

Ward, Kathryn (1992)

Corporate structures in NZ pastoral farming -
have they a place?

**CORPORATE STRUCTURES
IN NEW ZEALAND PASTORAL FARMING
HAVE THEY A PLACE?**

Kellogg Project 1992

Kathryn Ward

CONTENTS

Introduction

Historical Overview

Setting the Scene:

Different Types Of Structures - CORPORATE

Landcorp

Maori Incorporated

Agland Holdings Ltd

New Zealand Rural Property Trust

N.Z. Farmlands Ltd

Comparisons: Corporate Farmer v Family Farmer

Corporate Strengths - Adaptations by Groups and Individuals

Conclusion

INTRODUCTION

My original motivation for embarking on this project was to find out where, in the scheme of things, did Corporate structures go, in pastoral farming. Did they have a place and a future?

There has been in recent years a definite swing towards Corporate strategies and styles in some sectors of our primary industries and to a certain extent in farming.

I wanted to find out what was happening to Corporate structures with particular regard for meat and wool farming in New Zealand.

Stated Objectives:

To study Publicly Listed Pastoral Corporate Farmers

To study other operations that come under the definition; a corporate is really only a collection of people and assets in the hands of a group called management answering to a group called shareholders.

To make comparisons between family farmers and corporate farmers.

To make evaluation of the place that corporate structures have in pastoral meat/wool farming.

*Merchants have no country
the mere spot they stand on
does not constitute so strong
an attachment as that for
which they draw their gain*

Thomas Jefferson

HISTORICAL OVERVIEW

At the beginning of the 80's, it was said that we are living at the dawn of interdependence and global concerns: But most of the land mass of the world has been cut up into nation states and by force of habit and familiarity of politics, we tend to look for national solutions to energy, over-population and development.

There is a realisation "that threats to peace and internal order may have little to do with any nuclear stand-off - that the new menaces are economic, biological and environmental.

Runaway population growth can destroy a country's eco system and disrupt its social structure more ruthlessly than a foreign adversary".

- Encroaching desert may pose a greater danger than invading armies i.e. Ethiopia.
- Economic isolation can leave a country backward and uninspired i.e. Burma. Twenty years of non-alignment and self-reliance has left it the most backward nation in Asia. We are becoming very much locked into the dynamics of a global economy. A decade on, evidence of this is now increasingly before us. Multi-national corporations do business across national boundaries and with diverse governments. What is dynamic and forward looking is invented, blue-printed, tooled up and put into production by individuals, by private business, not by governments.

The fastest economic growth is in countries where governments stay out of technology's way. Whereas, by contrast, progress lags wherever it is subject to bureaucracy. When comparing the abysmal inefficiency of our political system, concepts and leadership to business - Northcote Parkinson in the International Herald Tribune, way back as far as 1975, said "In human as well as international relations, it is the high-minded and intolerant people who do the damage. People in business know it is folly to quarrel with your customer, or even your rivals".

Corporate mammoths are agents of change - they change themselves "roll over" and become something else. Overcoming entropy - the running down of a product or a process - is one of the essential characteristics of global enterprise.

e.g. Hitachi evolving from heavy machinery to microprocessors

e.g. I.B.M. and I.T.T. engaged in a corporate war over satellite transmission of information.

By 1985 approximately 300 companies produced more than half the world's goods and services. Ironically the multi-nationals driving force and success are what nation states are not. Apolitical. They try to have no territorial definition. They are international - earn profits, build factories and sell products in a bewildering number of places. Their home countries are not the only ones whose interests they take into account.

This global mindset is gathering momentum in New Zealand in the 90's as we struggle to survive and have economic growth. As a trading nation with agriculture still our major export - how it performs and does business in the international markets will impact right through because it has to be acknowledged when agriculture sneezes, the nation catches pneumonia. Every dollar that is earned and spent by exporters multiplies as it flows through the economy - the multiplier effect. So when export industries prosper eventually national economic health is enhanced. Agri business is gearing itself up to be internationally competitive and corporate strategies are coming into being in a variety of styles.

The term "agri business" in New Zealand and Australia means encompassing the whole primary industry links of production, processing and marketing. It does not mean simply large-scale farming operations such as in the U.S.A. There it conjures up an image of giant consortiums with monopolistic powers driving small farmers from the land. This is also evident in the European Common Market. Since the Common Agricultural Policy with its support scheme came into effect, the number of farmers has actually fallen from 20 million to just 17 million.

The beneficiaries of subsidies have been the large scale operators. It has been commented that farm support policies have been established **not** at the request of farmers so much as at the instigation of bureaucrats intent on achieving control of all aspects of national economic life.

In the U.S.A. their Department of Agriculture has one employee for every three full-time farmer. It creates a top heavy and enormously expensive, costly bureaucratic machine. There is a tendency, wide-spread in the "rich" nations for the large-scale operators to take over the small farmers because of their ability to take greater advantage of the price support schemes.

It was noted in the National Business Review June 26, 1991, in regard to the European Community "increasingly low-land farms are being amalgamated into larger units by the existing owners who are able to use their costly modern machinery to greater advantage; an advantage which is as bankable as their land equity".

Some of the insane aspects of C.A.P. - from David Yerec's "The Farming Fiasco", are examples; where seven U.K. farmers receiving more than £200,000 a year under the set-aside scheme. Some have set up golf courses, stables, studs or riding schools - "the farmers, therefore, receive an annual payment for creating a commercial venture from which they can earn yet more money, but they still take the set-aside payments". One of the alternatives proposed by the tourist industry is that farmers become recipients of charity who happen to live in the country and they should keep the countryside looking nice for the sake of tourists!!

