final report

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Farm Success Enabling Case Studies

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Executive summary

The Farm Success Enabling Case Studies project was undertaken to provide red meat producers with a series of case studies on 'how to build your business' to prepare for the various 'exit strategies' available, including farm succession and building of a successful business for sale. This was deemed to be useful because in 2015-16 there were 52,130 broadacre farms.

- Of these there were:
    - 19,770 (38%) with annual cash receipts of under $170,000.
    - 33,980 (65%) with annual cash receipts under $400,000
    - 18,345 (35%) with annual cash receipts over $400,000
    - 3000 (5.8%) with annual cash receipts of $500,000 or greater (ABARES)

Because of the size of farms succession of a viable business is a reality for only a few (maybe 30% or 15,000) businesses. The underlying assumption is that farmers have three main aims:

1. Funds to enable retirement:
    - Farmer may not want to retire;
    - Sufficient funds means 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;
    - A 'Happy Family' ensures the satisfaction of self-interest.

Before conducting the case studies, surveys were conducted through lawyers, accountants, bankers, rural financial councillors and consultants. A total of 6,500 farms (12% of all broadacre farm businesses business) were looked at. In addition surveys were conducted directly with farmers.

Thirty farm businesses were considered for the Farm Success Enabling Case Studies project. Nineteen of these red meat farm businesses were approached, with sixteen studied in significant detail. In addition to these Case Studies, 100 succession cases were also examined.

From the research, the following characteristics of successful farm business managers VS unsuccessful were noted:

- Intelligent leadership VS Autocratic, patriarchal behaviour.
- An absolute commitment and determination to achieve the three aims, Succession is at the core, not an add-on. VS A belief that the big three isn't achievable.
- A history of well thought out succession VS Poor history of succession.
- Progressive farm management VS Doing things the way we always did.
- A focus on the customer VS What customer?
- The intelligent use of capital VS Using capital to support the lifestyle.
- Preparedness to go into debt and maintain low equity VS Totally debt adverse and maintaining lazy capital in the business.

- Deliberate strategies to woo stakeholders VS A strategy of keeping them off farm and disengaged.
- Managing with humility and quietly going about your business VS Maintaining your position in the family and society as somebody very important.
- A determination not to live like peasants VS A determination not to look like peasants.
- A common end game goal VS No agreement about the end game.
- Respectfully challenging advisors VS Threatening advisors.

In addition to the contrasting characteristics listed above, major findings include:

1. Most farmers don't have an up to date succession plan;
2. Most farmers are reluctant to become involved in the succession planning process;
3. Many plans are incomplete or fail;
4. Conventional wisdom is that scale is a prerequisite to succession but the studies show that scale is built to enable succession;
5. Only 22% of the minor study families achieved the three main aims;
6. Only 11% of the minor study families achieved the three main aims and an equal assett split.

At the end of the project (Oct / Nov 2018) surveys were conducted with each of the case study participants in order to measure participant uptake and knowledge from the case study series. In addition to this, a survey was also sent to those that had read / made contact with Meridian Agriculture about the Case Studies and those that have attended one of the two webinars that were presented.

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1 Background

The Farm Success Enabling Case Studies project was undertaken to provide red meat producers with a series of case studies on 'how to build your business' to prepare for the varies 'exit strategies' available, including farm succession and building of a successful business for sale. The study included a series of 16 in-depth studies of family farming businesses that looked at the human, financial, political and environmental risks and examined the decisions and strategies that directed the growth which enabled succession or that rendered that business un-viable. The studies included eight case studies which featured businesses which have successfully grown and evolved over three or more generations and are set to carry on to a fourth generation, while the other eight studies feature businesses that have not survived through the generations.

2 Project objectives

The following lists the project objectives as set out in the MDC Contract.

2.1 Case Studies

Development of 16 red meat producer case studies focusing on 'how to build your business' to prepare for the various exit strategies available including farm succession and building a successful business for sale.

2.2 MER and Communication Plans

Development and implementation of agreed communication and monitoring and evaluation (MER) plans for the project and integration of outputs with other adoption and extension programs (see Appendix 1 & 2).

2.3 Final Report

Delivery of final report detailing the projects process, its success/constraints, and recommendations to MLA to assist with awareness, delivery and uptake of information within the red meat industry.

3 Methodology

3.1 Choosing the case study method

Before deciding to use the case study method surveys were conducted through lawyers, accountants, bankers, rural financial councillors and consultants. As a result of these surveys a total of 6,500 farm business, or 12% of all broadacre farm businesses, were examined. In addition, surveys were also conducted directly with farmers.

The case study method was chosen after discussions with academics at the University of Melbourne.

Thirty farm businesses were considered for the case study series. Nineteen of these farm businesses were approached, with sixteen agreeing to participate. In selecting the sixteen businesses it was recognised that some farming families manage to keep a viable farm in the family for generations and keep the non-farmers in the family happy. Other families do not. The differences are contrasted in the Farm Success Enabling Case Studies. Some of these case studies illustrate a business that continues successfully over multiple generations, some don't continue on in the same way, and some don't continue at all.

The case studies are based on intensive studies of sixteen, family owned, Australian farming businesses, selected from a list of thirty businesses. The studies consider the approaches to succession throughout successive generations. They contrast the attitudes, attributes and actions of people within each business. Eight will continue, while the other eight businesses have been sold, have remained in the family but are no longer viable, or have had significant changes in direction. To protect the privacy of the participants and ensure anonymity, a letter of the Greek alphabet has been used for the name of each family.

3.2 Interview process

Preliminary interviews were held by phone. These were followed up by a minimum of two, and in some cases up to four, face to face interviews.

Following each interview the researcher sent a draft of the case study to the participants for review / edit / correction.

The final version of both the full and summary case studies was sent to each participant for approval. When approval was granted the summary case studies were uploaded to the Meridian Agriculture website and notification was given to all participants that the summaries are available on the website and the full case studies are available upon request.

The sixteen case studies all had differing circumstances which could be described by a tag line:

- They determined that they weren't going to live like peasants and used their combined skills to follow their passion.
- Being an only child helped, but with his father he built the business from a small farm to a truly viable one and the eventual division of family assets amongst his three children will be 40/30/30
- The farm was split in three successive generations. For it to remain viable it needed to avoid further size reduction. There are four children. The family confronted the issues and the split is 79/7/7/7.
- The start was modest, we share farmed, worked off farm, invested off farm. The seven children were brought up to expect no handouts. They play together and they have stayed together. The two who farm own the business and some of the land. Most of the others still share in the landownership and want to keep it.
- Without a succession plan the farm would have been sold. Who would invest in a business with no future?
- After the lean years after wool crashed the shareholders threw down the gauntlet to the directors. Perform or we sell. The business was turned around, several off farm investments

were made (unsuccessfully at first) and family members were encouraged to spend time on and enjoy the properties.

- The farm was halved, then again and then again. The current owner and his brother revered the trend and have now split with a viable business each. Over a 20 year period the Mu family has achieved a 14% return to capital.
- Their Grandfather set up the two brothers. The brothers just kept buying more land. Their sons this generation then had to pay for it. More expansion, poor prices and some droughts didn't help. But they were nothing compared to the Swill Franc loan. They borrowed one point five million and paid back three.
- A strong history of succession done well and brothers, with complementary skills, working well together to build the business, under pins this business well.
- They inherited a farm which had been successively cut up through five generations. The business wasn't viable but as stewards they handed it on to the next generation.
- He was given no choice and was burdened with the family expectation that he should carry on. But he wanted to give his children room to do what they want. So he and his wife decided to sell the entire seed stock operation.
- His grandfather, in order to uphold his position in the community, funded his lifestyle by selling a part of the farm whenever he was short of cash. In addition the old man was dictatorial and pushed his family away only to recall one member when in old age he couldn't manage the place.
- The company battled drought, government, price crashes and each time got back to profit. But when the family lost interest and then lost control of the board, they lost the company.
- They wanted to keep farming but it was unrealistic. There were too many shareholders as the shares were handed on from generation to generation. The sale was clever and the business was sold with the value paid for the intangible assets. A family member has remained as manager for the new owners.
- The three brothers took the business from 3000 to 13,000 in one working lifetime. But they spent 20 years and hundreds of thousands of dollars arguing about whether to break it up. The legal and accounting costs were enormous.
- They thought they had succession sorted. The family member who wanted to farm is smart, industrious, works hard, was suitably experienced and educated so he got the job and some of the land. Then he changed his mind.

