Alexanders
Accountancy & Advice for Agribusiness

Pita Alexander
BCOM, CA, DIP AGRIC, DIP VFM, FNZIPIM,
ANZIV REG VALUER, SPINZ, ONZM

DDI: 03 364 9330
M: 021 465 426
F: 03 365 9880
E: pita@alexanders.net.nz
W: www.alexanders.net.nz
A: Level 4, 7 Winston Ave
Papanui, Christchurch 8053
PO Box 5394, Papanui
Christchurch 8542

15 October 2020

YOU WANT TO HAVE YOUR OWN FARM !

YOU WANT TO HAVE YOUR OWN BUSINESS !

YOU WANT TO BE SELF-EMPLOYED !

YOU WANT TO CONTROL YOUR OWN FINANCIAL DESTINY !

<u>A few thoughts, comments and suggestions as to how you are going to get there long before you stop breathing.</u>

(1) One way or the other, you need to be passionate about your long term plan - being halfway keen is nothing like enough.

(2) Discuss your plan openly and often and fine tune it from time to time - discuss the plan outside of Mum and Dad and friends - independent parties who have fulfilled their own plans can add value and help avoid pain.

(3) Do your apprenticeship to develop knowledge of the plan and its industry - this may take five years or more - a good apprenticeship is essential.

(4) If you are not good with money, then get good - otherwise your plan is almost doomed - money management isn't everything, but it is a close second to breathing most of the time.

(5) 75% of the businesses that fail in New Zealand are due to an insufficient apprenticeship and/or lack of capital and/or poor management.

(6) Forget fancy cars, motorbikes, boats and houses - these can come later when your plan starts to work - if you can't afford it, then you can't afford it.

(7) If you do not have the discipline to cope with the previous point, then pause because you have a serious problem - you must prioritise your resources ruthlessly - a lot of young men and women make no financial progress of any kind between the age of 17 and 27 years - you must not be in this group - you need to reach 27 years with not a lot of money, but a good apprenticeship, a lot of knowledge and a plan ready to put into real action.

(8) Do not be in a hurry to get married - your spouse, in due course, must be on the same page as regards your plan, be relatively low maintenance like you, be good with money like you and understand a pay now, live later philosophy again like you.

(9) Second marriages will wreck your plan for a good five years - do not go down this track - get the previous point right from the outset.

(10) Follow through on your promises - develop a reputation for under promising and over performing. Integrity and sincerity must be already in your bones.

(11) Travel overseas early on if you must, but getting the video early on and travelling later with the costs being paid for from a soundly working plan also works.

(12) Commit your plan to paper and let others comment on it - develop a real pride in your plan.

(13) Do not borrow money to purchase assets that start depreciating the next day - pay cash for these sorts of assets or just walk on.

(14) Developing and borrowing for your business is really more important than your house - interest paid with the business is Income Tax deductible - borrowing for the house is not. Interest payments that are not Income Tax deductible is ugly interest and should be avoided even if it is only at a rate of 3%. On the other hand, the way the world and the current market is heading, owning a house early on is important – also it can help with the financing in due course. Whether you like it or not, you will end up borrowing to the maximum to develop your plan. Debt will be an important part of your plan, particularly early on when you will have a problem providing security to your lender.

(15) Treat your bank manager well - not as a god, but well. Stick to your agreements - borrowing money is a privilege, not a right. Develop some leverage with your bank by creating a business that is profitable, sustainable and capable of comfortably repaying 3% of the loan principal back to the bank each year as well as the interest.

(16) Do not just buy assets because of the low interest rates - buy assets that, in the main, do not depreciate - that is real assets. Getting the purchase price right with a quality asset is always the key - much more important than getting all excited about the interest rate.

(17) With those key early capital purchases, always get a contract subject to finance and your solicitor's approval - never make a compulsive purchase, even a quality one, without at least sleeping overnight on it at least once.

(18) Make sure you have a good accountant and solicitor - you do not have to like them or drink with them, or play golf with them or reminisce about that rugby game - you do need, though, to exploit them at key times - there are certain issues/contracts that you must push them hard on - expect a cost, but it will only happen once or twice a year.

(19) Some people are good with their time - you must be one of them - do not waste time - sometimes it is all you have to sell. Your timing must be top class - the only difference sometimes between a business in the top 10% group and the next group down is in their timing.

(20) If possible, take the ACC Cover Plus Extra for ACC purposes.

(21) Develop your skills at every opportunity - every time you get a chance to listen to a crackerjack in any industry, put your listening and learning overalls on.

(22) Some people are okay to borrow from, but not to lend to - the people and businesses to be very careful about are those with weak Balance Sheets - sometimes, backing away in these situations is absolutely the right move.

(23) Attack is not always the best defence, but very often it is - waiting for your luck to turn is not a business attribute - sometimes you have to swim out.

(24) If you are getting job satisfaction, you will probably be good at it - if you are not getting job satisfaction, then whose fault is it - it is your fault.

(25) The best person to deal with a business loss is usually that person who has the most skin in the game, which will be you. Losses manage themselves very well - never put losses in the refrigerator - losses can't be frozen - cut your losses early on - only beer really makes progress in your refrigerator. When something goes wrong act promptly to deal with it - problems tend to escalate.