This is the climate of thinking that surrounds the G.A.T.T. talks and highlights the difficulty New Zealand as a small trading nation has in trying to promote a freeing up of agricultural trade, particularly when the E.E.C. and U.S.A. each spend the equivalent of New Zealand's entire G.D.P. on agricultural price support. The urgency is there however to cement trading alliances and affiliations across many borders for our ongoing access to global markets.

Survivors into the year 2000 will be those farming enterprises with a strong agri business orientation. They will spend more time in their offices or at their computers than their traditional predecessors, monitoring the performance of their various enterprises more precisely and making better management decisions.

SETTING THE SCENE

The only future for New Zealand pastoral farming is for it to be owned as a 5% to 10% portion of a large multi-interest international public company that can be sheltered from the "risks" by other enterprises in the company "[4] Firth Farmers are Bananas - quote".

A provocative statement and one that farming people would throw their hands up in horror over. They would find it both offensive and disgusting and deny emphatically that's the future of N.Z. farming.

But let us explore the place that corporate structures and styles have in New Zealand pastoral farming into the 90's.

The fluctuating risks of product prices; interest rates and dollar values has made the buying of an economic farm a very risky business. So to has the ability to ascertain and define what decides an economic unit. This has shifted and changed consistently over the last few decades i.e. in 1971 - 1,600 stock units; in 1981 2,500 stock units; in 1991 3,500 stock units. The reality is that product prices, in real terms, have steadily fallen and in some cases has led to the "Get Big or Get Out" syndrome.

Corporate farming is not new. Some of our biggest rural land holdings in New Zealand were owned by institutions such as the Australian New Zealand Land Company (eventually broken up and returned to owner/family farm concept). In the 1950's Maori Incorporated came into being; and some abortive attempts e.g. Gemco in the 70's also had their day. But the concept re-appeared in the 80's with renewed vigour and enthusiasm. - Why?

In the mid 1980's when the removal of subsidies exposed New Zealand pastoral farming to the market realities and highlighted the fact that for the last twenty years the call for increased production to meet the world food shortages of the early 70's was no longer needed. Farming faced a permanent structural change - to achieve a regime of a low cost system if we are to have any desire and ability to compete in the world arenas for the next twenty years.

A business enterprise is a mixture of several key ingredients, the three main ones are:-

- Availability of equity capital;
- Specialist skills;
- Good application and performance of management expertise.

Farming is similar. When the severe period of adjustment and rural downturn in the mid 1980's created financial problems, very serious ones in some cases. The idea of corporate farming was raised as a possible answer. In particular, the access to a key ingredient - equity capital.

It must be remembered that this was a time of great change in the New Zealand business scene when deregulation and entrepreneurship dominated events and the public were caught up in rapid economic and political changes.

There was an explosion of corporate activity throughout the country in both the private and public sectors.

Corporations generally tend to have a high expectation as to the earning rates on funds invested and expect this return to come from trading operations not from capital gains associated with holding assets. The exception to this were in the property companies prior to the crash of '87, with the exciting downtown re-development e.g. in Auckland and Wellington and the associated capital gains showing on the Stock Exchange. All raised the expectations of investors. This hype and euphoria that there will be no downturn in property shares flowed over into agriculture.

When in turn the kiwifruit, deer and goat industries took off, likely investors rushed in to get a piece of the lucrative action.

If a market niche was discovered leading to a demand for breeding stock then prices went zooming over the top and investors rushed in for a quick profit. This mentality came on the back of the boom in land prices

when the Livestock Incentive Schemes and S.M.P.s were around in the early 80's. In this era, buying, then selling after a few years of operating, often at a loss - tax write offs - was for a while the quickest way to make a profit.

City money was welcomed as an opportunity in which to gain rapid development. It was felt that these businessmen with their knowledge and experience in the hard headed business world would bring superior skills to bear.

However, with the luxury of hindsight and when the hype induced euphoria cleared, reality set in, their dedication to the "bottom line"; the return on investment that they expected and required; the cost plus mentality and the short term nature of their investment made them a poor investor in farming especially if they belonged to the "get rich quick" fraternity.

In the mid to late 80's, 85 - 87, new corporate ventures for all facets of agriculture were floated.

Land prices were dropping, in some cases down to half their valuation. The entry point or buying in price; a vital factor in any corporate investment looked good. So too did the achievable aim of the low costs system by taking the opportunities to acquire large scale properties not generally available to the small farmer. All seemed feasible.

New corporate ventures floated were:-

Goats	-	Agricola Resources Ltd	-	1986
		Angora Corporation (NZ) Ltd	-	1985
		Craw Corporation Ltd	-	1987
		and so on		
Horticulture	-	Grocorp Pacific Ltd	-	1984
		Producop Industries Ltd	-	1987
		Eastern Equities Corp Ltd	-	1985
		Trans Equity Holdings Ltd	-	1987

Meat - Wool - Aglands Holdings Ltd - 1987

Many did not survive into the 90's.

Corporate structures in the 90's are varied in style especially if you take the definition of a corporate as only a collection of people and assets in the hands of a group called management answering to a group called shareholders.

In 1992, there are only four publicly listed farming corporates on the Stock Exchange.

In pastoral (meat/wool) farming there are only two - Agland Holdings Ltd and Farmlands N.Z. Ltd.

We will look at these and other corporate structures that have survived into the 90's in pastoral farming and where the future will be.

