

# INVESTING OUTSIDE OF DAIRYING

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This afternoon I am going to talk to you about business, business growth, investing outside of the home dairy farm, taking control of your own destiny, and some personal thoughts and words of wisdom I have learnt on my journey to date.

## **Business**

- Being in business today is harder than it was 10-15 years ago. Now we must operate a lot smarter and know and understand our business from all aspects. The message here is not to work harder, but to work smarter.
- Know what is important to you and know your business. Having long term personal and business goals are very important. Do not fall into the trap that I did and forget about your personal life and your family. Make sure you have a balance here. We all want business success but remember life is short and you can have both; the choice is yours.
- Make sure you are pushing 8 to 9 buttons out of 10 on your core business before contemplating any other outside investments. The main trading banks often refer to this as being in an 'A' position on their Sigmoid curve. Be good at what you do and be profitable.
- Job satisfaction and enjoyment of your work is still almost everything. We all deserve to be happy in our chosen path moving forward.
- The whole point about being in business is to be profitable. The whole point about being profitable is because it gives you choices.
- Focus on controlling your expenses, but most importantly increasing your gross income. For dairy farming this is usually milksolds and stock income. Market, don't sell, your calves and cows to maximize their value.
- Believe in yourself. Believe in what you are doing and thinking. If you do not believe in yourself do not go into business. Make sure you recognize your strengths and skills and that you also know any weakness you may have.
- We should not be contemplating investments outside of our core business (that is, dairying for myself and possibly for most people in this room today) until such time as our home base business is mature and profitable, and we fully understand all facets.

## Business Growth

- Create your own future. Look forward and control your own destiny. Understand your business financially, that is, analyse and know your margins, your cost structure, and how far you can leverage your business.
- Do not spend too much time looking back, learn lessons from the past and focus forward.
- Business growth and success are created by having a defined strategy, direction and focus, not by the speed of travel.

I learnt these lessons in the mid 1990's when I unfortunately landed myself in hospital with heart failure.

I had been operating my dairy farm for some time performance was at a good level and the farm operating well, and I believed I had a good business. I was actually too busy working in and managing my dairy farm and was not working on the business. I would suggest there will be some people listening to me now who are in this position. You will be operating a great dairy farm achieving to a high level but are you in control of a great business? Can you tell me your long term personal and business goals?

This was the changing point in my business growth. I was no longer able to continue the manual tasks of running a day-to-day dairy farm, and began to understand and grow my business by taking a more strategic and analytical viewpoint.

This has continued until today. I was very fortunate to receive a heart transplant late in 2003, which has given me a quality of life back again. I am one of the fortunate ones. I must now, more than ever, make sure I have the correct balance of business success and growth and personal life and time with my family.

So my message here for you today is do not wait until you have a major health scare or illness to start working on your business, growing your business and having a good balance of business success and personal and family life.

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Whether we like it or not, each of us is affected in our decision-making and forward planning from what we have learnt and experienced to date. It is said that when we stop learning, we stop living.

- I have learnt that the best time to plant a tree was 20 years ago and the second best time is now.
- You should not confuse your career with your life – but I already have. I recognise this as a strength now, as by knowing and understanding this I have been able to change my way forward.
- I have learnt that the word ‘listen’ contains exactly the same letters as the word ‘silent’.
- I have learnt not to be fooled by averages. The law of averages states that when you stand with one foot in a bucket of boiling water and the other foot in a bucket of ice, you should be comfortable!
- I have learnt that being early and being first is not the whole answer - it is true that an early bird may catch a worm but a smart bird can probably catch a worm any time – even more importantly, it is actually the second mouse that gets the cheese.
- I have learnt that trust and respect are the most important factors in personal and business relationships.
- I have learnt from my wife Carrie that if I want breakfast in bed then I had better sleep in the kitchen.
- Make sure you know and understand when your business is at a good point (mature) to make the next move. Timing is very important.
- Be in a position to take advantage of opportunities when they arise.
- Keep focused on the big picture.
- What to do next, when to move and how to approach it are all part of your growth strategy. What I am talking about here is risk management.
- Always take into account the opportunity cost of any further capital invested from where you are currently. This is the interest cost plus a risk margin for the investment.
- Knowledge gives you confidence and power. Do your homework. Be hungry for information. Learn from not only your own experiences, but also experiences from others.
- Learn how to think outside the square. Think laterally. Make sure you at least listen to all options and versions of the event or plan even if it does not sound correct. That is what lateral thinking is all about. Children are a great reminder of how to think laterally. For example, the following are the ‘facts of love’ recorded by children aged from 6 to 9 years old.
  - Paul, age 6 says, “if you put a man and women in bed together one of them will have a baby”
  - Pierre, age 6 says, “if you want to have a baby go to the library”

- Edward, age 6 says, “a baby comes out of the mummy’s tummy and bites the doctor and the doctor smacks it”
- Shelley, age 7 says, “to have a baby you have to make love to someone who doesn’t mind”
- Alistair, age 9 says, “the man next door has a baby in his tummy but it never comes out”
- Peter, age 6 says, “first of all you get in love, get married and get a baby. Or you can do it the other way round”.