3.3 Webinars

Two webinars were conducted. The first to publicise the findings of the case studies and the second to encourage producers to consider 'Where to from here".

3.4 Follow-up surveys

At the end of the project, in October and November 2018, two surveys were conducted, the first with case study participants and the second with webinar attendees. The results of the surveys are discussed in section 4 of this report.

4 Results

4.1 Case Studies

As part of the Farm Success Enable Case Studies, Meridian Agriculture has produced 16 summarised word versions of the case studies. The summaries have been provided to the MLA Donor Company and are publically available on the Meridian Agriculture website.

In short the results of the case studies can best be described by comparing business success with business failure.

The business success is measured against the stated aims of each family. In most of the case studies the family aims are to; ensure sufficient funds to retire, to hand over a viable farm, and to ensure that all members of the family are happy. The aim has been to share the family wealth as near to equally as possible whilst achieving the three previously mentioned aims. Each family was given a letter of the Greek alphabet as the family name.

In one case, the Rho family, the viability of the farm took precedence over the near equal distribution, and that has been accepted by the family concerned.

The Lambda study demonstrates a successful business growth strategy, with growth achieved while maintaining the enterprise mix. The business is now jointly owned and managed by two brothers, and most of their siblings are joint owners in a portion of the land. There are mechanisms in place to ensure that, if in future, any do want to sell, both a valuation and the timing can be agreed.

Other businesses have growth strategies which have included the development of a bull breeding business (the Iota family), significant off farm investment (the Mu family), brothers working together and building on their individual strengths (the Epsilon family). In the Sigma family brothers aggressively bought land and left it up to the next generation to pay for it. It nearly ended in failure when they borrowed heavily off shore.

Delta and Epsilon had similar histories. In the Delta family, which is continuing, the brothers agreed on the end game and the family split was easy, however in the Epsilon family it was hostile and led to business failure.

Table 1 below, contrasts a series of attributes which were common to businesses that were continuing, with those that are not or are no longer viable (not continuing).

Table 1: Contrasting Attributes of Continuing and Not Continuing Businesses.

Business continuing	Business not continuing
Intelligent leadership	Autocratic, patriarchal behaviour
A history of well thought out succession	Poor history of succession
Progressive farm management	Doing things the way we always did
A focus on the customer	What customer?
The intelligent use of capital	Using capital to support the lifestyle

Preparedness to go into debt and maintain low equity	Totally debt adverse and maintaining lazy capital in the business
Deliberate strategies to encourage stakeholders	A strategy of keeping stakeholders off farm and disengaged
Managing with humility and quietly going about your business	Maintaining your position in the family and society as somebody very important
A determination not to **live** like peasants	A determination not to **look** like peasants
A common end game goal	No agreement about the end game

With the stated aims for each family identified previously, the case studies have helped to debunk some common truisms within the industry. Some of these include:

- **Get big or get out** – could be replaced with 'get efficient or get out'. The Sigma and Tau family studies identified that an undercapitalised small business will not become more inefficient simply by increasing scale before it has achieved efficient use of capital. Similarly the Iota and Lambda family studies showed that the efficient use of capital can fuel expansion.

- **You cannot fund retirement, pass on a viable farm and treat your children equally (the three aims)** – as identified in the case studies of the Mu, Upsilon, and Epsilon families, the three aims of the family can be achieved by: starting at an early age to build the business; handing over to the next generation early; encouraging family members to earn off farm income; and using all the relevant skills and talents of family members to achieve agreed goals.
- **Keep the family capital in a block** - The Theta study shows that whilst maintaining the capital in a block may give growth if the family grows (in number) faster than the capital grows (in value in real terms), eventually the asset will have to be sold or some of the shareholders bought out.

- **Maintain 80% equity** – As was demonstrated with the Mu family study, 80% equity is an indication of 'lazy capital'. The equity has mostly been between 60% and 70%, and an average return on capital of 14% per year has been achieved over the last 20 years.

With these in mind, let's further examine some important contrasts of continuing and non-continuing businesses within the case study series:

Control of the Board and Shareholder engagement: The case studies highlight the importance of keeping control of the Board and ensuring shareholders are engaged. Two families, in the farming business since the 1800's, employed people from outside the family at a senior level. The Beta family relied heavily on external advice and consequently lost control of the Board, the family became disenchanted and the business was sold. In contrast, the Pi family kept control of the Board, and ensured family members had a keen interest in the business. The Pi family business is thriving.

Team work & involving the next generation: The case studies serve to highlight the importance of working together as a family unit to grow the business, and involving the next generation early on to ensure smooth succession. The Iota family business started small and now supports eight people including four members of the founding family. In contrast, the Zeta business started as a large business, but has shrunk and is now requires off farm income to rebuild infrastructure and support the family. The principle in the Zeta family was autocratic in his leadership style, and the next generation were chased away.

Agreement on the end game: In succession, it is important that all family members agree on the end game, and are happy with the outcomes of succession. Contrast two sets of brothers who farmed together from an early age and their approach to succession. The Epsilon brothers used their combined talents so the inevitable split would be orderly and advantageous to all. 'It took about an hour to agree' and each member of the family got what they wanted. In contrast, the Delta brothers took twenty years of argument to eventually agree to appoint a liquidator to sell and distribute the assets. The family lost about 40% of its wealth in the split, and no one got what they wanted.

In addition to this, the 16 full length case studies have also been finalised and provided to the MLA Donor Company. Anyone interested in attaining a copy of the full length studies has been advised to contact Meridian Agriculture and the full studies will be made available.

A copy of both 16 Case Study Summaries and 16 full length Case Studies can be found in Appendix 3.

4.2 Business Edge Case Studies

As requested by the MDC, Meridian Agriculture completed five Business Edge case studies. A copy of the 5 Business Edge case studies can be found in Appendix 4.

4.3 Case Study Communication Activities

An important component of this project was getting the word out around this project and its key outcomes and leanings. Consequently a number of communication activities were undertaken throughout the life of this project.

4.3.1 MLA Feedback Magazine

As part of the project Meridian Agriculture was obliged to provide four articles for the MLA Feedback Magazine. After discussions with the Feedback team, at their request this was reduced to two. One of these was contributed directly by Meridian Agriculture and the other through interview of a case study participant by a member of the Feedback team. A copy of the articles can be found in Appendix 5.

4.3.2 Social Media

Throughout the life of this project Meridian Agriculture has been active in promoting the case studies quite heavily on social media. The social media campaign was run over a nine month period, generally focusing on one case study each week, including a generic image with key learnings, quotes and points from the studies. Posts were shared on both the Meridian Ag Facebook account (@meridianag) and the Meridian Ag Twitter account (@Meridian_Ag).

The Social Media campaign proved quite popular and while not all posts and tweets reached targets as set out in the MER Plan (300+ people/impressions per post/tweet), the posts did gain a large number of impressions, likes and re-tweets/shares and were effective in driving the audience to our webpage where the studies were housed.