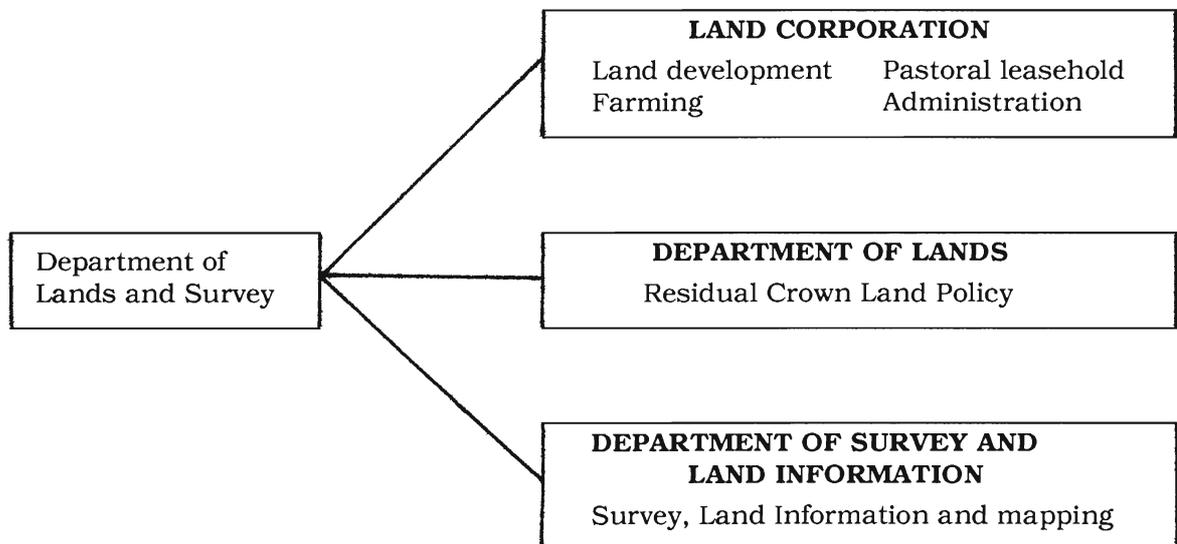
LANDCORP

GOVERNMENT STATE

OWNED ENTERPRISE

LANDCORP

Under the Labour Administration of Government, 1984/1990 a restructuring of government departments was undertaken. Government clarified the distinction between public service departments and trading enterprises. It took the step to establish several state owned enterprises from former government departments. The main objective of these changes was to increase productivity in the public sector and to return a dividend to the tax payer (Boston, 1987).



Land Corporation now farms and develops land on a commercial basis, no longer assisting farmers onto new farms as the Department of Lands and Survey once did.

Mr B Card, Landcorp General Manager, has stated that Landcorp has performed very well, considering where they started from - it used to cost \$20 million per year to fund the old Lands & Survey. "Landcorp has been paying back ever since we began. This year we are in profit and we pay for our own research. It doesn't cost anyone else a cent. We pay our way, we pay for research and we pay our staff real wages".

Much has been written and there is extensive documentation elsewhere on New Zealand's biggest farmer so I am not going to comment any further on returns etc.

Landcorp is under a scoping exercise at the present time by the Government. This means it is being seriously looked at for complete privatisation and sell off. One of the options floated is that it be taken up by the Maoris to off-set their land claims lodged with the Waitangi Tribunal. Fears are held that foreign ownership is a possibility. Much debate and discussion will ensue before the future of Landcorp becomes clear.

MAORI INCORPORATIONS

Established Under Act of Law

MAORI INCORPORATIONS

On the East Coast of the North Island, tribal ownership of Maori land through Incorporations is a viable and often successful one.

In the early days the only way land could be made economic was by amalgamation which meant the individual title was lost to each landowner. Many Maori owners resisted strongly any type of amalgamation and sometimes let the land lie idle and revert, they'd find the income to pay the rates from elsewhere, rather than lose their title.

Under the Maori Affairs Amendment Act of 1967, the alternative of aggregation of titles was introduced, by laying down the Rules and Regulations of an incorporation.

Though some incorporations were established as far back as 1954, the Department of Maori Affairs handled their administration. After the Amendment Act the opportunity opened for the owners to administer them.

There was a choice at the time under Section 438 to set up a Trust or an Incorporated. A trust placed in the Maori Land Court by a trust order, this in some cases is more onerous because of the statutory regulations imposed as against a management committee under the object clauses of an incorporated.

It is in educating Maori landowners on ways to make their land profitable without losing control that is the essence of the Incorporations and their success.

The Incorporation brings benefits that individual owners are not able to achieve with the small uneconomic blocks so prevalent on the East Coast.

It brings together a small group of owners' representatives rather than having to deal with all the multiple shareholders. It gives ease of administration to shareholders. It is similar to a Pakeha private

company structure.

- A Management Committee (rather like a Board of Directors)
- Secretary
- Has object clauses of the Incorporated - [Articles of a Company]
- Is subject to Audits and Valuations
- Registration of shares

The aim of an Incorporated is to service the shareholders; to achieve a dividend to the present shareholders and to maintain the asset for the future shareholders.

In looking at the Tahora Blocks - considered strong enterprises with profitable outcomes on the East Coast One-2C1-3 had a 2 ¹/₂ million development phase and increased their carrying capacity by over 20,000 s.u., an increase they have sustained. I wanted to ascertain what were the strengths involved. They have been stated as:-

- 1st** - Scale of Operation
- Muscle for purchasing power for goods and services
 - Muscle for prices i.e. fat stock at works - the quality of product recognised.

