 538 | 1,400 |
| **5%** | 117.6 | 268 | 704 | 2,600 |
| **10%** | 132.8 | 347.2 | 1,248 | 9,600 |
| **15%** | 150.4 | 452.8 | 2,284 | 40,000 |
| **20%** | 169.2 | 592 | 4,200 | 160,000 |

Table 1-4, demonstrates that as long as you are saving well, you can buy yourself time to assess and take the time to do your due diligence around opportunities to get on the +15% pathway. Keep your money secure in the bank until you know how to invest well.

Invest in appreciating assets or good businesses such as rearing calves, purchasing stock, leasing cows, rental properties, commercial properties or even well selected shares.

Money spent on "rust" such as machinery, cars, sound systems, or the latest TV or mobile phone is not an investment. It is important to understand that these only depreciate in value. Which group would you rather be in? Again what makes the difference? In the Wealth Creation diagram below I have explained the gap between the pathways is determined by how you position yourself or the strategy you take. This is determined by the knowledge, attitude, skills, habits and opportunities that you choose to build.

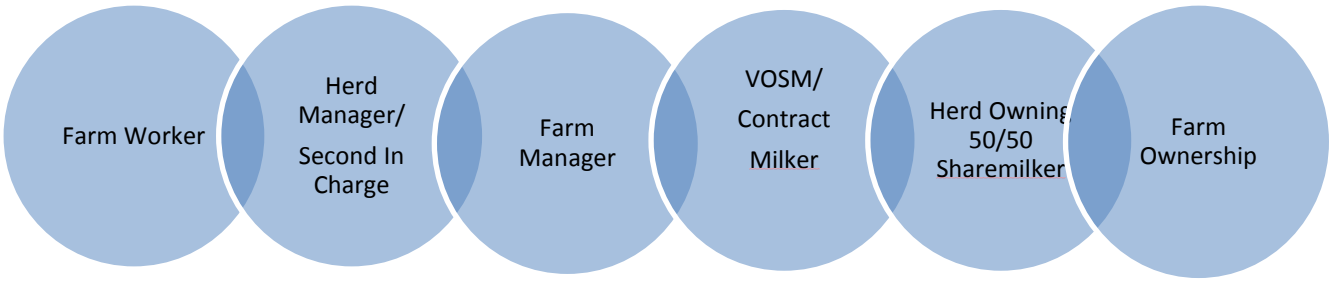



*Source: Lynaire Ryan Dairy NZ*

## Wealth Creation Pathways

A young person who is passionate about succeeding in the dairy industry needs to first be aware of their strengths and weaknesses. This allows them to develop and round off their skills and networks to well equip themselves for opportunities.

The historical pathway to wealth Creation




## Dairy prices through the years

### *What has changed?*

Trend in prices received for milksolids for the last 20 seasons.

| Season | Average Dairy Company total payout ($/kg milksolids) | Dairy Company payout (inflation adjusted)a |
|---|---|---|
| 1994/95 | 3.40 | 5.10 |
| 1995/96 | 3.99 | 5.87 |
| 1996/97 | 3.63 | 5.28 |
| 1997/98 | 3.42 | 4.89 |
| 1998/99 | 3.58 | 5.14 |
| 1999/00 | 3.78 | 5.32 |
| 2000/01 | 5.01 | 6.83 |
| 2001/02 | 5.35 | 7.10 |
| 2002/03 | 3.66 | 4.79 |
| 2003/04 | 4.25 | 5.43 |
| 2004/05 | 4.58 | 5.69 |
| 2005/06 | 4.10 | 4.90 |
| 2006/07 | 4.46 | 5.22 |
| 2007/08 | 7.67 | 8.64 |
| 2008/09 | 5.14 | 5.68 |
| 2009110b | 6.37 | 6.93 |
| 2010/1 1 [b] | 7.89 | 8.15 |
| 201 1/1 2[b] | 6.40 | 6.55 |

