

BIGG

Barossa June 2019



Mike Stephens

Mis-handled Succession



The End Point To Avoid



The End Point Most Families Desire



Where Cousins Are Friends



The Three Aims Of Family Farming

1. Funds to enable retirement
 - You may not want to retire
 - Sufficient funds means you have choices.
2. A viable farm for the child or children who want to farm.
 - If any want to farm.
 - Viable may mean the next generation taking on considerable debt.
3. Sufficient resources for the non farming children to be happy.
 - Often a good plan is one where nobody is overjoyed but nobody is harbouring resentment.
 - 'Happy Family' is the satisfaction of self interest

Industry Situation

- In 2015-16 there were **52,130** broadacre farms.
- Of these there were:
 - 33,980** (65%) had annual cash receipts under **\$400,000**
 - 18,345** (35%) had annual cash receipts **over \$400,000**
 - 3000** (5.8%) had annual cash receipts of **\$500,000** or greater (ABARES)
- Conclusion: Succession of a viable business is a **financial** reality for only a few (maybe **30% or 15,000**) businesses.

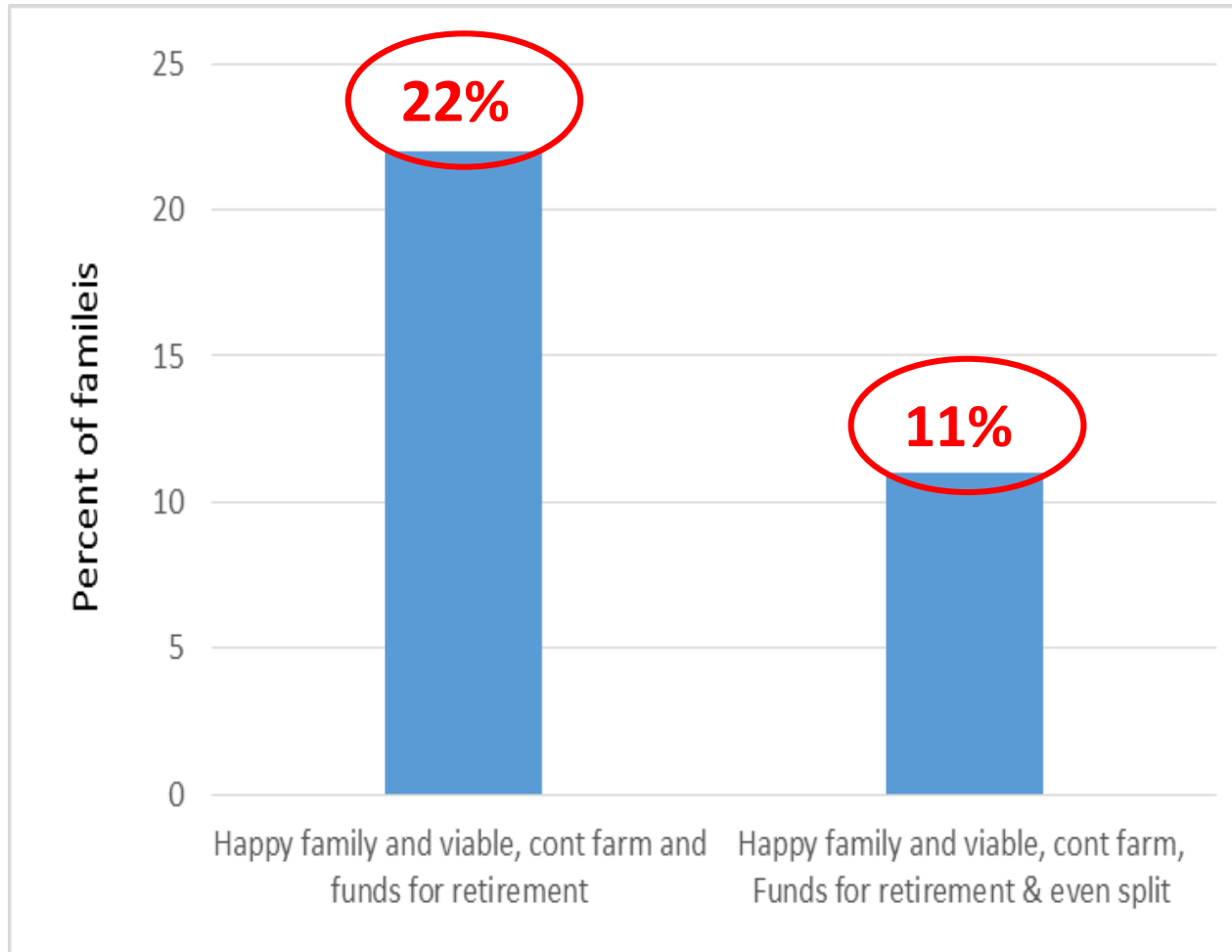
What we did

- Surveyed professionals who between them advised **6500** farm business. That is **12%** of all broad acre businesses.
- Most **don't have** a succession plan, and
- Most are **reticent** to develop one.