- 2nd** - Strong Management Team.

This was especially emphasised.

The quality of the Management Team, in particular the supervisor and farm managers.

The production team - the guys on the ground that can produce the results. They were forward thinking and encouraged staff training with courses and off farm visits to see and understand other farming operations. All the management involved to have a sense of purpose and clear goals.

- 3rd** - Reputation
- the ability to service loans
 - recognised and upheld
 - the commitment to do a proper job on the sheep and cattle first before any diversification into the likes of Forestry which still comes under the umbrella of farming the land within the objectives laid down.

Each Incorporation is a stand alone operation. However, within one corporation there may be three farms. Here elements of an integrated farming system can apply. This can take the form of the sharing of plant and equipment and in the movement of stock i.e. the building of quality breeding stock on one of the farms for distribution on an other.

Though some Incorporations are working and performing strongly, others are weak. What made this so. One very important principle - they do not occupy good farming land.

- Up until now they did not have good business attitudes and good principles of business though there are signs of change in the young Maoris.
- Conflicts of interest - can't be both servant and master. A lack of responsibility and of authority to the different roles. Unfortunately there are not too many good Maori managers coming through. There are some very good shepherds and musterers but there is a reluctance to take the next step and assume the mantle of authority. One must have the ability to know when Tikanga Maori is o.k. and when it isn't.

The private corporate structure of an incorporated is not absolutely committed to have to pay a dividend. This was seen as a strength. It allowed the management committee to improve and strengthen the land base instead of running down and stripping it for short term return.

This type of corporate structure was seen to be strongly feasible for many years into the future. It was good for Maori because of the multiplicity of shares in the land. A draw-back could develop - of high administration costs with the watering down of shares. An update of the 1967 Act in the future, by extending the object clauses and eliminating some of the more ponderous articles in the order of incorporation, would increase the ability to perform. They would be able to broaden their horizons to take up business opportunities or investments.

AGLAND HOLDINGS LTD

PUBLIC COMPANY

LISTED ON THE STOCK EXCHANGE

AGLAND HOLDINGS LTD

PUBLIC COMPANY

Aglands Holdings was incorporated in March 1987 and listed as a Public Company on the Stock Exchange in August 1987. The capital issued - 14 million, 50 cent shares. Aglands response in April 1987 when the prospectus was issued could be argued to be measured and opportunistic, according to Juchau in his book "Corporate Entrepreneurial Activity in Agriculture". He goes on to say - "Existing risks and operating parameters in agriculture were identified and a purchase and production strategy was proposed to meet these risks and parameters. Acquiring farm land at low prices and seeking equity funds from a public generally receptive to new entrepreneurial activity were seen as strategies for the time.

This was partly confirmed by a foundation director when asked why a corporate structure for Aglands? It was primarily for funding. It was always to be a public company. When Aglands was to be floated, the sharemarket was buoyant and a corporate structure was perceived to be the easiest way to obtain funds. At the time, there was a saying - "You could float anything even the "Michal Limintov"". However, the float was late by a few months and the sting had gone from the sharemarket. So in fact, relatively few shares were held by the general public - the underwriters took up the shares. The underwriting had all been obtained prior to the float. It must be also remembered that underwriting was big business at the time. In the case of Aglands, they became locked in.

The original concept came from Mr B Knowles, then the Chief Executive of the Wool Board and Mr N Taylor, Director of the Meat and Wool Board, Economic Service. They basically had the concept of the purchase of East Coast hill country at a low capital cost with an orientation towards wool production. This would provide a high internal rate of return and would provide some locked in capital gain because the time of entry was deemed to be good.

Many of the properties could be suitable for Merinos in the North Island which would give a greater than normal profit. Hill country wool production and farming the merino were always the basis of the company even when the prospectus was written. It was envisaged that the Merinos would provide the high return expressed in the prospectus. Aglands wool concentration strategy would minimise losses from droughts and storms and flexible selling policies would accommodate market fluctuations.

The main criteria for the choice of farms initially were: Cost per stock unit and whether or not they fitted the basic philosophy of farming Merinos and of hill country wool production. The portfolio was designed to do one thing initially, then later on to balance the mix. Quite different from corporates today.

When Mr R Philpott became involved, subsequently becoming Chairman, he wanted the portfolio balanced.

It must be noted that at that stage, there was no further ongoing involvement by Messrs Knowles and Taylor.

Though there were only four farms at the time of issue, there was a projected ownership of eight properties. This would grant the opportunity to minimise costs through inter-property movement of labour, livestock and equipment. It was also stated that the bottom line was profitability - any expansion was only to be where there was real prospect of further gains in profitability **as the company resources permitted!**

Mr R Philpott, then Managing Director of Cory-Wright & Salmon Ltd as well as holding other Directorships, intended to inject a large volume of capital - 5 1/2 million. So, under his direction the board purchased Otuiti Station in the West. It was done with bridging finance until his funds came through. This, however, did not eventuate. He went up for fraud and pulled down the company Cory-Wright & Salmon Ltd in the process. His Agland shares were taken over by N.Z.I.

These shares were then purchased by an Australian company, Strand Holdings. Their philosophy was the same as the Agland Board at the time - to balance the portfolio out from the East Coast dry. This course of direction was emphasised by the severe 1988/89 drought of the East Coast of the North Island. The vulnerability of the company was highlighted by the fact that six out of seven farms were on the East Coast.