For the full list of social media posts that have been released and their reach, please see Appendix 6.

4.3.3 Media Outreach - Press Releases

It was stipulated in the MER plan that quarterly press releases would be developed for this project. Unfortunately no press releases were released during the life of this project. MLA Comms limited the press releases to coincide with Feedback and the Webinars.

4.3.4 Website

A website page was created for the Farm Success Enable Case Studies on the Meridian Agriculture website on 22nd June 2017. Over the life of this project, this website page has received over 2,600 hits (or views). This number is well above our target of 500 views as outlined in the MER plan.

A copy of the summary Case Studies and other media articles are available on this page for target audiences to download and read.

To view the webpage, please visit - http://www.meridian-ag.com.au/farm-succession-webinars/

4.3.5 Newsletter Articles

There have been three articles circulated in the Meridian Agriculture Newsletter. The Meridian Agriculture Newsletter is sent to our clients via Mailchimp to approximately 600 clients. In addition, there articles are placed on the Meridian Agriculture website for download. A copy of these articles can be seen in Appendix 7.

In addition Rennylea also promoted some of the material from the Case Studies in two of their Quarterly Newsletter. For a copy of these articles, please see Appendix 8. Rennylea print 2,400 copies of their Newsletter, of these 2,150 are mailed and the remaining are distributed organically. An additional 25 copies are sent overseas in a PDF format, while the Newsletter is also available to be downloaded on the Rennylea website. Lucinda Corrigan (Rennylea) also advised that she has some good feedback regarding the article.

In addition, Mike also wrote a series of articles for the Murray Dairy and Charles Stewart newsletters. See Appendix 9 for a copy of the article that appears in their Spring 2018 Buying Guide.

4.3.6 Videos

As per discussions with MLA, it was decided to not to produce a series of videos for this project.

4.3.7 Events

As per the MER Plan, Mike was to deliver and discuss the case study project at a minimum of two workshops or seminars (with 25-100 attendees). In addition to delivering the two webinars, Mike has attended the following conferences and workshops, delivering information on the key messages and outcomes from the succession studies:

- BetterBeef Workshop – Hamilton – 22nd Jun 2017 – 110 people in attendance.

- Marcus Oldham College Real World Seminar – 30th Nov 2017 – 80 people in attendance.
- White Suffolk Conference – 13th Feb 2018 – 90 people in attendance.
- Rural Financial Counselling Service (two workshops, one public (70 attendees)and one for the Counselling team (I5 attendees) – 28th - 29th May2018
- North Central CMA 16 attendees,
- Marcus Oldham College Leadership Program – June 2018 – Approx. 45 attendees
- Rural Financial Counselling Service Bi-Annual Conference – 30 August 2018, Adelaide –600 attendees
- Commonwealth Investment Corporation Board presentation (October 25th 2018)
- Bendigo Bank workshop – 9 November 2018 – 80 attendees

Mike also has the following succession speaking events planned for the remainder of the year:

Marcus Oldham College Real World Seminar – December 2018 80 attendees expected

4.3.8 Webinars

As per discussions and correspondence with MLA, Mike delivered two webinars as part of the Farm Success Enabling Case Studies. Mike delivered the first webinar on 10th April and the second on 8th May 2018. The details of each webinar are included below. Each webinar was recorded and the YouTube links were posted on the Meridian Ag website following each webinar for those who were unable to make it on the day or are after more information.

Webinar 1: Succession planning – dos and don'ts from the people who've been there and done that.

Time & Date: 1pm NSW time, 10 April 2018

Registered: 130 people registered for this event.

Online: Up to 80 people attended the webinar on the day. As per our Communications Plan we had aimed to attract minimum of 30 participants.

For full details advertised for Webinar 1, see Appendix 10.

Webinar 2: Succession planning – what to do when you don't know where to start

Time & Date: 6pm NSW time, 8 May 2018

Registered: 120 registered.

On Line: again, up to 80 attended.

For full details advertised for Webinar 1, see Appendix 11.

4.3.9 Brochure/information leaflet

A two page flyer was been created that describes the subject, steps taken and key messages from the case study series. The flyer was developed and approved by the MDC for circulation. A copy of this brochure is available on the website – a copy has also been included in Appendix 12.

4.3.10 Co-operating organisations

As per the communications plan, the details of the case study series and a copy of the summary case studies have been circulated with the following organisations:

- Ag Institute Australia (the national professional body of Ag Scientists and Ag Consultants);
- Marcus Oldham Farm Management College (to its alumni nationally);
- Northern Australian Beef Research Council (NABRC);
- Southern Australian Meat Research Council (SAMRC);
- West Australian Livestock Research Council (WALRC);
- NSW Rural Resilience Program;
- Monaro Farming Systems;
- Tablelands Farming Systems;
- Holbrook Landcare;
- Birchip Cropping Group;
- Meridian Agriculture: list of farmer clients (400 approx.); plus our communications - Twitter, Facebook & our company website; our consulting team (from Longreach to Casterton).
- Meridian Agriculture also has a strong connection with Best Wool Best Lamb and Better Beef Networks.
- Banks (NAB and CBA through individual Senior Managers)
- Rural Financial Counsellors networks (currently four);
- Country Women's Association (45,000 members in over 1800 branches); and,
- Country Education Program in Victoria.

4.4 Surveys

4.4.1 Case study participant survey

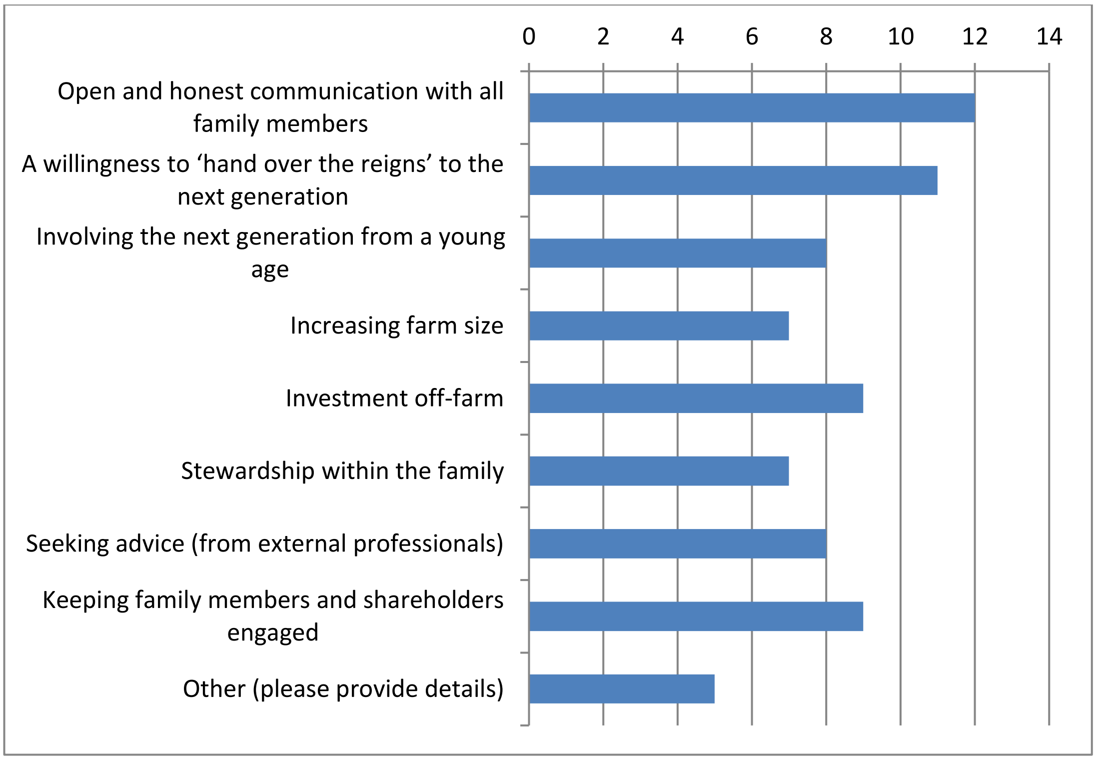
At the conclusion of the project, all 16 case study participants were asked to complete a survey which highlights how their participation in the studies changed their understanding and knowledge of succession planning. The survey consisted of 12 questions and a copy of the full results can be found in Appendix 13.