(26) When you have successfully completed your education apprenticeship and have a student loan in excess, say, of $20,000, talk quietly but firmly with Mum and Dad re the approach of them paying off (½) of the loan and you paying of the other (½) over the next 5 – 10 years.

(27) Do not worry about all the media garbage about the problems arising from inequality of income and inequality of assets - your whole plan is about you becoming unequal in both of these areas.

(28) A business that you can scale up without a whole lot of additional wages, additional debt, additional work and additional stress is a very good type of business.

(29) While you are going through a growth stage you will need some life assurance and income protection and maybe family health cover - this will be unavoidable but start decreasing the first two when your plan starts to work well.

(30) Your own financial data should be very confidential - pillow talk only. You want to be a reasonably tall poppy based on your plan, but tall poppies in New Zealand are generally frowned upon.

(31) When you need serious capital cash assistance, do not be frightened to talk to Mum and Dad, Grandad and Grandma, Father-in-law and Mother-in-law. If your plan is sound, you will be able to pay interest on all loans at a reasonable rate - what you won't be able to do is offer them first class security, because your bank will long have taken it all. Try and bring in the point that a loan at this point will probably guarantee their children and grandchildren a top education – this point has real weight.

(32) Pay Income Tax and enjoy it - when you do not pay Income Tax over a longish period, that is much more important because it suggests your plan is not working well enough.

(33) As an employer, you really, deep down, are an unsung hero, but treating your employees well and fairly is critical - you won't be able to do all the work yourself. Do not underpay your key people - make sure they are getting job satisfaction 90% of the time.

(34) Do not expect to get your plan working well by only spending 40 hours in the business - your figure for the first 10 - 15 years will be more like 50 hours. At a certain point, though, you will (all going well) be working on the business much more than in the business.

(35) How do you know when your plan is working well - this is a good question because different industries have different benchmarks, but an overview approach would suggest that a real return on your net capital of no less than 10% would be a minimum - 15% should be the target, but perhaps optimistic in the present New Zealand environment.

(36) How would you deal with a 'black swan' event like the GFC and Covid-19 events - by building up early on your financial reserves - perhaps 5% of your gross income each year should be going into financial reserves of some kind - this is only going to be possible once your plan is running soundly, but it is just as important as your key costs whether that is fertiliser, wages or, say, interest.

(37) From a practical point of view, what financial reserves do you need right now - probably enough to cope with your total outgoing for perhaps two months - this timeframe is much higher than people in New Zealand and the USA had in Covid-19, but it still looks sensible to me.

(38) How much debt is too much - again, a good question but there is no model answer - in New Zealand agriculture at anything above an interest/rent cost as a percentage of the gross farm income of, say, around 26%, would suggest you should be praying for inflation every night. A long term, workable figure for New Zealand agriculture would probably be more like 15% - 20% - a good target to get down to is 12% - 15%, but there are horses for courses and personal ability plays a key role with this benchmark.

(39) High personal drawings will mess up your plan and maybe even destroy it - high personal drawings is a bit like 'iron disease' (that is, men who love vehicles and plant) in that often I find there is no antidote. A safe business rule in New Zealand agriculture would be that your total personal withdrawals including Income Tax, life assurance etc, be no more than, say, 50% of your true management business profit - your plan won't work well enough if you can't cover this equation.

(40) How often do you need to review your plan - probably every 3 - 5 years - by whom - by probably at least two hard-nosed individuals who are successful in their own right and in your industry - you need an 85% pass mark at these review points. Your spouse will give you a personal review also, but anything above 50% here would be acceptable.

(41) Listen to your spouse – they know your weaknesses.

(42) Your farm (business) working expenses and interest and rent payment combined need to be no more than 70% of your gross income.

(43) Yes, cash is out of fashion but so are losses – fashion does not tend to pay the bill but cash can.

(44) One credit card will be essential but it is almost one too many – clear it every month.

(45) When you make a loss, do you know precisely what caused it? Knowledge about loses is just as important as knowledge about profits.

(46) Do not wait and hope there is going to be something left at year end – that is not a business approach – that is a hope and pray and bottom operator approach.

(47) When the plan starts to work well, how much of your net profit (before tax) should you be reinvesting in some form (in or outside of the business) – probably 30%.

(48) Really everything is for sale – do not let emotion wreck a good decision.

(49) Insurance costs are only going to go in one direction (up) – if you are a careful person then put a significant excess in place which will reduce the premium cost every year.

(50) What are you worth from a net income perspective based on your plan working well - this may take 10 - 15 years, but given that one approach would be to look outside of the business - if an average New Zealand back bench Member of Parliament is worth $180,000, then you would have to add at least 50% - 100% to that figure to reflect your extra ability, your extra discipline, better apprenticeship, your much better financial management and significant skin (capital) in the business.