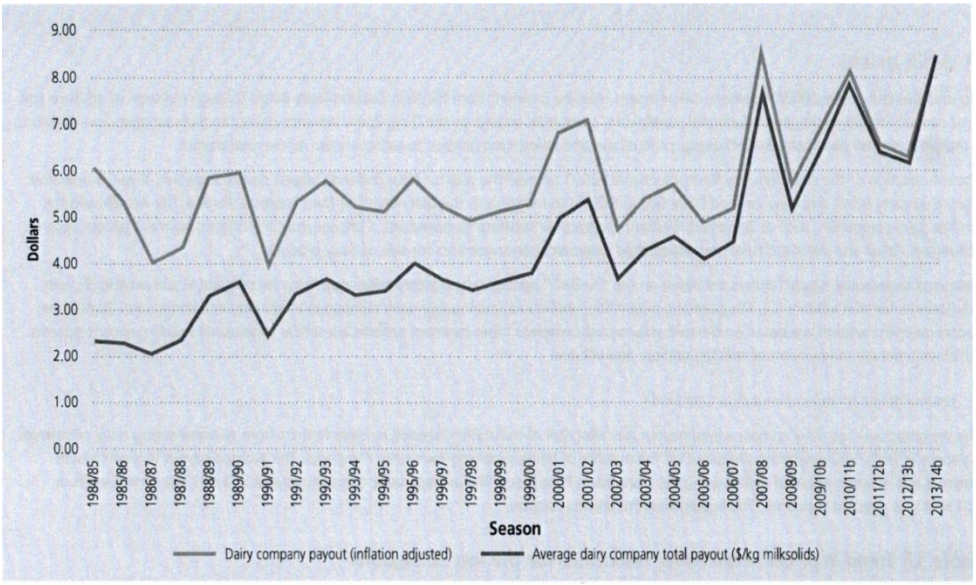
| | | |
|---|---|---|
| 2012113b | 6.18 | 6.28 |
| 2013/14b | 8.47 | 8.47 |

*Source: Statistics New Zealand; Excludes dairy company retentions and deduction for DairyNZ Levy*
*. [b] Average dairy co-operative payout (Fonterra, Tatua, Westland)*

Note that the above has been weighted to give real dollar values using the Consumers Price Index for the end of the June quarter.

## *Payout trend*

Trend in milk solid payout to dairy farmers for the last 30 years




*Source: Ministry for Primary Industries*

## *Dairy price volatility*

In recent years, global dairy commodity prices have become increasingly volatile in response to shifting international demand and supply. This causes similar fluctuations in the farm-gate milk price of milk received by New Zealand dairy farmers.

Large price peaks are often followed by price falls (and recovery) as the market searches for long term equilibrium. Most recently, the record farm gate price of $8.35 per kilogram of milksolids during the 2013-14 season will be followed by our estimated pay out of only $4.65 for the 2014-15 season.

This was driven by strong Chinese demand in 2014, leading to a large build-up of inventory. Since then demand from China has fallen as these stockpiles were consumed and local supply has grown. Global supply of dairy products has also been high due to favourable climatic conditions, lower input costs (feed), anticipation of the removal of production quotas in the EU, and geopolitical factors, such as the Russian trade ban.

The volatility of dairy prices has been high relative to other primary sector export prices such as those of New Zealand beef. Export prices for dairy were relatively stable between 2003 and 2007, but have fluctuated extensively since then. Between 2003 and 2007 the monthly standard deviation was $0.27 and from 2008 onwards it was $0.83.

Large movements in dairy prices create challenges for the industry when managing cash flows. Some production decisions are made in advance, based on price expectations. High fixed and borrowing costs make financial management difficult when prices fall below these expectations. For example, high dairy prices during the 2013/14 dairy season have driven farmland prices up by 14% between March 2014 and 2015, increasing the cost of associated borrowing for recent purchasers.