A snapshot of the results from this survey is included below:

- On a scale of 1 (being negative) and 5 (being highly beneficial), 40% of respondents rated their involvement in the case story series as highly beneficial (5) and 53% of participants rated their involvement as beneficial (4). In addition, some comments from respondents were as follows:
    - *Helped the development of our succession plan.*
    - *The varying approaches to farm succession planning was informative.*

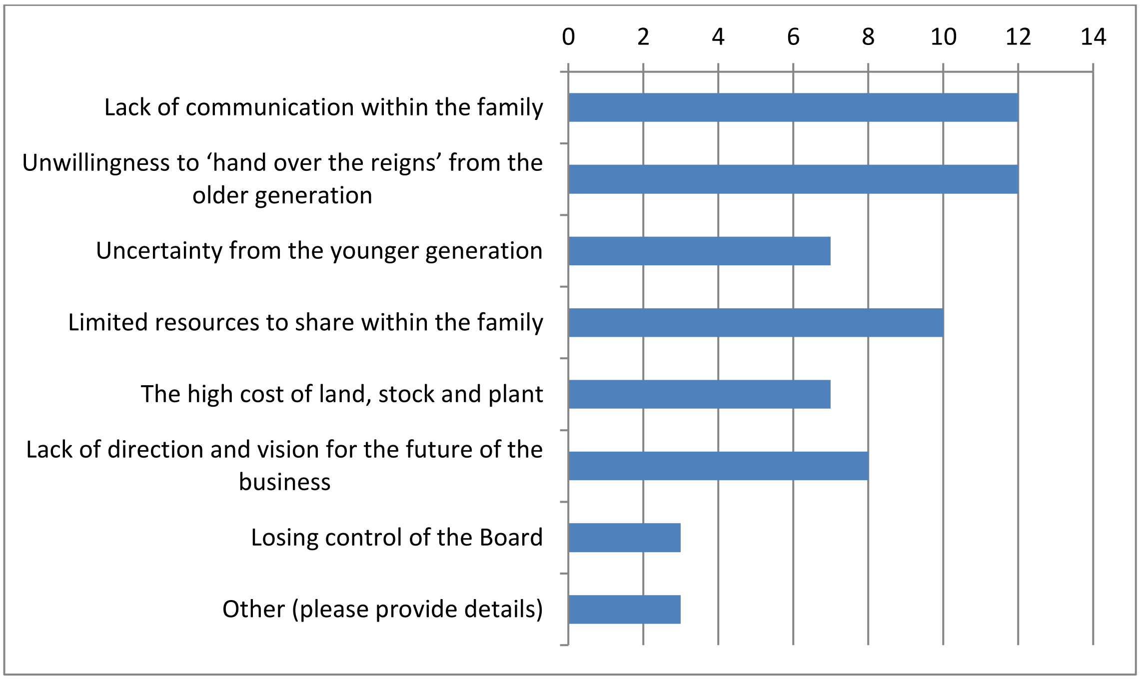
- Overall, on a scale of 1 (being not helpful) and 1 (being very helpful) 25% of respondents rated the case study series as being very helpful (5) and a further 50% rated the series as being helpful (4). In addition, some comments from respondents were as follows:
  - *The information is a useful guide to families considering succession planning and how to avoid pitfalls.*
- 64% of respondents noted that their understanding of succession planning had changed since taking part in the case study series. Some of the details on how their understanding has changed are included below:
  - *Act earlier rather than later, involve everyone where possible.*
  - *There is no 1 template to follow, it must be worked through for each family and they will be different.*
- Figure 1 below highlights the attributes, attitudes and skills that have enabled some businesses to continue and present a successful succession plan as ranked by the 16 case studies. In addition to these, the following suggestions were also made:
  - *Share the decision making early.*
  - *Don't leave out the 'daughter in law'.*
  - *There are a number of influential external issues that constrain the boxes above, i.e. drought, debt, management style, etc.*
  - *I think all of the above have relevance in succession planning procedures.*
  - *Leadership from a family member that oversights and owns the process and takes responsibility for its progress.*

Figure 1: Attributes, attitudes and skills that have enabled some businesses to continue and present a successful succession plan



- Figure 2 below highlights the major road blocks to succession as ranked by the 16 participating case study businesses. In addition to these, the following suggestions were also made:
    - *Lack of leadership from senior generation – what do the parents need?*
    - *Inward looking management. Some of the worst cases we see are farming families that don't understand the wider context. Stick to long cherished views without the ability to challenge and change.*
    - *Personal relationships within the family. Not all families can get on or trust each other.*

Figure 2: Major road blocks to succession



- 92% of respondents identified that their involvement in the case study series was helpful for future planning. Some of the following comments were made:
    - *The information in the case studies can be used, not only in farm succession planning, but in dealing with setting up inheritances within non-farming families.*
    - *We shared the findings with our clients through a written newsletter to 2,300 people. We had significant feedback on the usefulness of the information. For families that are 'stuck' this can be quite confronting.*
    - *Our involvement in this case study allowed our family to review the past, plan for the future , and find a way to implement the plan , which looks like been in a successful way.*
- The following described changes to the succession plans since their involvement in the case study series:
    - *Starting succession conversations earlier. We have also restructured the Trust structure to better facilitate the next generation.*
    - *Asset and ownership of property has changed.*

- *Clearer about the steps, e.g. Removing one member of the family from the trading company. Separation of the issues of the trading company (livestock and plant and equipment) versus the ownership of land. Schedule of steps clear.*

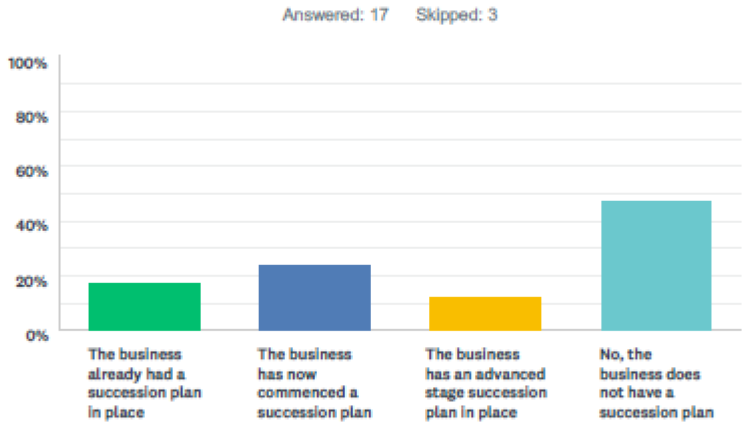
4.4.2 Case study audience survey

At the conclusion of the project a survey was sent to all those that attended the webinars and who were sent a copy of the survey, or made contact with Meridian Agriculture, regarding the case studies. The survey consisted of 19 questions and a copy of the full results can be found in Appendix 14.