Strand Holdings injected capital by way of an issue of 3 million convertible notes. This, according to the directors at the time would re-establish the company on a firm footing. Strand then agreed to the purchase of Waiouru Station in the Central North Island to that end - a balance of geographical and climatic spread of the properties. They, Strand (N.Z.) Ltd had the controlling share; controlled the Board and had the Chairman. Initially, Strand had looked at purchasing Waiouru for their own portfolio of farms but decided Aglands would instead. This took place in 1989.

Again the same scenario occurred - they didn't provide the necessary funding of capital and Aglands was exposed to over-gearing and debt crisis management.

This caused severe tensions at Board level and in 1990 when the New Zealand dollar collapsed against the Deutschmark, it gained momentum. Aglands, who had a Deutschmark denominated loan offset by Zero Coupon Bonds; an overseas loan approved by the Rural Bank; was affected when the loan collapsed. Aglands was paying nearly \$100,000 to the Rural Bank monthly; had an \$1.5m interest bill; an annual \$700,000 cash flow shortfall and an unhedged Deutschmark position. There were resignations and a period of rationalisation of assets developed.

The actual trading operations of the farms were sound and returns met and exceeded budget. The staff were very committed and as was stated in the original prospectus - "the Directors believe that experienced young farmers, given financial incentives and freed from the pressures of debt, can achieve superior financial performance". They did. Also it was proven that with good communication flows and a sense of involvement

extra ordinary performance was achieved with high stock carrying numbers vis a vis low labour input. But this in itself was not enough with the total asset liability ratio being so high.

In July 1992, Aglands has now only three farms left out of the portfolio. Due Diligence has been done by interested parties and it seems poised for a change of direction.

NEW ZEALAND RURAL PROPERTY TRUST

AN UNLISTED UNIT TRUST

NEW ZEALAND RURAL PROPERTY TRUST

An Unlisted Unit Trust

The concept of the Trust - that of asset leasing to create opportunities for the business of farming by freeing up the capital that was locked into the ownership of land was first mooted in 1986.

With the capital structure that operated in N.Z. farming - asset rich - cash poor and the climate of deregulation and high interest rates - all seen as restrictions and deterrents for progressive farmers to develop and expand; or restructure debt; to settle young farmers or resolve family partnership or syndicate ownership. A group of New Zealand farmers looked around for a vehicle that could change this and give a viable, profitable option. They found what they were looking for in Australia in 1986. The successful Rural Property Trust in Perth had the right format. So mid-way through that year, they asked the Ascot Management Corporation Ltd, an Australian fund management Public Company operating the Rural Property Trust in Australia, to assist in the organisation of a New Zealand Rural Property Trust.

It was established in February 1987 under the management of the N.Z. Rural Property Trust Management Ltd - known as "The Manager" in their prospectus which in turn was a wholly owned subsidiary of Ascot Management Corporation. The Trustee, the New Zealand Guardian Trust Company Ltd, an independent entity, through its nominee company the N.Z. Rural Property Trust Nominees Ltd., holds the assets of the Trust on behalf of the investors and has total control over the Trust's activities. A Trust Deed sets out the duty and responsibilities of all parties to the Trust as well as details of its proper administration. The Trustee provides an effective monitor over the activities of the "Manager" through the administration of the Trust Deed. This Deed determines the duration of the Trust, its borrowing limits and restrictions on both property acquisition and funds management.

The practice of separating the ownership of property from commercial activity has been an accepted feature of business in urban areas for many years. Many commercial enterprises and city businesses operate a

commercial operation by leasing the shop, office or factory premises and so have funds available to expand and develop. The Trust makes the fundamental distinction between ownership of land and the business of farming and so offers farmers the same opportunity by this structure.

Under this structure farmers are offered units in the Trust in addition to a unique lease-back agreement of their property. A vendor-lessee is required to purchase and maintain an agreed minimum investment in the Trust during the continuance of the lease. The lease can be for fifteen years with the Right of Renewal for a further long term and if the Trust sells, the first Right of Refusal.

They farm in their own right and all management decisions are theirs. They share the ownership of the land with other unit holders tied in. The benefit is in the appreciating rise in value of land that can result. The area of involvement opportunity with the Trust is in joint development capital input or replacement capital. The rental is 5% of market value. By pooling capital and being very selective in the purchases of prime rural land; by watching the price; the potential for development and diversification and the aspect and type with relation to profitability the Trust was skilful in covering two of the three essential ingredients in a farm business. Then by applying the skills of experienced farmers; the third ingredient, that of labour was fulfilled and so had them all right.

From February 1987 to March 1990, the New Zealand Rural Property Trust had 47 prime rural properties worth a total of \$44.1 million in their portfolio. They had a diverse range of farming activities so were not adversely affected by any one commodity price fluctuation. It was deemed to be a successful operation, the portfolio had increased. They had made it through the reversal of confidence which developed after the stockmarket crash of October, 1987. At this time, they shifted their emphasis from the main institutional investors who when times change adversely, like to recoup their money out, to private investors up and down the country. This was achieved by going through investment fund managers who had incentives to promote the prospectus.

It was perceived by others that it would be worthwhile to be in on the action. There was money in reserves, money in the manager - Ascot

Management was subjected to vigorous scrutiny and a buy up of 75% took place by Broadway Industries in April 1990. It was at an attractive value for them and they hoped to achieve a stabilisation of the Trust. It bought a change of players and a shift in emphasis.

Some of the foundation directors tried to get the Trustees to buy up the management company of the New Zealand Rural Property Trust so that control and maintenance of the objectives and long term aims of the Trust could be held as set out by the original concept. But that window of opportunity didn't eventuate. There were some resignations.