## **Investing outside of the home base**

Why do you want to make further investments from where you are now? We will all have different reasons, thoughts and ideas here on our own preferred direction of further investing and personal growth initiatives.

I will now take you through my own experience and approach. As I touched on before, my business was operating well. I felt we had been pushing 8-9 buttons out of 10 for some time and had paid back some bank debt and had choices. Unfortunately the IRD also thought they should share in the business. My debt-to-asset ratio was low and my debt-servicing percentage was heading into single digits, which created some tax issues. I needed to take control of my business financially and I personally needed a new challenge.

My first investment outside of my home base was in fact in another dairy farm. I purchased a large-scale dairy farm with other investors as an equity partnership.

At this point my knowledge and skill was in dairy farming which gave me confidence in my approach. This is possibly similar to some of you in this room today.

I had certain requirements and criteria that this investment had to follow:

- Any investment had to show a double digit cash return with any capital appreciation on top of this. Capital gain would not be taken into account in the initial decision to invest; it would be the icing on the cake.

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- As I personally prefer to be in charge of my own destiny, having some degree of say and control was important. What I am talking about here is a governance, strategic and visionary role, but not an operational role.
- I personally had to be happy with my involvement within the business, be satisfied in my job and be able to bring my strengths to the table.
- I had to make sure that anyone else I might invest with had similar visions and goals as myself. This is very important when investing with other people.
- This new business would have to be ring fenced and stand-alone.
- We would all put our investment into the business but no personal guarantees to the bank would be given. I was very happy to invest money into this new venture, but also wanted to protect my home base.
- I had to make sure that the business was set up and capitalized correctly so we would have no major impediments from the start up. Hence we could also expect a financial return early on for the investment, instead of having to wait some years before dividends or loan repayments could be made.
- There had to be a 'divorce clause'; an agreed process for any change of shareholders. This is probably the single most important clause of the agreement. It must be worded correctly with a step-by-step process to be followed for the change of any shareholder or equity manager.

This investment went very well and after a short period, when another opportunity arose, we leveraged this business and invested again in a second dairy farm equity partnership.

So I now truly had my hands on my total business. My total business had grown and the IRD now had a smaller share. I understood where I was and knew where I was going.

I learnt new skills and was disciplined to following sound business principles. I had leveraged my business to a new level, had business involvement with some other successful investors and was ready for a new challenge.

## **Commercial property**

My move into commercial property was not part of my strategic plan. Years earlier I had expressed an interest in commercial property to some associates and commercial investors. Now they approached me asking if I would be interested in investing in commercial property in Christchurch. My initial response was that I did not think so now because I doubted if the returns could match that that I was achieving in dairying.

How wrong I was.

An Auckland based property company had a 13 storey class B office accommodation building they had been having trouble managing and tenanting close to the Square on Worcester

Street in Christchurch. We did due diligence and looked at all opportunities. From my prospective it looked good and so my entry into commercial property began.

We are fortunate to have a very experienced commercial property manager and accountant firm investing with us and overseeing the management of this property. This is a key point - getting involved with business people who are successful in their own rights.

In line with my philosophy of keeping control of my own destiny, I invested in this property at a significant level and was asked to fill one of the director seats. This gave me a good insight into the operations of commercial property management and a chance to grow and develop my skills in this area.

Following this success, we looked around for a long time for further commercial investments. There were properties on the market but not of the yield and return that we required. An opportunity came up to custom build a specialized building for Livestock Improvement for herd testing. We purchased a section at Hornby and proceeded to build a specialized building for the South Island Herd Testing operations.

While on a much smaller scale than our first building in the centre of Christchurch, this investment is also performing well, with a single very stable (both financially and in business operations) long-term tenant.

We have secured very good tenants in both buildings but our first building was bursting at the seams. We had several tenants wanting to expand with nowhere to go. Looking at our options and also the large equity increase in the building, we approached the owner of another Christchurch building with three vacant floors, which they were having trouble letting.

We offered to purchase the building and after negotiation and due diligence was successfully completed we were able to move some of our smaller tenants into this new building, allowing others to expand into their space. This also decreased the amount of vacant area in our new building and instantly increased the building's value as commercial buildings are valued by their earning capacity. This is a CAP or DCF valuation methodology.

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This all came about by lateral thinking. Making and creating our own opportunity. As the late Rob Muldoon would have said “Think Big”. So as at last November, we added the DSL building on Colombo Street to our commercial investment portfolio.

## **Summary**

- None of this is rocket science or luck. Apply simple business principles such as the one’s I have talked about: lateral thinking and taking opportunities as they arise.
- Make sure you enjoy what you are doing, are getting job satisfaction and have a quality of life. Remember life is short. I personally am still working on the quality of life aspect. I am good at taking holidays with my family but have a tendency to take on too many commitments and projects on a day to day basis.
- Seek out top advice. Have a hunger for information but most importantly set your own business agenda.
- Your destiny is in your hands. Make sure your heart and soul are committed to your vision, development and business growth strategy. Believe in yourself. Do what you do best.
- Communication at all levels is not just desirable, it is essential.
- Rather than spending your life trying to make the right decisions, you are often better to concentrate on making good decisions better.
- Surround your self with positive like-minded people.
- My last remark would be to trust your gut instincts.