A snapshot of the results from the 20 respondents to the survey are included below:

- Of the 20 that completed the survey, 30% of the participants had read all of the case studies and a further 40% had read a few.
- Overall, on a scale of 1 (being not helpful) and 5 (being very helpful) 21% of respondents rated the case study series as very helpful (score 5) and 50% as helpful (score 4).
- Of the 7 respondents (who answered this question) and participated in one or more of the webinars, on a scale of 1 (being not helpful) and 5 (being very helpful) 29% of respondents noted that the webinars were very helpful (score 5) and 45% as average (score 3).
- On a scale of 1 (being not important) and 5 (being highly important) 47% of respondents rate succession planning as being of high importance (score 5) and a further 47% rate this as important (score 4). Included below are some comments from respondents:
  - *Critical to allow planning and implementation of strategies on farm. How do you move forward decisively with farming if the uncertainty of not knowing what the ownership and management of the asset will be has not been dealt with?*
  - *I would like to pass the business on so I have rated it as important.*
- Figure 3 below shows the results from respondents when questioned – as a result of the Case studies and surveys, have you adopted a succession plan for your business. While 47% of respondents did not have a plan, 24% have now commenced a plan and 11% now have an advanced business plan in place.

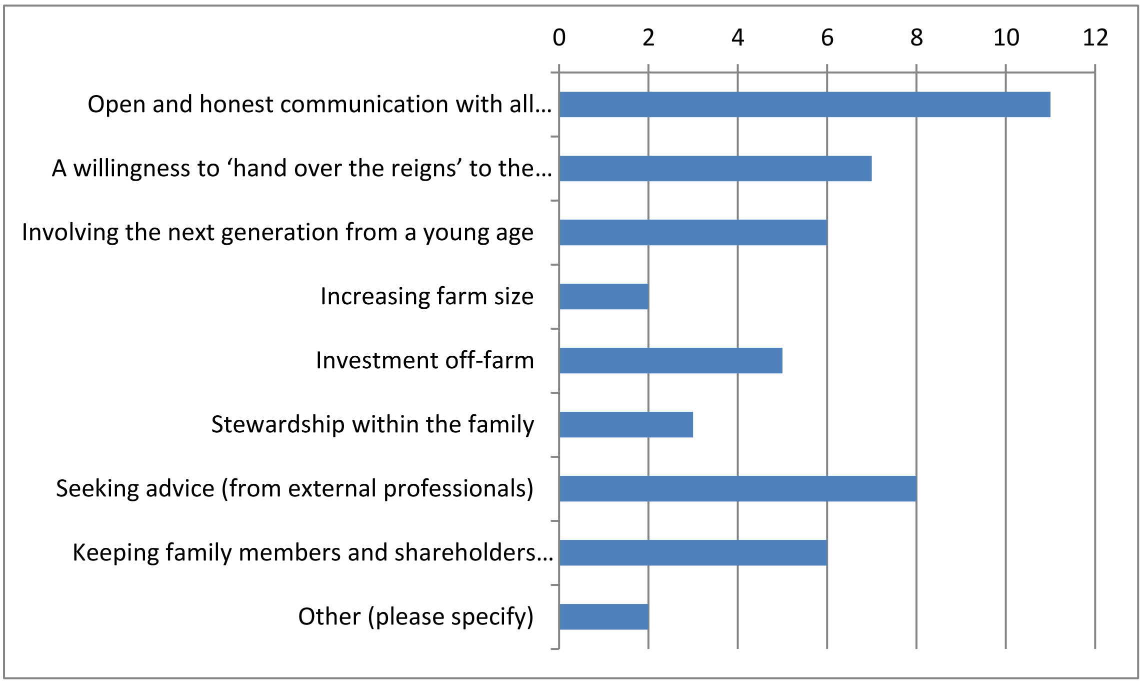
Figure 3: Respondents that have adopted a succession plan



ANSWER CHOICES	RESPONSES	
The business already had a succession plan in place	17.65%	3
The business has now commenced a succession plan	23.53%	4
The business has an advanced stage succession plan in place	11.76%	2
No, the business does not have a succession plan	47.06%	8
TOTAL		17

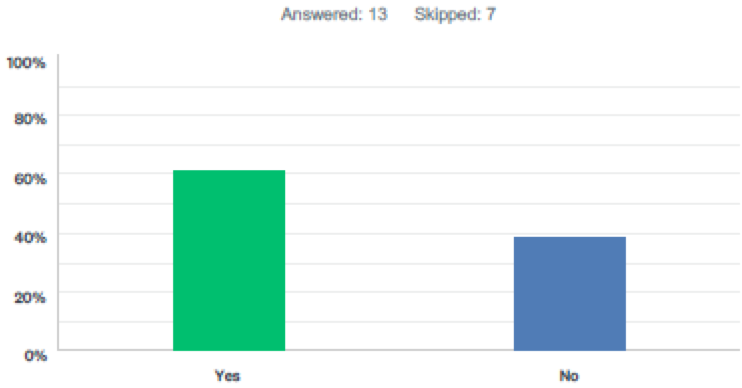
- The following includes some key messages that the survey participants learned from the case study series and/or attending the webinars.
    - *Not always fair, must keep pushing hard*
    - *Every succession plan is different and they be changed - they are not set in concrete.*
    - *Start early. Being fair might not mean being equal*
    - *Involve all key stakeholders in the decision making*
    - *Input is required from a variety of professionals.*
    - *Invest off-farm, have shareholder agreements with buy-sell agreements, fair is not necessarily equitable if everyone is happy.*
    - *Plan early*
    - *Start churning ideas to match our needs*
- The below graph (figure 4) highlights what respondents believe are the attributes, attitudes and skills that have enabled some businesses to continue and present a successful plan. Other attributes, attitudes and skills that were mentioned are also included below:
    - *A caveat on seeking advice - the key is finding an advisor that can work with the personalities in the business and listen rather than tell.*
    - *Possibly invest off farm.*

Figure 4: Attributes, attitudes and skills that have enabled some businesses to continue and present a successful plan



- The graph below (figure 5) highlights what respondents believe are the major road blocks to succession. Other road blocks that were mentioned by participants include:
  - *Fair does not mean equal!*
  - *Family politics, distribution of assets in wills to numerous siblings and uncertainty around their intentions (i.e. communication).*
  - *The unknown of the swags future.*
- Since reading the case study series and / or joining one or more of the webinars, the 61% of respondents have changed their approach to succession (see Figure 6).

Figure 5: Respondents that have changed their approach to succession since their involvement in the case studies and webinars



- The following describes the changes participants have made in their approach succession planning:
    - *Broad advice, open dialogue and communication, take time, look forward, consider non binary options.*
    - *have not yet approached it*
    - *The need to engage all parties early in the discussion. Open communication.*
    - *Getting in expert help earlier in the process.*
    - *Mainly more determined to progress succession planning. Proposing to family use of a facilitator. More involvement and respect for views of upcoming generation.*
    - *My thoughts have cleared somewhat.*
    - *Given higher priority.*
    - *Asked them to watch the webinar and think about what has to be done.*
- Below are comments from some of the participants who have not changed their approach to succession planning:
    - *Too far already down the chosen path, NEVER use a bank's team of succession planners!*
    - *There is not a lot I can do until dad comes to the table and is committed to the process*
    - *We started our process a long time ago and much of what is now have already in place.*

5 Discussion

5.1 Inferences and insights from the data relative to previous research

The pre case study work confirmed that most farmers do not have a succession plan and most broadacre farm businesses do not have sufficient scale for succession of a viable business to be a reality. The case studies contrasted the attributes of the successful (continuing) businesses with those of the businesses which are not continuing or are no longer viable. The case studies and the subsequent minor case studies clarified some ‘conventional wisdom’ including the notion that scale is necessary for succession. The case studies showed that the aim of succession drove the determination to build scale. The end of study surveys with case study and webinars confirmed that the majority had paid insufficient attention to succession planning. They also confirmed the need to start building the business and planning early.