Another five properties were added to the portfolio so that by 1992 the Trust had 52 properties and a Unit Trust worth \$60 million.

In June 1992, New Zealand Farmlands Ltd, a publicly listed corporate farming company, bought from Ascot Management Corporation for \$2.425 million, the N.Z. Rural Property Trust Management company from Broadway Industries.

Because Rural Property Trust Management Ltd, the "Manager" of the portfolio of the Rural Property Trust is a fully owned subsidiary of Ascot Managers, it meant that a merger at balance date of the two different corporate entities had effectively happened.

Even though the farms will come under the one umbrella, they will remain distinctly owned by two different sets of investors according to Mr G Weenink, the Managing Director of the operation newly named in September as New Zealand Rural Properties.

The vendor unit holders under the N.Z. Rural Property Trust are nervous and apprehensive about how the new company will manage the assets for the benefit of unit-holders and also for the benefit of the institutional investors from N.Z. Farmlands Ltd - different cultures at work here. Fears are held that with different agendas and objectives, how can these two structures marry together.

NEW ZEALAND FARMLANDS LTD

A PRIVATE COMPANY WHICH WENT PUBLIC

NEW ZEALAND FARMLANDS LTD

New Zealand Farmlands Ltd was formed as a private company in 1990. It had high equity funding with mainly institutional investors. It was a private corporate formed to invest in farmland in New Zealand so to that end it bought Strand N.Z. Ltd's portfolio of six farms. Strand N.Z. Ltd had as its parent company, Strand Holdings Ltd, an Australian company publicly listed on the Australian Stock Exchange. It is fundamentally an investment company. Strand N.Z. Ltd showed that it also was in property investment as it held the portfolio of farms for only fifteen months before N.Z. Farmlands Ltd bought them for 12.5 million in June 1990.

The mix comprised of beef, sheep and deer in the three Southland properties; mixed - sheep/cattle/deer on the properties in Southern Hawkes Bay and Wairapapa and dairying at Reperoa in the Central North Island.

The company's goal was to produce enough profit to support a dividend payment.

In March 1992 the company reported an after tax profit of \$364,000 for the six months to December 31st. The results compared with a \$25,000 loss for the corresponding six months in 1990 and a \$36,000 profit for the full year to March 31st, 1991.

It went public in January 1992 and was listed on the Stock Exchange with some changes to its property mix. In April 1992, the Chairman Sir Peter Elworthy said that deer farming is particularly suited to corporate farming because of the easy care nature of the animals themselves. They do not demand heavy labour input and on a corporate farm with workers earning regular wages on an hourly rate, this is a factor in the cost structure. N.Z. Farmlands will accelerate its move into deer farming and dairying by conversion of sheep farms.

It intends to stay with pastoral farming and will not be branching out into intensive sectors such as studs or feedlots.

Rather than relying on better property book values, the company is aiming for a better performance from its farms especially those coming out of their development programmes.

The benefits of an integrated system in Southland are starting to flow through e.g. Taramoa, close to the Alliance Lorneville meat works plant, operates like a grass factory and last year it was reported 1600 steers were put through the property. The stock are fed into this farm from the others. Also Benmore; sheep; has been converted to a 1000 stag velveting operation which works in with Mararoa, a breeding property.

The corporate structure of the company provides a career structure for individuals to move through the work force to farm managers. Competent people, the right person on the land is vitally important.

The Chairman defends their place in the farming scene and he does not see the company posing a threat to the family farm.

On June 30, 1992, balance date, N.Z. Farmlands bought subject to shareholders' approval the NZ Rural Property Trust Management Company from Ascot Management Corporation Ltd, a publicly listed company that was 75% owned by Broadway Industries, a listed investment group. Ascots main business was the contract management of the N.Z. Property Management Company, so was left a cashed up shell making a \$2.2 million profit. Farmlands paid \$2.425 million. The benefits to Farmlands were; the "Manager" was profitable; so good cash flow, good source of profit, considerable saving in overheads between \$150,000 to \$200,000 and increased diversification of Farmlands. An extraordinary general meeting was held on the 1st September 1992 requesting two notices for approval (1) the purchase and (2) name change. These were passed and the "new" company is called "New Zealand Rural Properties".

According to Sir Peter Elworthy, who is Chairman of both the N.Z. Rural Property Trust Management Company and N.Z. Farmlands; the management group would benefit from having as its main shareholder a company which was solely focussed on the rural sector and directed towards acquisition and management of quality rural properties.

Even though the farms now come under one umbrella, they will remain distinctly owned by two different sets of investors.

There are two Boards but shared involvement. There is a lessee-farmer on the N.Z. Rural Property Management Board; a merchant Banker on the Corporate Board; the rest of the two Boards comprised of the same people. They are both responsible for the management of the assets - a common purpose.

Mr G Weenink who was the Managing Director of the N.Z.R. Property Trust Management and is now Managing Director of the "new" company has said the only conflict with two distinct sources of equity might arise when we are actively buying property and which vehicle will get the opportunity to buy a good property.

When asked about a culture difference between the two corporate entities - a public corporate and an unlisted unit trust. He did not see any real difference as far as the asset side and management of those assets.

A judgement can always be made by the company whether it is a trustee, or leased or is managed as a particular farm. The key is the right person on the land making competent management decisions. Both types have strengths. There is a place for both types. The lessee-vendor unit-holder is a robust arrangement particularly in adverse times. The Trust is monitored by the Deed through the Trustee acting as the watch-dog. On the corporate side, there is the Board - this has a hands on input and involvement in the company.

It will be interesting how these two marry together to enhance the future corporate structure of the company, New Zealand Rural Properties.

