PROACTIVE AND SUSTAINABLE EQUITY GROWTH

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Equity: the difference between what you own and what you owe; the jewel in the crown of all businesses; but one especially craved for by rural business people, as one of the signs of successful business growth and management.

So what's the recipe? Where's the path? What is the three step plan, and who can give me the answer quickly? I want to get there!

In twenty years of banking and financing farmers into rural businesses you would think that I should have seen enough to provide some answers to the above, however, equity growth has no one single road to success and can be achieved by mixing and matching opportunities. Nevertheless, there are some rules that may assist as you travel.

Three road rules to equity growth

The equity vehicle doesn't have to run down the highway on the fastest engine, but like all traffic, it has some consistent rules that must be followed no matter which road you choose to travel on.

Rule 1: Make sure you have a plan with flexible estimated time of arrival at destinations

You have to have a plan. Of course my background will insist on it being written down with some time bound actions which you are going to focus on, however, sometimes it might not be this formal. It might simply be a commitment to oneself or a shared vision with a partner/s.

The flexible ETA's for your destination are really important, especially in farming – climate, production performance, market constraints and that delightfully unpredictable GDT auction can all impede our journey.

Agriculture is a long term business, therefore you sometimes need to be patient. It might take an extra season to get to a milestone, but it's about getting there in good shape and ready to go, not necessarily how quickly you get there.

Rule 2: Use leverage to get the vehicle running

Money makes the world go round – an age old saying, however, good debt can be the enabler to equity growth.

What's good debt? It's not a hire purchase agreement on that 2015 Rapid Runner jet boat! Good debt is best defined as:

> Debt utilised to invest or purchase assets that appreciate or can be utilised to make profit, which can then be reinvested in the business to grow equity.

Good debt allows you to purchase assets and fund working capital while paying a margin known as interest. The key is making sure that the interest paid is lower than the return on capital invested.

A business needs to be "long term profitable" both in cash profitability and in capital terms.

Rule 3: Be flexible with your course design and prepared to pick up hitchhikers along the

The ultimate goal is to grow equity, and while we can design a plan of how we are going to get there, sometimes the unexpected happens and we have to change course in order to continue the journey.

Sometimes it means we need to take a longer road i.e. additional years contract milking or working two jobs. However, sometimes the scenery along the longer road is better and the 'hitchhikers' add to the journey.

'Hitchhikers' - better known as equity partners - are people you take along for the ride. They add to the enjoyment, allow you to learn from other people about the road you are on, and can likely assist with the drive.

Notes:

Sometimes they are boring and you need to let them off early, however, sometimes they contribute to allow you to travel faster or improve the course to get to your destination faster.

They may not come all the way with you, as they may have their own destination which is different to yours, but using the same vehicle allows you to travel the same road together for a while.

So what does this look like in real life – Coles Farms is great example of what can be achieved when you are determined, measure risk against return well, build relationships with 'hitchhikers', and understand the mixture of production and management to fuel the vehicle to equity growth.