5.2 Practical implications for industry

The first practical implication for industry is that building a business to have the scale to enable succession is a long process which takes considerable time, effort, skill, dedication, energy and commitment from all family members involved.

The second is that although it may be too early to plan succession for unborn or very young children, it is never too early to build the business to allow succession planning.

Other practical applications include using a team of professions to assist with succession, involving the whole family with the process and accepting that there will be hurdles or obstructions which create difficulties in turning the plan into action.

5.3 Unanswered questions and recommendations

The recommendations fall into the province of Government rather than industry.

These include:

- Increasing the financial literacy of farmers by increasing the Farm Management Accounting literacy of accountants.
- Lifting the turnover and net asset limits for Small Business CGT Concessions.
- Allowing Farm Management Deposits (FMD's) to be held by Trusts and Companies.
- Allowing family members working off farm to direct their salary through the farm accounts and into FMD's provided the money was used as part of a succession plan.
- Developing a register of Succession Planning Accredited professionals.
- Providing tax incentives for farmers to use Accredited Succession Planning professionals.

5.4 Draft Extension messages.

- Thinking succession? Start now.
- Don't worry about a succession plan, start planning for succession.
- Build the business to ensure choices.
- Make your investment work and don't tolerate lazy capital.
- Make sure you understand the profit drivers in your business.
- Work with a team of Succession specialists.
- Keep the family involved.
- Keep at it.

5.5 Improvements in project delivery

The project delivery could have been improved if more of the participants had been willing to divulge more detailed financial information and been prepared to be identified. However the sensitivities around sharing financial information and personal family situations was a barrier to individuals agreeing to be identified.

The method of interview, report back, discuss, refine and write worked well but the early drafts were too wordy and in some cases too 'folksy'. In an attempt to capture the personality of the subjects the researcher allowed the early drafts to be far too lengthy. Discussions with MLA which provided direction to the researcher to bring the drafts back to an acceptable length were helpful.

The financial case studies would have been of greater use if a template outlining the MLA requirement had been provided.

It would have been beneficial if the researcher had a better and earlier understanding to the requirements of the MLA MER and Communications requirements.

6 Conclusions/recommendations

6.1 Future R&D

Future R & D to increase the number of farmers who build their business to plan for succession and develop a succession plan could investigate sociological aspects of the family in business and generational interaction. In cases where there is no successor, investigations could be centered on the relative importance of family relationships, the image of farming, the social isolation, and the capital constraints.

At the extension end of the R D and E continuum initiatives could include:

- Enhancing the financial literacy of farmers:
    - One approach is to enhance the understanding of the requirements of Farm Management Accounting. Many accountants provide taxation accounts which are useless in supporting farm management decision making. In most cases with minor additions, new calculations at a slight increase in fees tax accounts could become useful.
    - A second approach is to deliver the Young Farmer Business Boot Camps, which have been very successful in Victoria, across all States.
- Understanding the blockages which inhibit farm business growth.
- Understanding the blockages to farm succession which include:
    - The scale of the business;
        - Many are too small.
    - The belief by the business owners that succession of a viable business is possible.
    - The lack of a successor:
        - In some cases the next generation has no interest in farming.
        - In other cases the possible successor or successors have left the farm because of difficult personal relationships or an unsatisfactory employment relationship while they were on farm.
    - The desire of the business owner:
        - Some people see the farm as their superannuation to be sold to provide funds for retirement.
    - The threat of legal action.
    - The threat of legal action is very real in some families but the structures which need to be put in place to mitigate against it are often complicated and expensive.

Some areas of government policy, if changed, could assist farmers in building their businesses. These include:

1. Accept that high quality analysis and advice about farm succession decisions is in short supply and:
    - Develop a register of succession professionals (as with Whole Farm Planning);
    - Appoint part time succession expert Rural Financial Councillors;
    - Provide a better than 1 for 1 tax incentive for approved plans;
        - For the plan to be approved the farmer would need to meet agreed criteria.
2. Remove the restrictions on FMD's to allow family companies to hold them and;
    - Further lift the individual limit of FMD's;
    - Allow off farm income, used in succession to be included as part of the farm income.
3. Support programs which improve financial literacy including:
    - Programs which encourage accountants to provide farm management accounts
    - Programs such as the Young Farmer Finance Boot Camp.
4. Actively support community debate around the meanings of fair, equal and equitable.

NOTE: Foreign/sovereign/domestic fund investment is a two edged sword in relation to succession and any policies which interfere with/control the free market will have negative consequences for some family farmers and positive consequences for others.

7 Key messages

In order to increase the percentage of properties which remain in the ownership of a family for several generations farmers will need to:

- Believe that succession is possible.
- Have a successor.
- Work with the family to build the business to enable succession.
- Develop a succession planning team
- Develop a succession plan.
- Be prepared to adapt and modify the plan.

The likely social benefits will be derived from family members having certainty about the future.

The likely economic benefits include arresting asset decline which occurs during a rundown phase in a farm where no succession is planned.

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9 Appendices

9.1 MER Plan

MER PLAN

PSH 0827 FARM SUCCESS ENABLING CASE STUDIES

KRA: By June 2018, through a series of case studies conducted with Australian red meat production businesses which are family owned and managed, demonstrate how businesses (and the families who own them) have been managed and can manage in the future to build wealth to enable succession through successive generations.

Key business driver (metric being examined):

- Development of 'Road Maps' to enable viable businesses to be passed to successive generations

Evaluation level	Generic Performance Measures	Project Performance Measures	Evaluation Methods
Inputs – What did we do? *Describe the planned and expected inputs involved in your project*, including *funds, resources, development & projects structures*	• Number of producers involved in case studies and the family situations • Investments from MLA and other parties (cash and in-kind contributions) and what was purchased – professional time, project inputs	• Evaluate 30 candidate businesses/producer families as part of the success enabling case study series • Interviews with 20 businesses/producers completed. The sixteen selected businesses are situated in mid and southern NSW, the Rangelands and SE in South Australia and throughout Victoria. All are family owned and all have been run by that family for at least three previous generations. Businesses will be a mix of beef and sheep enterprises. Stock numbers range from 2500 DSE (Alfa) to 1,860,000 DSE(Beta @12)	• A short summary of the 30 businesses considered • Thorough record of all interviews and meetings conducted with the 16 businesses, including transcripts of the interviews. • Provision of publication ready: case studies x 16, 5 x Business EDGE studies, four x three minute videos, and other communications materials as detailed below. • Financial reconciliation of the project and all reports

		• Funds: $103,425.66 from MLA Donor Company. • Funds: $103,425.66 from Meridian Agriculture.	submitted to MLA on time and approved by MLA
Outputs - What did we do? *Describe the outputs planned/expected from your project*, *including engagement activities & products from demonstration sites*	• Outputs from case Studies (e.g. successful in creating a viable farming enterprise for the next generation, or not successful in creating a viable farming enterprise for the next generation) • Media events/outputs	• Provision of 16 summarised (300-500 words) word versions of case studies that are publication ready • Provision of 16 full length versions (2,500 words) – eight of these businesses will be continuing and the other eight will be businesses that have discontinued for are no longer viable (8/16 case studies are likely to be anonymous). • Five Business Edge case studies (publication ready) for inclusion in Business Edge program (three of these will be written around succession planning) • Four x three minute videos (publication ready) that summarise and examine four agreed broad situations • Conducted a webinar in conjunction with MLA to promote the project results and recommendations to producers, researchers, extension officers and consultants (minimum of 30 participants to join this webinar) • Submission of a PowerPoint presentation- short and sharp to summarise the key findings, information and recommendations • Submission of milestone reports, including final milestone report Communications activities:	• Interview data from case study interviews included in milestone reports • 500+ hits recorded during the project life on the dedicated Case Studies projects page on Meridian Ag website • Feedback recorded from the website and social media activities • During the life of the project 300+ people/impressions per post/tweet recorded from sharing of publications and case study stories on Meridian Ag Facebook & Twitter accounts • A minimum of two events held with a target audience of between 25-100 people each.