What we did

- **100** succession cases were examined
- A further **16** were studied in significant detail.
- **5 Financial Case Studies** were undertaken

What we found



Farm size and succession

Previous research claims that scale is essential for succession

BUT

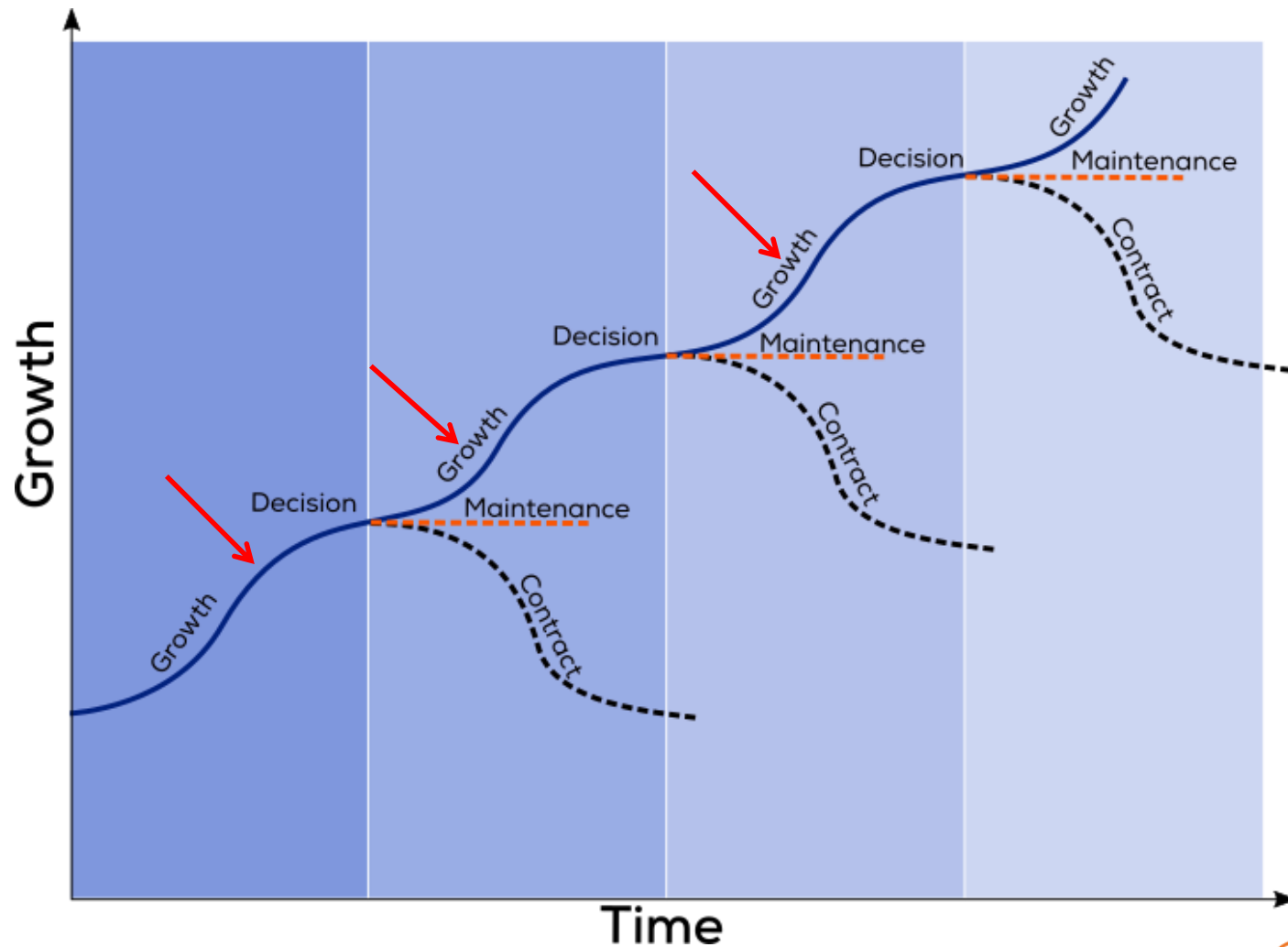
Our study indicates the determination to be able to achieve smooth succession drives scale.