## *Why do prices move so much?*

Even though New Zealand is the top dairy exporting nation, we only account for an estimated 3% of total global milk production. Global dairy markets are, in general distorted by high tariff barriers. Many countries produce dairy products primarily for their domestic markets behind these tariff barriers, sometimes with the support of the government production and subsidies.

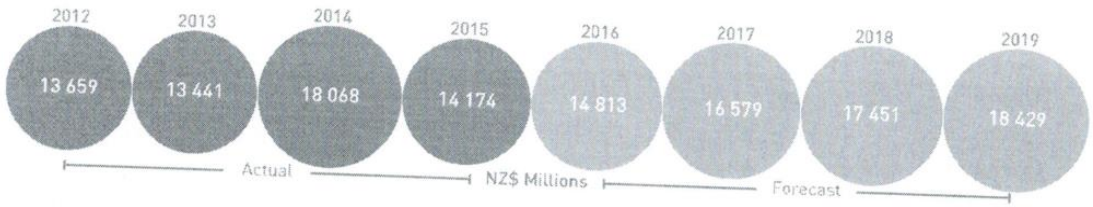
Some of these countries contribute significant residual volumes to the export market (for example, certain EU countries), whilst others require imports to make up shortfalls. As a major exporter, New Zealand competes for a share of these global shortfalls – without domestic or export subsidies.

Fluctuations in the size of this residual can flood or drain the market, altering price. Both demand and supply respond to these price signals, albeit with a lag.

*Source: Ministry for Primary Industries*

## *Short-term Forecast for NZ Economy*

Strong performance during the 2014-15 season and low milk price expectations are expected to result in a year on year production decrease of 1.3% for 2015-16. The pace of export revenue growth is expected to rise from 2016 and is expected to be primarily driven by increase in prices (5 percent) rather than volumes (1.7 percent) resulting in export revenue of 18.4 billion for the year ending June 2019. The forecast assumes that international dairy prices increase from their current trough as demand from the world's two largest importers (China and Russia) picks up during 2015-2016 and supply from key export competitors moderates in response to low prices.




*Source: Ministry for Primary Industries*

When you analyse the prediction and the forecast that the Ministry of Primary Industry is indicating in the above table it is inevitable that the dairy industry plays a major part in the New Zealand economy. The assumptions that the increase of 5% from 2016 to 2019 demonstrates that the dairy industry is increasing the value to the New Zealand economy and gives a positive outlook for the near future. Through this there will be opportunity to still create wealth through pathway progression.

## Potential pathways

### *Contract milking*

From my perspective I still see that contract milking has real value in the dairy industry today and for the future. A Contract Milker gets paid a fixed price per Kilogram of MilkSolids. The rate can vary from $1.00 - $1.50. I believe that it is an operating structure that is fair to all parties. However it is still critical to seek advice when negotiating and doing your due diligence around Farm performance and getting access to historical data to ensure that budgeted results are achievable. Contract Milking provides stability and at the same time protects cash flow through low milk prices. For the owner he/she capitalises on a high payout. Timing is not as critical for a Contract Milker as a HOSM as majority of cost structure is fixed. But bear in mind that terms of contract are usually three years to enable a level playing field with the cycle we farm in today. Certain contracts will also have added bonuses based on performance and or achieving financial targets

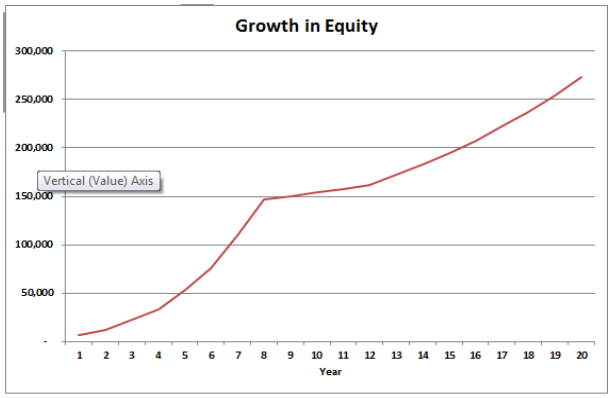
#### *The pros*

- Fixed price (Minimise risk through Volatility)
- Fixed Cost Structure (Minimal Variability)
- Incentive to increase production
- Exposure to running a business (Cost Controlling)
- Generate cash to build a pool of Money
- Potential road map to Equity Partnerships