		Delivery against the MLA approved project communication plan including: • Provision of a lead story to introduce the project and two articles based on the case studies for use in MLA communication channels, social media activities • Delivery of succession presentation at producer events, including information on case studies	
Changes in knowledge, attitudes and skills - How well did we do it? *Describe the changes in KASA that you are planning to achieve*.	• Change in knowledge/attitudes/skills of the participants in case studies before and after the project • Experience of producers involved in succession- extent to which they found the project valuable	The 16 businesses involved in the project will be surveyed to measure whether they have a better understanding of: • The attributes, attitudes, skills and knowledge which have enabled some businesses to continue while others don't • The major road blocks encountered by businesses and how they overcame them • The contrasting actions, decisions, mindset of the two groups of business • Provisioning for retirement • Provisioning or succession based on the number of children and family situation • The need to increase farm size to provide for the family • The diminishing value of the $ due to inflation • The interference by courts if the primary vehicle for succession is the Will.	• Case Study material from people involved in the project will be available on the Meridian Agriculture website • Conduct follow-up interview/survey at the end of the project with the 16 businesses/producers considered and measure changes in and their understanding of succession planning
Practice changes – Has it changed what people do? *Describe the practice changes that you are expecting to*	• Producer (core & observer) practice relating to family succession planning before and after the project	The industry measures: Succession plans adopted by an increasing percentage (up to 80% of the 16 continuing businesses) by 2020 The participant measures:	• Survey through the co-operating organisations as listed in the communications plan to identify industry changes in the uptake and implementation of

achieve by the end of your project:		• Intent to change of the 16 businesses involved in the case studies captured at the beginning of the project and compared to actual change at the end of the project • Intent of change for participants attending events captured The advisor measures: • We will measure advances in the plans of the participants	succession plans (via Survey Monkey). • Conduct follow-up interview/survey with the 16 businesses/producers and measure changes in their succession planning. They will have either taken the steps to continue or they have not.
Benefits – Is anyone better off? *Describe the benefits that you are expecting to achieve as a result of the project:*	• Benefits from outcomes • Project learnings, barriers/enablers to adoption of succession planning	• Participants will have benefited through their involvement due to inproved understanding of the succession process and are refreshing/updating their succession plans • The wider audience will have a series of 'Road Maps' for building their businesses to enable succession • The barriers (i.e. size of business) to succession planning are better publicised	• Captured through follow-up interviews/suervery with the 16businesses/producers. • The program is costing the tax payer $104,000; the cumulative benefit over the cost is $180,590. As 5% adoption of target farms, the benefit over cost per farm is $550 (see Appendix 1 for details)
General observations / outcomes – Is the industry better off?	• Potential impacts (practice change) at the end of the project and well after the project has concluded (12 months after) for the broader target audience	• The cost of inaction (see Appendix 2)	• The program is costing the tax payer $104,000; the cumulative benefit over the cost is $180,590. As 5% adoption of target farms, the benefit over cost per farm is $550 (see Appendix 1 for details)

Appendix 1: Evaluation

ABS estimates that there are 111,171 sheep and beef cattle businesses in Australia.

ABARES (2013) estimates that there are 53,300 broadacre farmers in Australia. Red meat producers are included in that category.

A Meridian Agriculture (2016) survey of Accountants, Lawyers, Farm Management Consultants, Bankers and Rural Financial Counsellors, which reached into over 6,000 businesses, indicated that over half the 6,000 businesses surveyed did not have a succession plan.

The 53,300 includes cropping only farms and corporate farm businesses. If we subtract an allowance of 10% for corporate and a further 10% for cropping only farms, the number of broadacre livestock family farms is around 43,000. If, like the sample of 6,000 farm businesses, half of these farms did not have a plan to grow the business or a succession plan, that would make around 20,000 farm businesses without a succession plan.

For some farmers selling the farm and retiring is the best option, however of these a proportion take that option because they have been unable to build the business and envisage succession.

Typically the generational interval in a farm business is 30 years so, if it was the case that exits from the industry was distributed evenly across time, in any year there would be around 650 businesses where transition occurs with a plan and 650 where it occurs without one.

The MLA investment in this project is $104,000. A meta-analysis of returns to investment in agricultural R&D based on several thousand investments found that the average return on investment in RD&E in agriculture is 10-12% (Hurley 2014).

It can be argued that the 'Shelf Life' of the results of this study about succession is ten years. If so, with the investment in year zero and the benefits in the subsequent 10 years, then the required annual net benefits from the investment – the annuity – to earn 10% return, is around $18,000 p.a. (see Table 1 below). Where could net benefits of this size come from? If 5% of the farm businesses each year changed from not having a succession plan to having one, or improved a plan, the benefit required would be around $550 per farm business each year over 10 years that implemented a succession plan influenced by this research.

If 5% of the 650 businesses in one year moved to a plan, or produced a better plan and avoided each $550, the project will return its 10%.

If 5% of farm businesses in the target audience make improved succession plans, each year, as a result of the findings of this research, where might $550 net benefits be found as a result of the research findings? For starters, this represents about two hours of a solicitors time and a very short day for a SC. Legal bills of tens of thousands of dollars are common where no plan is in place. Meridian Agriculture has a client (not a succession client) who has just won a succession dispute at a cost (for one side) of $1,200,000.

Table 1:

Year		0	1	2	3	4	5	6	7	8	9	10
Cost		104000										
Benefit			18059	18059	18059	18059	18059	18059	18059	18059	18059	18059
Net benefit		-104000	18059	18059	18059	18059	18059	18059	18059	18059	18059	18059
Cumulative benefit			18059	36118	54177	72236	90295	108354	126413	144472	162531	180590
NPV		0										
Disc.Rate		0.1										
no farmers		650										
	5%	35										
$/farmer		550										

Appendix 2: the cost of inaction

The Chapman Eastway and Charles Sturt University report 2016, *Australian Farming Families: Succession & Inheritance*, shows that:

> *Businesses where owner retirement looms, will, over the next decade employ 7.9 million people and contribute approximately $500 billion in GDP (PWC, 2016) [This number is based on 157,000 farms]*

Red meat farms without a succession plan will bare approximately 7% of the loss.

Full Extract:

Succession involves the transfer of leadership, managerial control and ownership of family and farming assets from one generation to another. During the succession process, it is often difficult for farmers to reconcile the balance between treating children “fairly,” providing for their future and maintaining a viable business which can lead not only to a reluctance to step into retirement, but to discuss succession at all. This reluctance in combination with the net reduction in young farmers (those under 30) means Australian farmers are getting older. In fact, over half of Australia’s farm owners are over 55 years old with the majority expecting to retire in the next 15 years.1 The potential tide of future sales posed by this outflow presents a risk not just to owners themselves, whose valuations could be hurt in the supply of businesses for sale, but to the broader economy. Businesses where owner retirement looms, will, over the next decade employ 7.9 million people and contribute approximately $500 billion in GDP (PWC, 2016). Given the scale of projected exits, multiple failed business transitions could have a knock-on effect in the wider economy including increased job displacements, dampening innovation and compromising agricultural productivity. An estimated $400 billion will be needed to support the structural shift in farm ownership over the next 40 years.2 A failure to plan for the growing number of retirees and develop effective strategies for the transition of ownership and management poses a serious risk to the survival of those enterprises looking to hand over assets to the next proprietor, be it family or otherwise.