Five possible futures for the older generation.

- 
1. Retire/ Die/ Sell
 2. Hand over to one child - others unhappy
 3. Hand over – all happy
 4. Build a multi-generational business
 5. Build & Sell a going concern



Business Growth Ebbs and Flows



When There IS No Successor



A Business With A Future



Smooth Succession Requires

Smooth Succession Requires

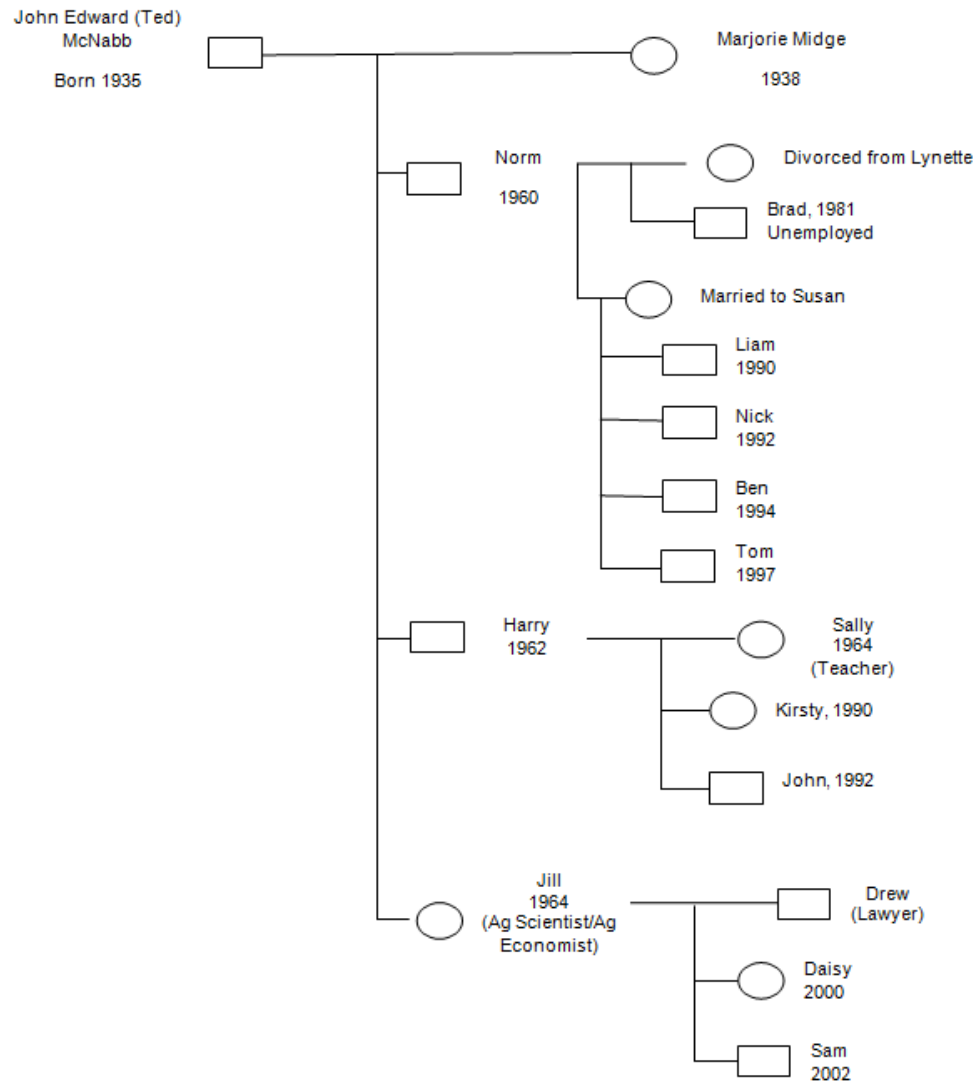
1. Building & maintaining relationships
2. Open & honest communication between all family members
3. Managing expectations
4. Building a business capable of delivering
5. Understanding the needs, wants and aspirations of each family member in each generation
6. Choosing the appropriate business structure/vehicle