#### *The cons*

- No upside to above average milk price
- Inputs sit with owner (Needs Clarity at the start)
- Owner/Operator has power and last say (Important to clarify farming system in Contract agreement)

| | Year | Savings per Week ($) | Return on investment per annum % |
|---|---|---|---|
| Farm Worker | 1 | 100 | 3.0% |
| Farm Worker | 2 | 100 | 3.0% |
| 2IC | 3 | 200 | 3.0% |
| 2IC | 4 | 200 | 3.0% |
| Manager | 5 | 350 | 3.0% |
| Manager | 6 | 400 | 3.0% |
| Contract Milker | 7 | 600 | 5.0% |
| Contract Milker | 8 | 600 | 5.0% |



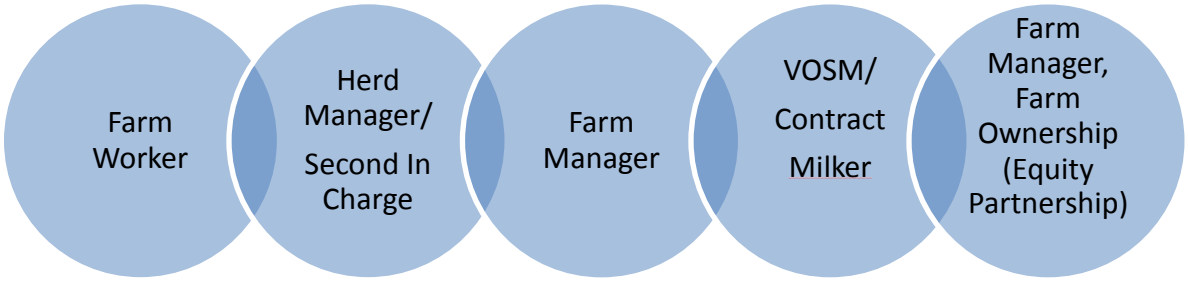

The tables above demonstrate how to grow your equity as you progress. Based on a Return of Investment of 3 -5% per annum for eight years. Note that savings per week is only a demonstration, every personal circumstance will be different.

Really start thinking and looking for investment opportunities for your surplus cash, purchasing calves is a great way to build equity as they will increase in value and double in tally over time.

## *New/ innovative structures*

Some new or innovative ideas that are in operation include:

- Joint ventures (equity partnerships) with regard to herd owning or VOSM agreements
- Incentives for equity managers (e.g. acting as a guarantor for loans)




## *Equity partnerships*

### *What is an equity partnership?*

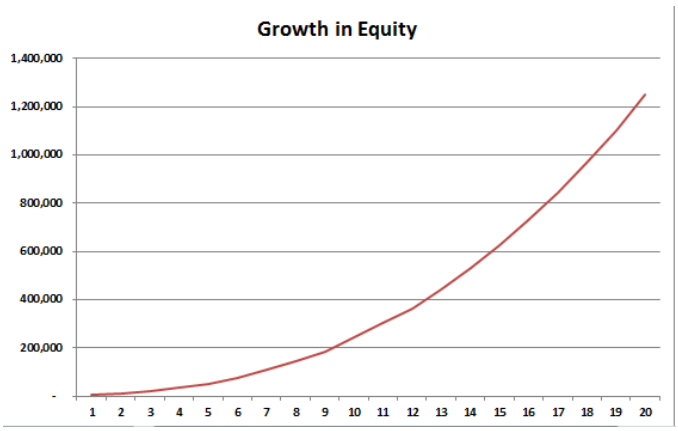
An equity partnership is a joint venture between individuals who have come together to pool their capital and possibly skills to enable the partners to obtain revenue and growth.