SUMMARY

If you take the three key factors that make up a viable farming business; land; labour; capital. The necessity to get all three in the right mix for profitability, then see how these corporate structures studied fare.

MAORI INCORPORATED

- Land** : If there was originally good potential for production - then it is right.
- Labour** : A strong management team with a sense of purpose - common goals and objectives and direction - in particular good production people. It works. Built in contingencies for retaining control.
- Capital** : Proven record of ability to pay loans. Reputation strong and upheld.

AGLANDS HOLDINGS LTD

- Land** : It fitted the original concept of hill country wool production as well as the farming of Merinos.
- Labour** : There was a keen, committed and experienced people in their production team. But major set backs at Chairman level - disparity of sense of purpose.
- Capital** : This was the weak link - ran into debt equity problems early. In turn compounded on other external adverse conditions.

NEW ZEALAND RURAL PROPERTY TRUST

- Land** : Purchased prime productive properties over a wide geographical and climatic spread.
- Labour** : It had vested interest, committed lessors and management team but a vulnerability to losing control of the "Manager" part of the structure.
- Capital** : As far as can be ascertained this was in reasonable shape. Early returns bear this out.

N.Z. FARMLANDS LTD

- Land** : Original properties purchased were "stand alone" operations spread over North and South Islands. Conversion of sheep units to dairying and an acceleration into deer farming improved their mix.
- Labour** : It is lean and mean in that they did not want heavy overhead costs in administration and hierarchy problems often the Achilles Heel of corporates.
- Capital** : Strong position - all equity funding.

COMPARISONS

CORPORATE FARMER

V

FAMILY FARMER

Corporate farmers because of their greater market orientation imposed by the need to satisfy and placate shareholders exhibit greater flexibility in both attitudes and action. They have greater adaptation skills and can change enterprise mix or even change enterprises without batting an eyelid, losing sleep, face or dignity over the consequences. They have no ancestors wedded to a certain traditional way of farming.

Whereas sometimes family farmers prefer things as they are, corporate farmers realise that is an impossible goal - to them change is inevitable.

It is this hard financial approach to farming that really distinguishes corporate from family farmers. Whereas family farmers are happier to concentrate on primary production and leave marketing to agents and brokers, corporate farmers are more likely to investigate involvement in processing and or marketing activities as well.

As pure bottom-line farmers, corporation executives expect and demand reasonable return on investments to satisfy both shareholders and budget strategies.

Family farms are prepared to take the long view and run the farm at a loss for three or four years but preserve the asset. Often a corporate philosophy is to reduce the impact of adverse seasonal conditions by spreading investments both geographically and through suitable enterprise mixes on individual properties. Also by owning several properties in different climactic regions be able to move stock between properties to avoid the necessity of selling on an unsuitable fluctuating market.

It is in the area of financial and business risk that another difference between family and corporate farmer emerges.

The group (corporate) is subject to the same seasonal and price cycles as family farms but because of the size of their investment they can exercise more power and control as individual operators and may have more favourable access to finance. Family farms by contrast can often be treated very badly by the financial community. They have much less ability to plug into large financial resources and may have some capacity

to pay for outside advice but generally are less able to afford it.

The area of planning is one where size matters and corporate farmers have an advantage. It takes almost as long to develop plans for a farm that has a turnover of \$250,000 as it does for one with a \$2 million turnover.

Although family farmers have greater commitment to their land and enterprise than corporations, there are management systems available that make it possible for corporations to offer key people in their farming operations incentives not too different from those applying to family farmers.

Almost by definition corporate farmers are more conscious of the importance of both production and marketing research and of obtaining solid market intelligence. While they rely on statutory authorities and government departments for information, they don't do so exclusively. They tend to create their own information flows and rely on independent rather than industry analysis.

Many marketing systems lack contact between the producer and the user but involvement by contractual or equity arrangement with a corporation run marketing system will allow family farmers to use the corporations greater ability to manage that process.

The family farm is likely to remain the major form of farm ownership and operation into the foreseeable future. This view is based on the observation that the family farm can cope better with large income fluctuation variable labour needs and the lack of any urgent need to maintain a dividend stream as is required in a corporate operation. But to remain viable family farms must be able to service their debts, produce sufficient cash for family requirements and generate a level of profit to enable an adequate level of investment.

Yet high debts may make surviving farmers more dependant on finance houses, banks etc. and these organisations will have a bigger say in how the farm is run.

The old adage that good land and hard work would be rewarded with good returns will never be that way again. It must now be coupled with business acumen for profitable farming. It requires a knowledge of debt management, risk management, quality assurance and performance.

CORPORATE STRENGTHS

ADAPTATIONS BY INDIVIDUALS AND GROUPS

Corporate Strengths are often sighted as:-

- Greater ability to manage risks
- Greater access to large financial resources to develop or expand farm holdings;
- Very conscious of the importance of both production and marketing research and obtaining solid market intelligence;
- Tend to create their own information flows;
- Area of planning advice (costs almost as much to produce plans for 30,000 s.u. as for 150,000 s.u.);
- economies of scale - build up a system of complimentary farming enterprises.

Individual farmers, companies both private and public are looking at these aspects and finding different ways, to a limited extent, of how they can adapt them to their own enterprises.

Especially, when one looks at the key points for survival and prosperity for agriculture into the twenty-first century:-

- cut its cost of production
- improve skills
- adopt latest technology for maximum productivity
- add more value to the products
- invest heavily in processing and marketing of these products so farmers obtain a greater return. A greater share of consumer dollar.