Building & maintaining relationships



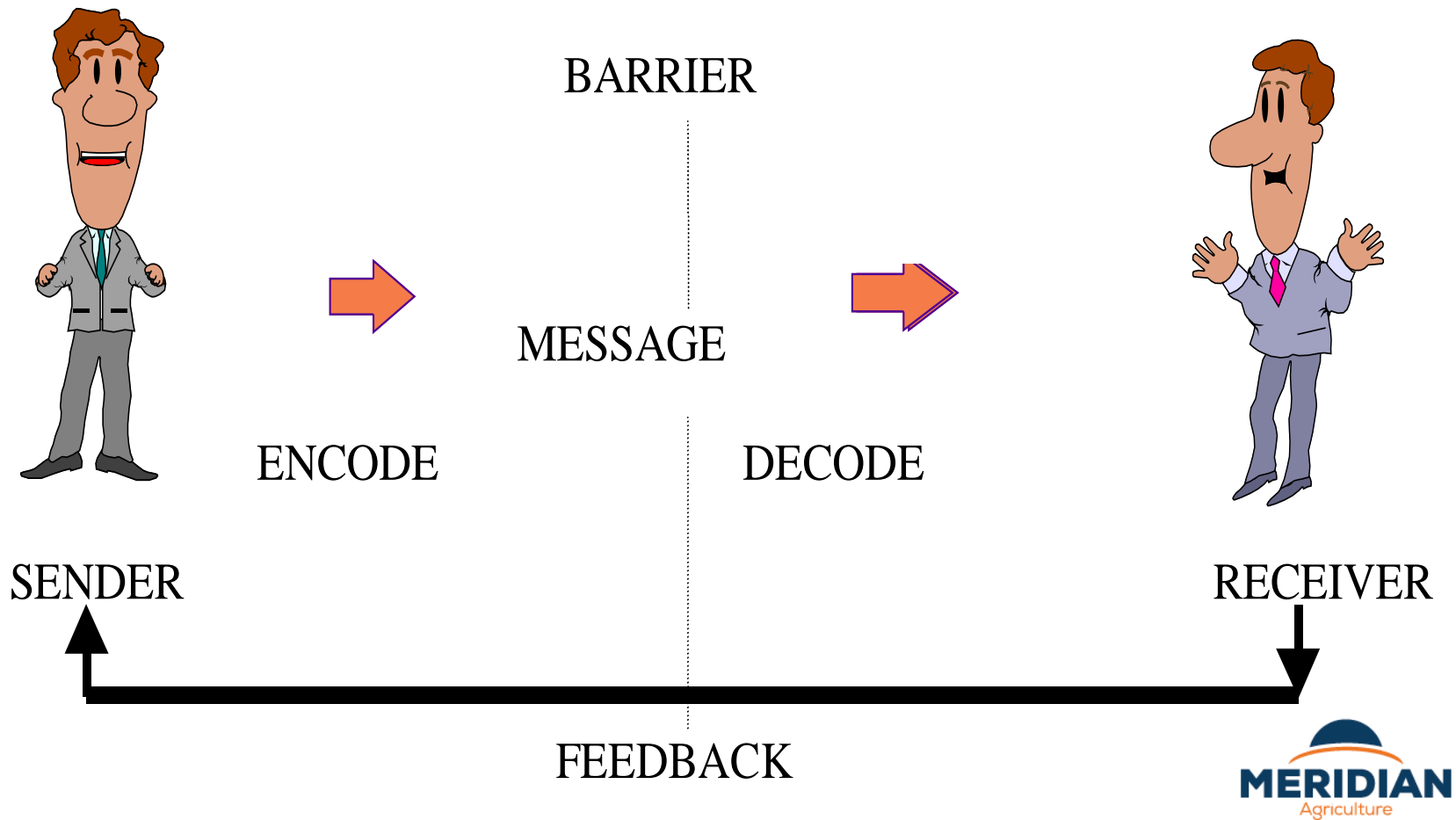
Building & maintaining relationships

Genogram – McNabb Family (Weekly Times Food for Thought)



2. Open & Honest Communication between all family members

Good communication, is only achieved when the communication is two way. When a message is sent, then received and a signal is sent back.



Open & honest communication between all family members



Open & honest communication between all family members



Open & honest communication between all family members



Managing Expectations



‘One day all this will be yours’

Managing expectations in succession

The business will go like this !