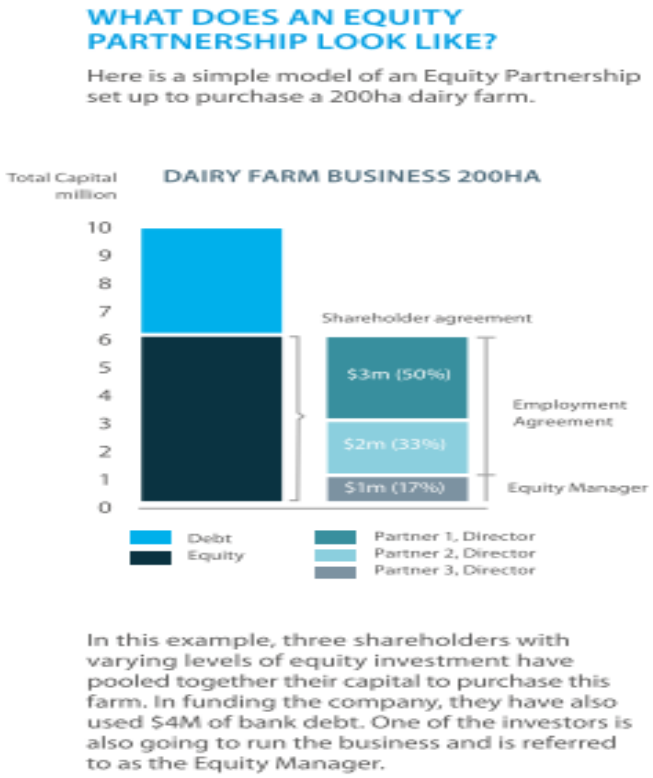
This is where it can become a real opportunity when say one of the partners is an equity manager

For example:

A young farmer has $300,000 to invest. If the total equity in the equity partnership was $3m, this would entitle them to a 10% shareholding in the business. However, providing debt: equity levels were within standard lending criteria, the young farmer could borrow a further $300,000 personally, but secure this loan against the farm asset. Now with $600,000 to invest they would be entitled to a 20% shareholding in the business.

| | Year | Savings per Week ($) | Return on investment per annum % | Capital gain on invesment % | Borrowings $ | Cost ofInterest Rate % |
|---|---|---|---|---|---|---|
| Farm Worker | 1 | 100 | 3.0% | 0.0% | 0 | 6.5% |
| Farm Worker | 2 | 100 | 3.0% | | | 6.5% |
| 2IC | 3 | 200 | 3.0% | | | 6.5% |
| 2IC | 4 | 200 | 3.0% | | | 6.5% |
| Manager | 5 | 350 | 3.0% | | | 6.5% |
| Manager | 6 | 400 | 3.0% | | | 6.5% |
| Contract Milker | 7 | 600 | 5.0% | | | 6.5% |
| Contract Milker | 8 | 600 | 5.0% | | | 6.5% |
| Contract Milker | 9 | 700 | 3.0% | | | 6.5% |
| VOSM 500 | 10 | 1000 | 3.0% | | | 6.5% |
| VOSM 500 | 11 | 1000 | 3.0% | | | 6.5% |
| VOSM 500 | 12 | 1000 | 3.0% | | | 6.5% |
| VOSM 500, E/P | 13 | 1000 | 5.0% | 5.0% | 300000 | 6.5% |
| VOSM 500, E/P | 14 | 1000 | 5.0% | 5.0% | | 6.5% |
| VOSM 500, E/P | 15 | 1000 | 5.0% | 5.0% | | 6.5% |
| VOSM 500, E/P | 16 | 1000 | 5.0% | 5.0% | | 6.5% |
| VOSM 500, E/P | 17 | 1000 | 5.0% | 5.0% | | 6.5% |
| VOSM 500, E/P | 18 | 1000 | 5.0% | 5.0% | | 6.5% |
| VOSM 500, E/P | 19 | 1000 | 5.0% | 5.0% | | 6.5% |
| VOSM 500, E/P | 20 | 1000 | 5.0% | 5.0% | | 6.5% |