The answer to the problem of shrinking farm incomes (steadily declined down for the last twenty years) is not only to be much more efficient on farm - it is for farmers to take a greater share in the profits earned from the processing and marketing of their produce.

In working back from the customer two main ingredients in adding value have been identified; Quality Control and Uniformity.

Quality Control will break down unless everyone involved in the linkage from producer to customer is armed with the skills and commitment to achieve that goal. This has led to a wide uptake of Total Quality Management across the processing and marketing segments and will only be a matter of time before the producer is also involved. Just briefly the principal foundations of total Quality Management are:-

- Superior customer service (the customer is the focus of all activities).
- Continuous quality improvement.

People produce quality. So it is about people who are committed to contribute; permitted to contribute; expected to contribute.

It requires effective leadership. These three things need to be done and done well with the leader being an exemplary in them.

- 1** Set and keep only the best people; if you have some who will not meet the customers, yours or teams requirements, then they will find it very difficult to make it possible for you and the team to sustain a competitive advantage.
- 2** Make clear what needs to be done. Define all jobs in terms of what needs to be done - what constitutes a good job performance. Agree on results expected.
- 3** Let the people do it. Create conditions and the environment in which they can do what needs to be done.

Implement and practice the "Kaizen" method doing things a little better all the time.

We will see more of this as the ISO 9000 series of quality assurance standards become the cornerstone of successful trading later in the 90's and beyond.

Contracts are playing a bigger part in the strategies of farmers to manage risk and to finance their way through those risks. By an involvement using contractual or equity arrangements thus locking into a corporation run marketing system, it allows family farmers to be able to use the corporations greater ability to manage that process.

In the meat arena:

Progressive Meats - they require a high quality standard. Suppliers apply good management skills to achieve this. May also use economies of scale by linking in three properties over a wide geographical spread. This allows them to build up a system of complimentary farming enterprises where each system makes the other better. It enhances their capacity to reach the contract requirements and helps spread the risk. May also be an opportunity to share expensive technology.

Another option is by becoming part of an even larger group i.e. Mid Western Rural - have more muscle in purchasing power of merchandise and animal remedies also in the volume of stock to any supplier. With e.g. Progressive - a premium for adhering to the criteria set down by the company.

- Affco with their *1 Bull Pool contract is offering a livestock option of added value to individual or groups of farmers who run beef cattle.

In the wool arena:

Groups of farmer suppliers who have banded together to gain clout and selling power - A.W.E and Wanganui Wool Co-Op etc. Another arrival, Manawatu Fibre Firm is meeting the need for the marketing of specific blends - a one stop shop for wool sales, marketing and export - this is through its subsidiary United Wool Dumpers, Growers receive information regarding their product and immediate part payment for lots of four bales; rest of the payment on an objective measurement.

The above are just some of the examples that can be found to illustrate how some of the corporate strengths have been modified and used by individuals.

Farmers if they are going to survive this next decade need to see their properties as factories without roofs.

Investment and innovation from outside the farm gate will now be just as important as fertiliser and fences.

The new rural entrepreneur will be characterised by strong vertical integration from production through to marketing.

CONCLUSION

As we make our way through this decade of the 90's, our survival on this planet requires us to be globally aware of the threats of the economic, biological and environmental factors rather than nuclear stand-offs.

The dynamics of a global economy impinge and impact on New Zealand as a trading nation. As agriculture is still our major export; how it performs in the international market place is vital to our survival and growth.

Overcoming entropy; the running down of a product or a process is one of the essential characteristics of global enterprise. Multi national corporates are agents of change, their strategic planning sense of direction, well defined goals and objectives and processes and contingencies for answering difficult "*what if*" questions enable them to overcome entropy and succeed.

Agri business is gearing itself up for international competition and corporate strategies are being embraced in a variety of styles. While corporate takeover of farming has been feared and the word "corporate" with regard to pastoral farming has bad connotations of ruthless "rip off" tactics and major fiascos, the key factor is to get the mix right. To have a strong emphasis on a sense of purpose, common concepts, goals and objectives by the people involved, their corporate strengths will make them an integral part of agricultural production in the future.

Agriculture by its nature is a production system that requires on-the-spot decision making in response to changing seasonal circumstances. It is not always sensible to have remote boardrooms making decisions so that is pretty much why the world over family farms dominate

Corporate ventures lend themselves to vertical integration from production to marketing. This is the way it is perceived that pastoral farming will obtain better returns.

Family farmers can also benefit by tapping into certain aspects of corporate structures.

I believe there is room for both forms of ownership. There is no evidence that corporates are more successful or managerically superior to family farmers in New Zealand. But they definitely have a place.

In fact if you take into consideration the strong agri business orientation required for the future, they will figure even more than at present for pastoral farming to advance with confidence towards 2000

SOURCES AND REFERENCES

- "Farmers are Bananas" - R Firth P156
- "The Farming Fiasco" - D Yerex P 21
- Corporate Entrepreneurial
Activity in Agriculture - R Juchau P 2 - 5

Rural Newspapers:-

New Zealand Farmer/Rural News/Australian Farm Journal

- Private Power - Multi-national Corporations and
their role in the survival of our
Planet - A Madsen

Prospectuses of Agland Holdings/N.Z. Rural Property Trust/Farmlands
and N.Z. Rural Properties

Acknowledgements:

My grateful thanks to those people who gave of their time and expertise to help me understand; to clarify facts and to give me an insight in the corporate world. I mention Mr B Neilson, Mr C King, Mr G Vetty and Mr G Weenink, in this regard.