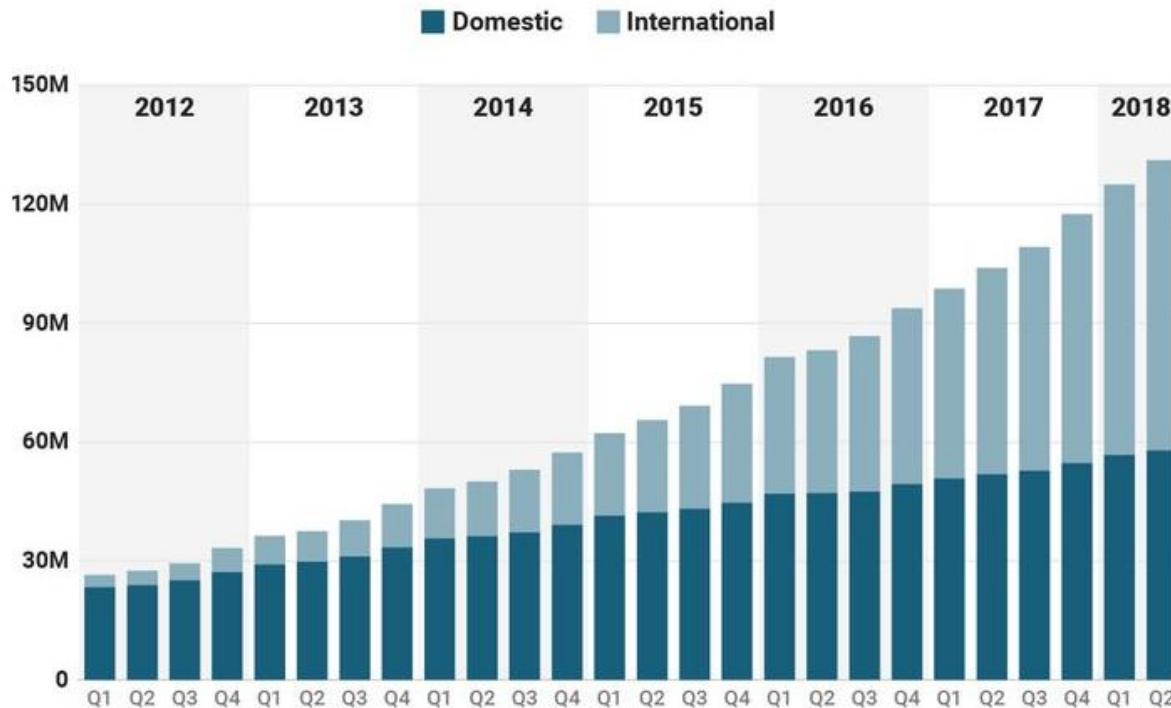
Or like this...



Or like this...



Building a business capable of delivering



5. Understanding the needs, wants & aspirations of each family member in each generation



The plans are all done



Our succession plan is we don't talk about it!

Which vehicle?