*Source: ANZ Equity partnerships in farming*

### *What are the benefits?*

Equity partnerships provide opportunity for farm ownership for skilled managers. It expands your networks and allows you to develop your business management and decision making skills. It provides you with personal growth and development opportunities and gives exposure to disciplines around structures, governance and reporting.

### *Some key points for those considering equity partnerships*:

- Due diligence, for the farm and for the people involved
- Do not over-leverage
- Ensure adequate entry and exit strategies are included in the agreement
- Opportunities to incentivise the minority equity manager through guarantees
- Ensuring equity managers are receiving fair returns for their efforts, particularly transparency in wealth creation opportunities
- Need for better governance structures
- Need to develop shareholder agreement, business plan, and sound reporting and communication processes

## *HOSM ShareMilking (herd owning sharemilkers)*

Sharemilking has long been considered a vital step in the career progression path for young famers. There has being a decline in the number of HOSM in the previous years. Key reasons include higher debt levels on farm, more corporate farm ownership, and the difference in financial returns to the

farm owner between using a herd owning sharemilker and a Variable Order Sharemilker or Contract Milker.

## *Decline In number of HOSM*

| Year | 2002-03 | 2011-12 |
|---|---|---|
| Herd Numbers | 3064 | 2218 |
| % of all herds | 23 % | 18.8% |

The key factors in the decline of 50:50 sharemilkers

- Farm owners have higher debt and can't afford to give profit share away
- Increase in Corporate Farm ownership
- Financial returns are better when using contract Milker /VOSM

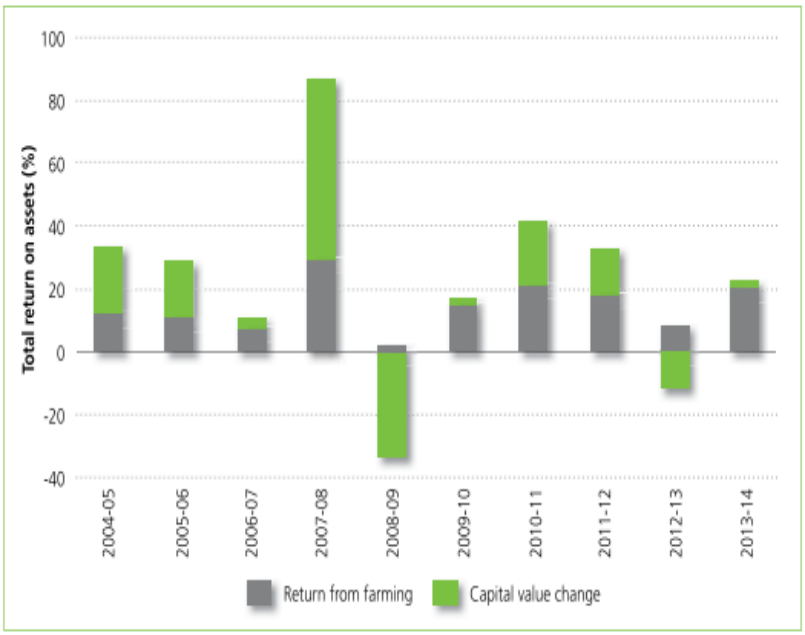
## *Financial returns for different operating structures*

| **Operating structure** | **Operating Profit/ ha** | **Return on Assets** |
|---|---|---|
| Owner (includes owner operator and those employing a farm manager) | 1,942 | 4.5% |
| Owner with VOSM | 1,827 | 3.9% |
| Owner with 50:50 | 1,105 | 3.1% |
| 50:50 Sharemilker | 924 | 16.9% |

