Summary - Case Study 7: Mu Family

Business continuing

"We could not allow it to be halved again".

The area of farming land owned by the ancestor of the Mu family was halved, then halved again. The current owner and his brother reversed the trend, and have now split with a viable business each. Over a 20 year period, Tom Mu has achieved a 14% return to capital.

The growth strategy from when Tom Mu took over has been very deliberate. As soon as the business equity starts to rise above about the 70% level, it's time to borrow and buy. The actual investment; land, commercial property, or shares, is less important than the timing. The key to this is that money is never left idle, there is no lazy capital. Succession to the current generation, and the split of this generation, were both smooth and handled well with the help of outside professionals.

When asked if he had been in a position to buy the land which had been allocated to his sister, Tom replied:

> **"**I had to. But it was a stretch financially, it's never easy. You find the money and make it work. We had it valued and paid according to value. I just borrowed the money."

Tom now has 2,000 hectares of highly productive land in the high rainfall zone of southern Australia running 20,000 DSE's.

Tom has pondered the question about how to hand the farm on and achieve the three aims, (funds for retirement, viable farm, happy family). He has already started to grow the capital to make that possible:

> **Tom:** "It's massive. How do we create an income stream so we are not putting our hand out to our kids – oh by the way we're giving it to you but there's quite a few strings attached where you're not going to get ahead because we're going to stifle you."

That's the next challenge, but with off farm investments Tom is well on the way to meeting it.

The ten key elements to Tom's success are:

1. The starting point of an equal distribution between the siblings has underpinned family harmony.
2. His decision to expand the farm before he came home.
3. This decision enabled the family to retain a station hand where many families dispense with hired labour to accommodate the next generation. Retaining the station hand enabled Tom to have two mentors. The station hand helped him learn the practical physical skills and his father helped him with management. It also allowed him time to spend on development and growth plans.
4. His attitude to risk and debt. Where most livestock farmers get twitchy when debt is above 20% Tom is comfortable with 40% debt.
5. The timing of investments is important. When the collateral is available Tom will borrow and invest. The only question is - what investment?

6. When there is an opportunity, take it.
7. Ensure adequate money is put aside for long term planning, strategy and management.
8. Involve the next generation when they are young.
9. Demonstrate to the next generation that farming is an enjoyable business.
10. Tom and his wife take the concept of ‘stewardship’ seriously, and want their kids to each get the start that they had.