The Complete Farm Business Picture

People

Finances

Physical Production

Three areas working together for the
overall result
on System

Meridian Ag Model

Three asset groups working together

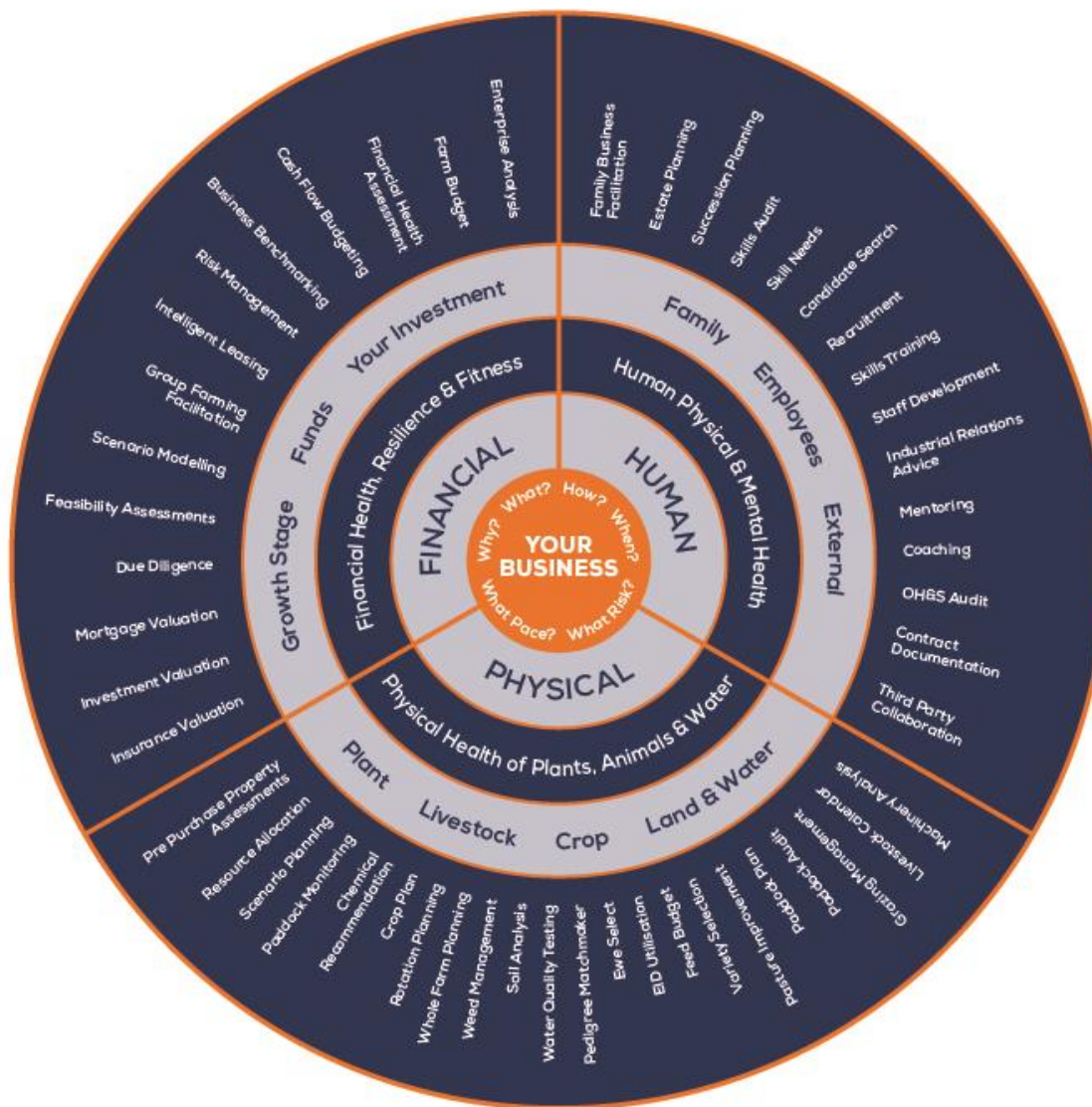


Meridian Ag Model

Fine tune the structure and system to achieve goals



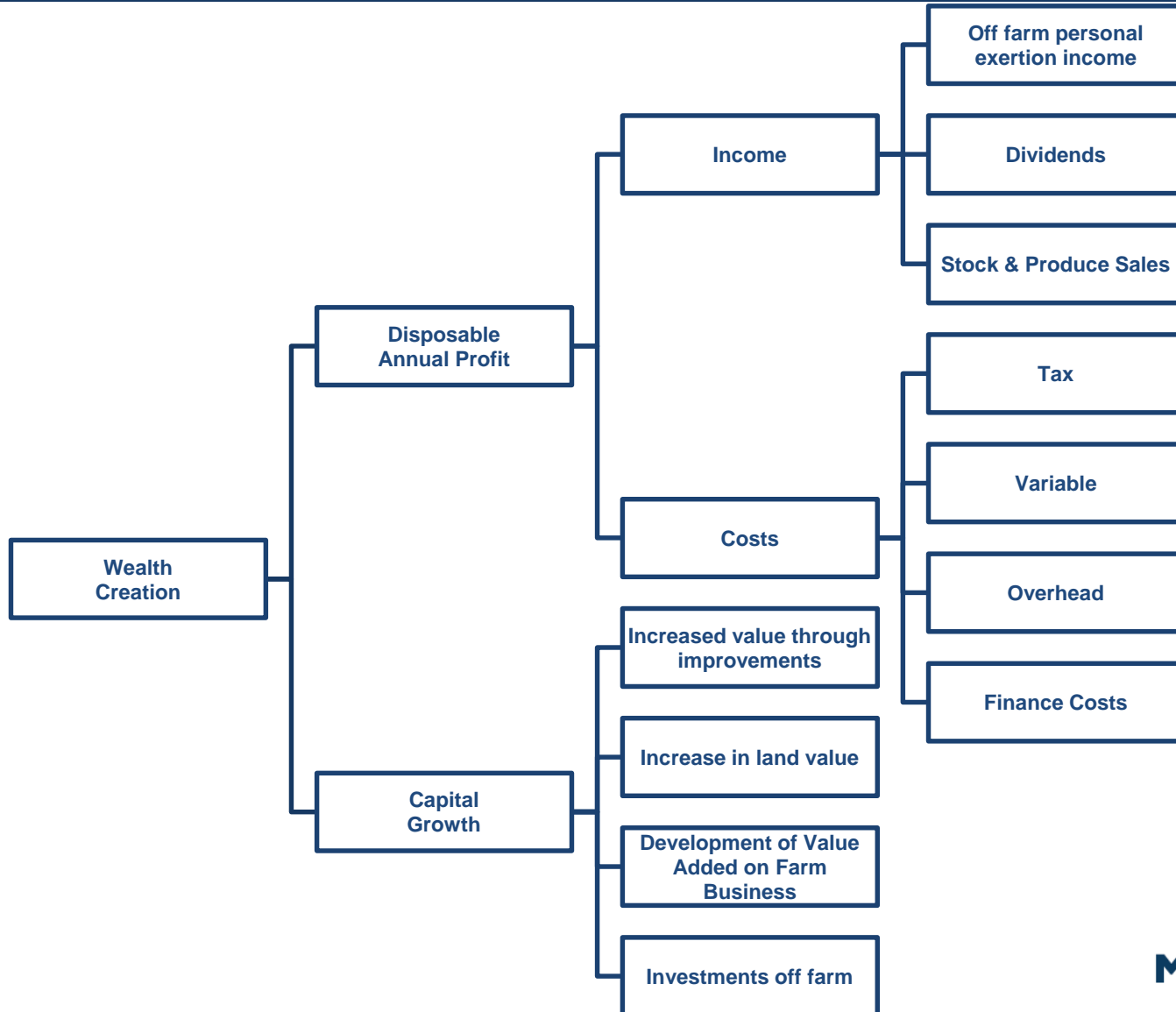
Succession Is Not An Add On



Share the load



Two Businesses



The Tasks

Effective Family Business Planning

Occurs when strategies are clear and understood for each of the following

Planning & Communication	Planning Management Timetable for dealing with the issues below			Communication Management How best to manage family communication and decisions and to avoid problems?			Progress Checks Annual Program to check progress and avoid stall		
Targets	Family Roles Current & future roles, responsibilities & independence	Business Direction (Farm program, practices & growth)		Housing Present and future needs of family on farm & off farm (includes age care)	Family Assistance For on and off farm children: fairness, equity as to timing & amount & type		Farm Use and Ownership Use, control & title of business & land between generations		Retirements Plans Timing, interests, location, source of income & financial security
Financial Drivers	Skills Required by family members to achieve priorities	Business Performance Strategies to lift returns	Capital Strategies (For land, business & off farm investments)	Legal Structures (For land & business investments)	Finance & Banking Rates, structure & strategies		Off Farm Investment Strategies for ongoing Checks	Use and Eligibility got Govt. Benefits	Tax Strategies that fit overall plans
Foundations	Work: Farm work is effective, satisfying & safe for all family	Farm Viability Will farm profit meet present & future needs	Personal Income Sufficient personal income & independence		Succession Up to date, effective and understood	Disability & Key Person Plans in place		Asset Protection, WH&S & Insurance Management	Legals, Records & Compliance

Effective Family Business Planning

Planning & Communication

Planning Management

- Timetable for dealing with the issues below