The table above demonstrates the operating profit/ha. It simply states that an owner with a 50:50 sharemilker will have Return on Assets less than any other operating structure. This being the major factor in decline in HOSM

This may not be the reason for every owner operator as it might be a personal decision to employ a 50:50 sharemilker. For reasons such as:

- Increase in production
- Release of Capital
- Eliminate Machinery complications
- Less day to day input required
- Like to see young farmer progress through the industry
- Potentially longer terms of agreement




*Source: Dairy NZ Economic Survey 2013-2014*

The 50:50 sharemilking pathway is a great way to grow and develop and at the same time get a good return on your asset. The opportunity is by no means still possible, albeit a decline in the number of sharemilkers currently in the industry.

When looking at Sharemilking contracts you may need to have a look at the traditional 50:50 scenario, and negotiate a slightly different split for example a 40/60 split. This will provide an increase upside to the farm owner making it more profitable and more justifiable under the structure. This will still provide a good opportunity for you to build equity. There will also need to be some give and take in terms of differentiating some of the cost components

This will obviously make a bit more challenging as a HOSM but it will still be a viable path to creating wealth. Factors to consider under this scenario

- Timing of purchasing cows
- Cost of interest on borrowings
- Ensuring farm is productive and has the goods to operate at a high level of output with minimal input (exceptional grass utilisation)
- Do not over leverage
- Capitalise on a high milk price
- Leave no stones unturned on low milk price, re-evaluate system and cost structure.

## Conclusion and Recommendations

- It doesn't matter what stage of your career you are in but you must be focussed and have clear goals
- Learn how to save money  and get money to work for you
- Networking and putting yourself out there
- Seek advice and use rural professionals
- Volatility in the commodity market will go round in cycles
- At the same time it could open doors and present opportunities
- Educate yourself and keep learning

In some circumstances if the chance arises to skip a few steps in the pathway do not hesitate to jump into it but do have good support people around you. Use rural professionals as they have exceptional knowledge to different situations

I strongly advise on focusing on Contract Milking on your road map, as this is a great entry level into business with incentives. It enables you to get experience in managing your money and the ability to weigh up your next step. Remember building up stock numbers is a great way to increase equity. (Timing,timing,timing)

If you get the opportunity to 50:50 sharemilk, be prepared to negotiate a contract that may vary from 50:50 as this will keep the owners return on asset within other operating structures.

Equity management or joint venture is an exceptional way to get into farm ownership. It will challenge you in aspects where you have never being challenged before. As there will be other parties involved that in turn will also want a good return on their capital as will you. Just be sure that all parties are aligned and have the same goals and are heading in the same direction.

## Appendix One – the 12 commandments of wealth creation

### *Commandment No 1 – Desire*

Progression will not just happen, it requires sacrifices and focused targets. If you have an ambitious target you need to be having a single minded focus, for an initial period anyway, apart from being extremely disciplined about your growth focus.

Have no more than one of the following distractions on your mind:

- Regular and expensive holidays
- Extensive time consuming community projects
- A thirst for a particular sport that takes time whether it be golf, rugby or any other (if it is something like motorsport you probably have 2 strikes against you as it takes time and costs plenty as well)
- Being the ultimate family person (do not take this wrong – parenting is perhaps the most important job we all have)– but there are cases out there where people hit two strikes in one where they spend a lot of time with their kids but also spend a lot of money on them as well. Your kids always need your time but let's not forget 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 that you get the balance right.

### *Commandment No 2 – Ability to save*

If you want to financially succeed there is little choice but to learn to save. There is no choice 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
- Smoke
- Put $400 tyres on their car rather than $150 ones
- Eat out more than once per week

### *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 don't really need are just 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

Each month you are likely to get 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.

### *Commandment No 4 – Investment returns*

The rule of 72 is very simple – why is it then that so few many 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 while at 18% it will double every 4 years. For example, an investment of $100k today at an 18% return will be worth $5.3m in 24 years' time.