Pita Alexander
PS Alexander & Associates Limited
DDI: 03 364 9330
M: 021 465 426
E: pita@alexanders.net.nz

Alister Stevenson
PS Alexander & Associates Limited
DDI: 03 364 9332
M: 021 843 820
E: alister@alexanders.net.nz

Karen Prue
PS Alexander & Associates Limited
DDI: 03 364 9344
M: 027 535 3191
E: karen@alexanders.net.nz

PS: Work on not getting NZ National Superannuation until you are 70 years old – you will not need it anyway with the strength of your plan.

PPS: The attached Flowchart is a pictorial view of perhaps 5 - 10 years into your plan. There are various different presentations like this - the one shown is a simple, sound, strong structure that is applicable for many businesses.

PPPS: The flowchart structure is important to get right at the outset – certainly you can change things later, but getting some top advisor's advice and time and facing the capital cash in getting the opening/initial ownership structure right is a very important platform for your business plan.

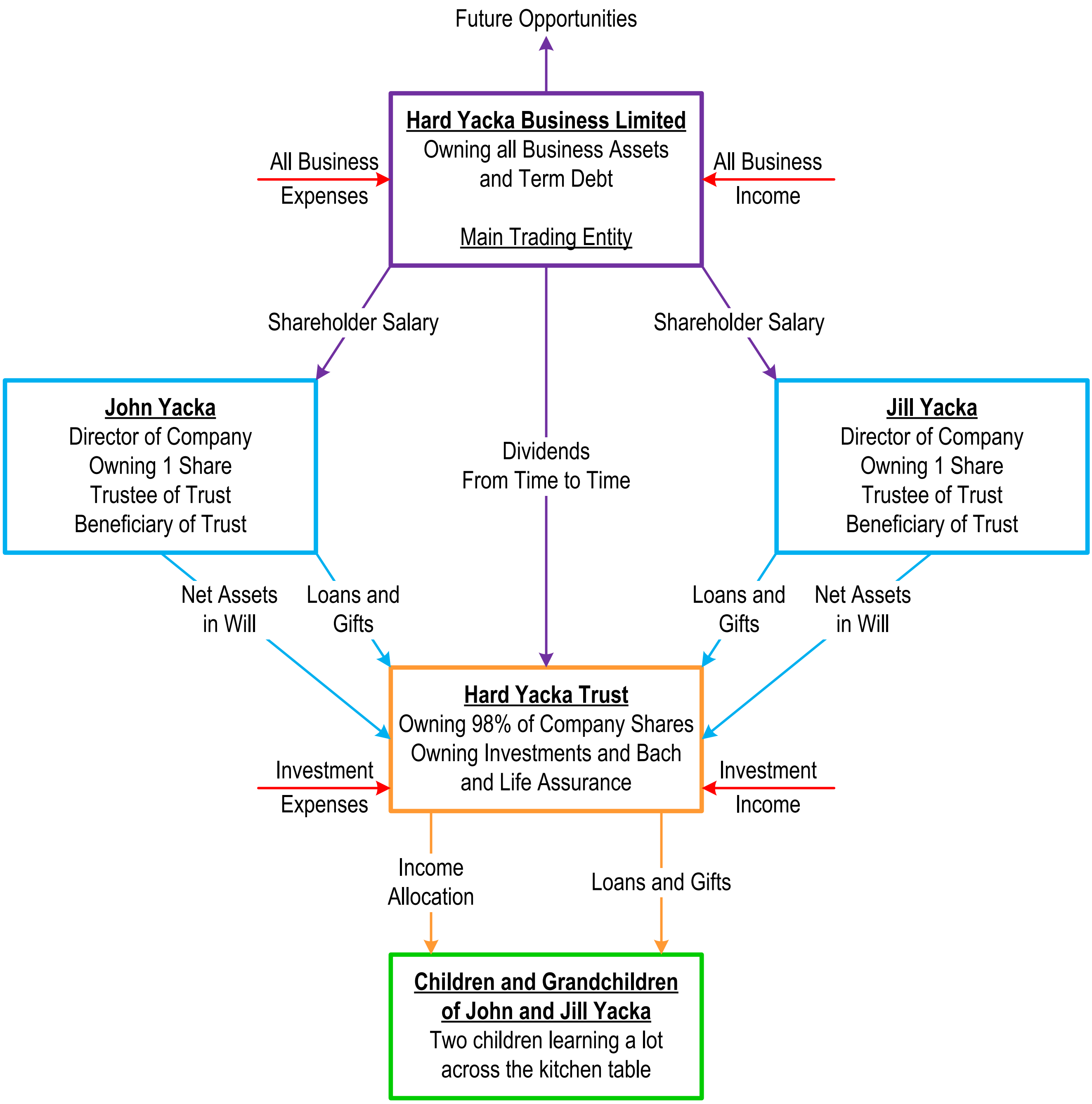
Alexanders
Accountancy & Advice for Agribusiness

15 October 2020

FLOWCHART

HARD YACKA BUSINESS LIMITED

PICTORIAL VIEW OF THE OWNERSHIP, INCOME AND EXPENSES WITHIN, SAY, 10 YEARS OF ORIGINAL PLAN FORMATION



Pita Alexander
PS Alexander & Associates Limited

Alister Stevenson
PS Alexander & Associates Limited

Karen Prue
PS Alexander & Associates Limited