Communication Management

- How best to manage family communication and decisions and to avoid problems?

Progress Checks

- Annual Program to check progress and avoid stall

Effective Family Business Planning

Foundations

- **Work: Farm work** is effective, satisfying & safe for all family
- **Farm Viability** - Will farm profit meet present & future needs
- **Personal Income** - Sufficient personal income & independence

Effective Family Business Planning

Foundations

- **Succession** - Up to date, effective and understood
- **Disability & Key Person Plans** in place
- **Asset Protection** - WH&S & Insurance Management
- **Legals, Records & Compliance**

Effective Family Business Planning

Foundations

- **Succession** - Up to date, effective and understood
- **Disability & Key Person Plans** in place
- **Asset Protection** - WH&S & Insurance Management
- **Legals, Records & Compliance**

Effective Family Business Planning

Targets

Family Roles - Current & future roles, responsibilities & independence

Business Direction - (Farm program, practices & growth)

Housing - Present and future needs of family on farm & off farm (includes age care)

Effective Family Business Planning

Targets

Family Assistance - For on and off farm children: fairness, equity as to timing & amount & type

Farm Use and Ownership - Use, control & title of business & land between generations

Retirements Plans - Timing, interests, location, source of income & financial security

Effective Family Business Planning

Financial Drivers

Skills - Required by family members to achieve priorities

Business Performance - Strategies to lift returns

Capital Strategies - (For land, business & off farm investments)

Legal Structures – (For land & business investments)

Effective Family Business Planning

Financial Drivers

Finance & Banking - Rates, structure & strategies

Off Farm Investment - Strategies for ongoing Checks

Use and Eligibility got **Govt. Benefits**

Tax - Strategies that fit overall plans

Pam and Archie Strawman

Pam and Archie have taken over Pam's parents place

- Succession was OK Pams siblings not too grumpy
- Archie is a refugee, disastrous succession