### *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 20 years did not contribute some of their success to two or three mentors who would of 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 10 grey haired farmers who have succeeded in there time, the chance are only one out of 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 would just happen 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 path that 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 aree robbed of their own sense of self achievement

I have noticed that many of the young star performers of today were not brought up on farms. NO. They educated themselves, learnt different skills and entered farming with no preconceived ideas.

### *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 look over 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 his grandson approves his foresight.

Chances are if you buy 10 cows today that in 10 years their value will be higher and you will have more of them.

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

Chances are if you buy a tractor today, in ten years its value would have halved

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

Chances are if you buy a car/truck today in ten years it will be worthless

### *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, 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 that those who choose their partner wisely keep doubling their assets.

Those who choose poorly keep dividing by two.

### *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 progress almost seems depressing, and the answers of how to achieve the end goal are just not there. You need to take a series of small steps, or bites of the elephant, to move towards your end goal. For example, developing a 20 year plan which allows you to move to self-dependence (i.e. where you work because you want to not because you have too) involves incremental saving and targeting a reasonable return on investment. This takes discipline to save, courage to invest and 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

### *Commandment No 9– Ride the waves*

New Zealand dairying has always being 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. Now think about the opportunity that this 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 the instincts are that things are coming right.

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

### *Commandment No 10 – Continuing education*

Never stop learning because two things happen:

- The world continues to change; and
- 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.

### *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 remember, people do not forget.

Think about how honesty impacts -

- Interactions with your employers
- Never selling stock you would not want to buy
- Being honest with yourself in finishing out a sharemilking contract with conviction
- 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.

### *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, 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 being better off?
- Those who saw the opportunities in the South Island when land prices were low, have being extremely well rewarded for some short term family inconvenience.

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## Personal Summary

My Wife and I were fortunate enough to be given a real opportunity in the dairy industry at a young age.

We went variable order sharemilking at 19 on a family farm in the South Waikato milking 320 cows. I was the 3rd generation family farmer. We gained significant experience with being self-employed, and in terms of running a business, employing staff and upskilling our knowledge around cows and grass through being hands on day to day.

An opportunity came up and we were offered a 50:50 sharemilking job milking 480 cows. This opportunity was too good to pass. We used all our savings and went and spoke to the bank to see if it was going to be possible for us to loan the money to fund our next venture. We focused on reducing debt and any opportunities that arose to invest surplus cash we did. We invested in offshore corporate farming, where the returns to date have being very good.

But in all honesty we were becoming complacent being tied up with the family business for the duration of our farming career. We really needed to get out of our comfort zone and be challenged in every aspect of farming. We moved to Canterbury managed 800 cows, for an operation that was involved in multiple farms. It was becoming apparent that scale brings vast opportunities so I had the mindset to become a Farm Supervisor. We progressed in two years from manager to running four farms totalling 3200 cows. There was real advantage working for a large farming business, they are equipped with many resources from Finance Manager, HR Manager, Production Committee and an Operations manager who was focused on developing people. The skills that we have accrued through this move were essential for our development.

Our goal of purchasing a farm in the South Island is still on the cards and we will never lose sight of that.

We are now contract milking 1400 cows for the same business; we feel that the skills we have learned along the way we can now implement back into our own business. We are in control of what road we want to venture down, we still have to keep learning and proving ourselves. We will focus on generating cash and be sure to invest it wisely to assist on our path of farm ownership

I understand that we got a good head start through the family business but in saying that we have always taken the opportunities and grabbed them with both hands.

We will not stop learning, developing or become complacent as at that point we have lost focus and motivation to succeed in a industry that has proven many cases of wealth creation and career progression

I would like to thank Anne, Desley and Patrick for all the hard work that goes in to help develop future leaders in the primary sector.

Also, all the major sponsors and strategic Partners it would not be possible without your participation and generosity

# THANK YOU

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