

Equity Growth – Our Experience

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The New Zealand dairy industry is a fantastic place to work, live and grow a business. My wife Kim and I currently milk 3300 cows across 830ha of milking platform near Ashburton in Canterbury, New Zealand. I am from a dairy farming background while Kim was brought up in the city. After a career in Human Resources, Kim now stays at home to care for our two young children whilst also providing assistance in the farming business in this area.

Our business model is based on the well tested 50/50 sharemilking structure, applied to the modern day challenges and opportunities of dairying. The key principles are achieving progression in the industry and creating security and flexibility for our family. We have set up and expanded a profitable business that we believe is based on win-win relationships which are sustainable for the future of the farm. The structure of our business is illustrated below.

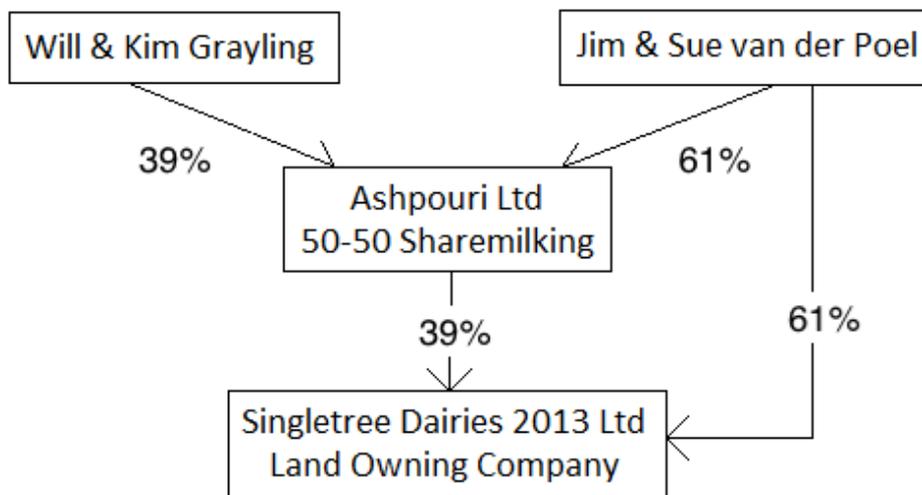


Figure 1. Business structure of Van der Poel / Grayling Investment

There is regular commentary around how difficult it is to own a farm or how it is much harder than it has been in the past. I'm confident that my parents did not think it was easy to buy a farm in their day. Whilst it would be easy to consume this commentary, I challenge you to ignore it and focus on what you can control right now.

Personally, I believe that right now is the best time in the last 10 – 15 years to purchase a farm. Prices are very good, interest rates are low, land prices are steady or have dropped, Fonterra shares are low and cow prices are reasonably stable. These factors combined with the succession needs of a significant portion of our farm owners as they look for a change of lifestyle in their later years, creates enormous opportunities for young farmers. These opportunities will not necessarily look like they have in the past and are not likely to come knocking on your doorstep but they most certainly do exist.

We are enjoying the journey of equity growth in the New Zealand dairy industry and believe there are four factors that have been critical to this journey:

- Be an excellent operator
- Surrounding yourself with the right people
- Win-win relationships
- Make a start

Be an excellent operator

To create equity, find opportunities to grow equity and ultimately purchase your own farming business you need to strive to be an excellent operator. To me this requires two main factors: cost of production (operating expenses including depreciation) and pasture harvested per ha. These two factors have by far the biggest influence on farm profitability. Having profit gives you options to create business structures which meet the needs of both parties whilst also investing in sustaining the business. Thus it is critical that you understand where you sit in comparison to other operators and know how to be in the top 10%.

Surround yourself with the right people

People is the most important ingredient to building a farming business and is often the hardest element to find and manage. It is seldom the right people will find you so you need to be proactive in searching for people that you want to align with. The dairy industry is very fortunate that it is transparent and people are happy to help – and farmers love talking about their farms!!

Our partnership has been successful due to many factors, but it is our compatibility with the Van der Poel's (our combined enthusiasm and passion for dairying, growing a business and taking on challenges) which has been key to the success of our relationship. Enthusiasm to grow the farm and enjoy all its challenges and rewards is what drives us – we are not doing it to extract money but to grow ourselves and our family; principles also held by the Van der Poel's.