Pam and Archie have three young teenage kids

- They want to treat them equally

They have a \$6 M Business

- Land \$4.8 M
- Stock and plant \$1.2M
- Debt \$1.2m

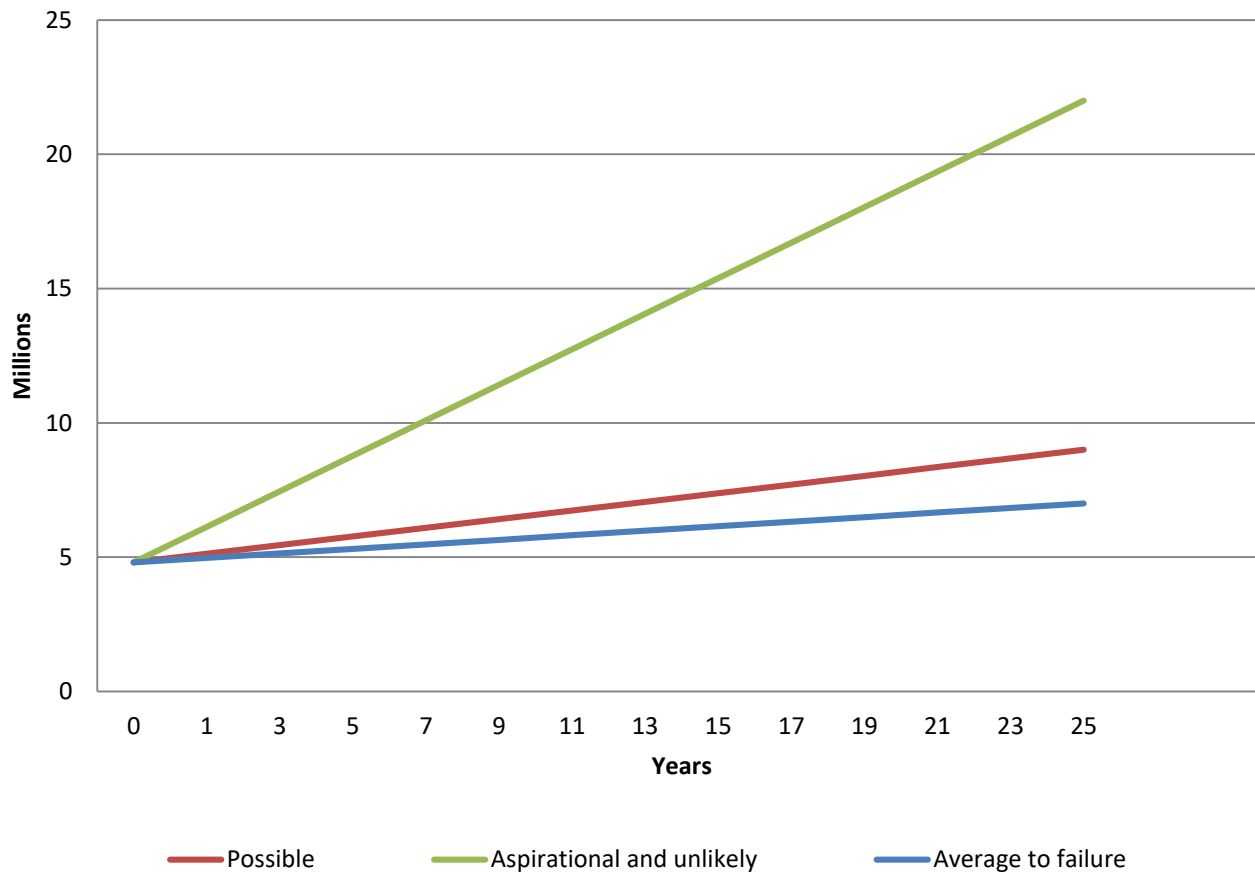
Strawman

Strawman Barossa		Description			
Real return on assets	4%		Current situation current \$	Future situation future \$	Future situation current \$
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Land assets	\$ 4,875,000		
Time period	25	Stock	\$ 1,170,000		
% Nominal operating return	2%	Plant	\$ -		
% Real increase in land value	6%	Other	\$ -		
		Liabilities	\$ 1,209,000		
		Net assets or equity	\$ 4,836,000	\$46,127,623	\$22,030,810
Rounded				\$46,000,000	\$22,000,000

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Rounded				\$19,000,000	\$9,000,000

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Real return on assets	4%		Current situation current \$	Future situation future \$	Future situation current \$
Inflation	3%	Values from the balance sheet			
Market rate of interest	7.12%	Land assets	\$ 4,875,000		
Time period	25	Stock	\$ 1,170,000		
% Nominal operating return	2%	Plant	\$ -		
% Real increase in land value	1%	Other	\$ -		
		Liabilities	\$ 1,209,000		
		Net assets or equity	\$ 4,836,000	\$14,847,768	\$7,091,377
Rounded				\$14,000,000	\$7,000,000



Don't overload the business



Questions ?



Mike Stephens