Partners in your business need to share the same values as you do and you need to have clear expectations of how the business will be run and by who along with the purpose of the business. There is no point working alongside someone that wants to take dividends if you are really keen to be reinvesting to develop the farms value.

Win – Win relationships

When you are setting up a business it needs to be win-win; that the rewards reflect what each person is putting in to the business and the value they are creating. When we were dreaming up what structures would potentially work, I always took the view from the farm owners seat and envisaged whether as a farm owner I would accept the proposal.

There are many other business structures that would have put us in a better cash position but I believe that our structure better reflects the returns for what each party has invested and meets more objectives than just cash. Because of this I believe it will stand the test of time.

A good illustration of our win-win arrangement is in the expansion of our business. Often we are challenged on whether we wish to purchase a bigger share of the business or would we rather own our own farm outright. To date we have chosen to increase the size of the pie rather than our share of it, a strategy which keeps us in the win-win situation. If you consider figure two below, it illustrates the difference in growth options of either growing the whole pie (centre) or just our share of it (far right), scenarios that have quite different outlooks from each of the partners.

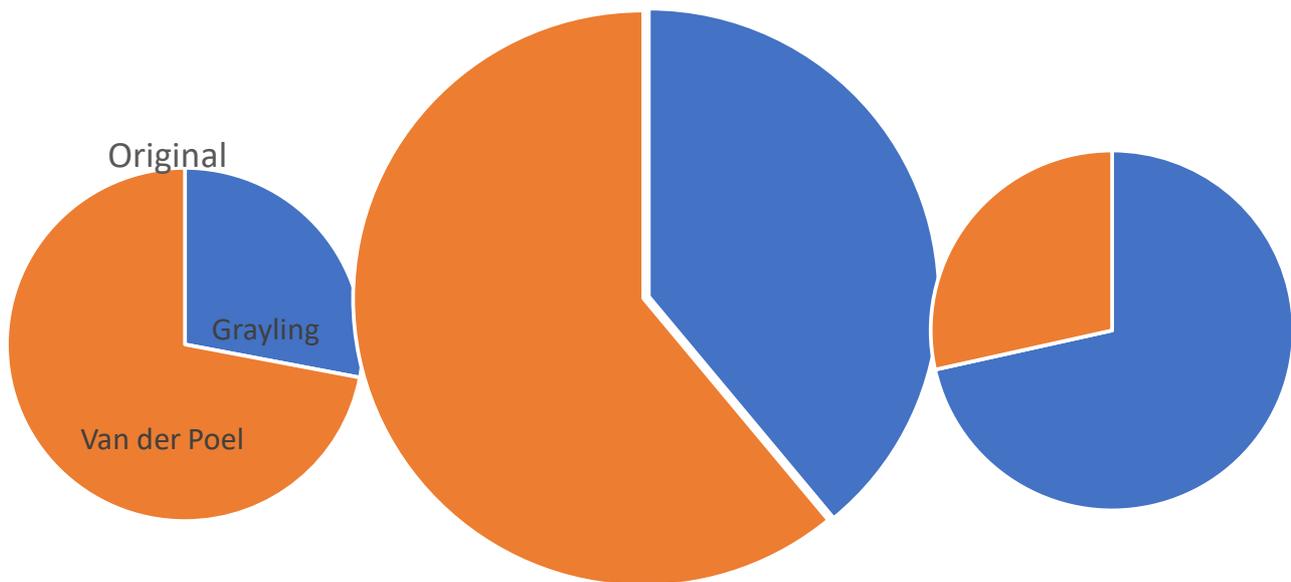


Figure 2. Increasing equity through increasing size of the pie or our slice of the pie

Make a start

Sometimes the most difficult step is the first. In our business, the first step was purchasing some cows. I chose this because they didn't require a huge amount of capital outlay (although at the time it was a lot to me!) and they gave me a reasonable return. They are a reasonably liquid asset and probably most important of all - I like them!

It is difficult when you have very little equity to be sitting at home trying to imagine how you will get the tens of millions of dollars required to purchase a farm and it can seem like an unachievable goal. The key is to just make a start, and make decisions that are good for you but also those around you. If you can do this then the dairy industry becomes an amazingly supportive, challenging and interesting place to build a business and build equity. Before you know it, with excellent farm business management you can create opportunities that will lead you on a journey to owning the ultimate business with a built-in lifestyle.