9.2 Communications Plan

MERIDIAN
Agriculture

PROJECT PSH 0827 FARM SUCCESS ENABLING CASE STUDIES

Communications Plan

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Version: Final

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PROJECT PSH 0827 FARM SUCCESS ENABLING CASE STUDIES

Communications Plan

Contents

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1. INTRODUCTION

Most farming families share the three aims of: funds to enable retirement; passing on a viable farm (if any of the next generation want to farm); and keeping the non-farming members happy both now and in the future. These three aims can be described as 'the trifecta'.

Project PSH 0827 Farm Success Enabling Case Studies will produce a series of case studies (for use in a range of communications channels) of Australian red meat production businesses which are family owned and managed. The studies will include descriptions of the businesses from the human, financial and physical perspectives. The studies will contrast the decisions, actions, attitudes and attributes of the owner/managers/family members of businesses which will continue into and beyond the fourth generation, with those which will not continue. Put simply they will show how businesses (and the families who own them) have been managed to build wealth to enable succession through successive generations.

An extensive literature review, conducted in preparation for this project, indicates that the vast majority of broad acre (sheep, beef, goats and cropping) farms are not viable and there is no prospect of the families who own and manage those farms achieving the trifecta (funds to enable retirement, passing on a viable farm, and keeping the non-farming members happy both now and in the future).

The case studies will provide examples of how businesses have succeeded and contrast with those which have not. They will be drawn from a range of businesses including at one end; very large, multi-family, multi-generation, multi-million dollar, and at the other very modest single family, single generation businesses.

The work to date has indicated that the issues are the same no matter what the size of the business is.

2. THE HIGH LEVEL OBJECTIVE

The high level objective is to demonstrate that the trifecta is possible if the family sets out over a long period to build the business. The primary question to be answered is: "what strategies are required to enable the current generation to achieve the three goals of farming, which are to retire, pass on a viable business and provide equitably for non-farming children?" [Referred in case studies as ['the trifecta'], or "How can the farm be kept in the family?"

Collectively the case studies will act as 'road maps' which, in the case of continuing businesses, show what they have done to make succession possible and contrast those studies with businesses which will not continue. The case studies will be distributed through the wide range of co-operating organisations which are listed in section 4.1.

2.1 High level measures

The most important measure is that the number of farm business owners who are addressing the issues surrounding building the business to enable succession, in particular the capacity to remain viable, increases.

A full explanation of the evaluation is described in the accompanying MER plan. An extract appears below:

It can be argued that the 'Shelf Life' of the results of this study about succession is ten years. If so, with the investment in year zero and the benefits in the subsequent 10 years, then the required annual net benefits from the investment – the annuity – to earn 10% return, is around $18,000p.a. (see Table below). Where could net benefits of this size come from? If 5% of the farm businesses each year changed from not having a succession plan to having one, or improved a plan, the benefit required would be around $550 per farm business each year over 10 years that implemented a succession plan influenced by this research. A return per farm of $550, on a 5% of farms basis will justify the investment.

Secondary measures include a greater focus on the future and increases in productivity and profitability. The case studies of continuing businesses show that generally they set out to be efficient and the efficiency enabled them to build scale and/or off farm income.

The case studies will enhance MLA Stakeholder engagement and by using the channels of the co-operating organisations will increase stakeholder and target audience reach and ensure renewed discussion on the subject.

3. KEY TALKING POINTS (THE TOP 'TAKE-OUTS')

In preparation for PSH 0827, I have conducted an extensive literature review of the policies and practices which have brought Australian agriculture to a point in 2017, where the vast majority of broad acre (sheep, beef, goat and cropping) farms are not viable and there is no prospect for the trifecta.

ABARES reported in 2014 (see Appendix 1) that there are 53,300 broadacre businesses in Australia. Seventy percent (70%) of those 53,300 had a Gross Income of less than $380,000 in 2012-13, only 17% had a gross income which is likely to be high enough to allow the trifecta. Although those figures will have improved in the three years since the report, the picture remains the same.

In 2015, Meridian Agriculture surveyed farmers, accountants, lawyers, rural financial counsellors, bankers and private consultants, who collectively provided responses representing over 6,800 of the 53,300 broadacre businesses. The surveys have provided us with a window into 12.75% of broad acre farm businesses.

Our surveys have shown us that:

- The majority of farmers don't have a succession plan;
- If they have to choose between the future of the farm and a happy family, they will choose the future of the farm. That is that, although some family members will be unhappy and receive a very small share of the family assets, the farm will be given to one child to ensure its viability;
- A consequence of the point above is often inaction;
- They can address the problem if they start early, build the business and don't overload the business with family members;
- A significant number of additional businesses (about 15%) can remain viable if they address the issues related to the trifecta.

3.1 Two academic theories

Two academic theories underpin these case studies. The first is '*The Theory Of The Growth of The Firm*' (Penrose) and the second is '*The Case Study As A Serious Research Strategy*' (Yin) and as used in Australia by Crosthwaite.

3.2 Summary of work pre PSH 0827

- Extensive literature review;
- Segmentation of the market by gross farm income and as a consequence the steps required to make succession a possibility;
- An extensive survey of farmers and their professional advisors;
- A compilation of the work to date (provided to MLA with the initial application).

4. WHO ARE THE PRIMARY, SECONDARY AND TERTIARY AUDIENCES?

The 'primary audience' is red meat producers. It is the farmers who currently run businesses who have to make the decision to build to enable succession or not.

Currently the majority of businesses are wedged in a state of 'inaction' and are unable to decide what to do. The case studies will provide them with useful road maps and advice.

The 'secondary audience' is farm advisors in the broadest sense of the word. This includes consultants, lawyers, accountants, bankers and rural financial counsellors.

The third level is producer groups and other organisations which assist farmers and their families.

A list of organisations which have committed to assist appears at the bottom of this section.

4.1 Communication Channels

A full explanation of the project output (case studies, videos, webinars, Business EDGE case studies and the success vs failure article) is outlined in Section 6 of this plan.

Meridian Agriculture has been using a wide range of communication channels and, in conjunction with and approval from MLA will continue to utilise different channels to engage primary and secondary audiences.

MLA Feedback magazine: Meridian Agriculture will work in conjunction with MLA to produce four articles for the MLA Feedback magazine.

Social media campaign: Meridian Agriculture will work with MLA to promote the Case Studies through both Facebook (@meatandlivestockaustralia & @meridianag) and Twitter accounts (@meatlivestock & @Meridian_Ag).

Media outreach: In conjunction with MLA, Meridian will work to produce and distribute a quarterly press release. Note that MLA will manage the distribution of media releases and have full sign off and approval before distribution. The first press release will offer an overview of the program and its aims, with case studies targeted at specific media to follow each quarter.

Website: A page will be created on the Meridian Ag website that will have an outline of the project and include regular updates that will be shared via social media.

E-Newsletter: All articles will also be made available to MLA for inclusion in their e-newsletter Friday Feedback (four articles in total). Meridian Ag will incorporate articles in their quarterly newsletter which has a distribution to over 500 client and corporate contacts.

Videos: Four three minute videos will be available on both the Meridian Ag YouTube and MLA YouTube pages and advertised via our website and social media. Note that MLA will have full sign off and approval before distribution.

Events: Mike Stephens will continue to speak about this project and succession in general at events. He will be available to deliver workshops at MLA events. Recent events have included two major conferences and two group presentations in the last year, two planned workshops in March & April, and delivery through Meridian Agricultures contract to design and deliver the Victorian Ag Departments Young Farmers Farm Business Boot Camp Project (YFFBBC).

Brochure/information leaflet: Meridian Agriculture will create a flyer which describes the subject, the steps taken and the key messages. This flyer will be developed in line with MLA brand guidelines and will gain MLA approval before distribution.

Webinars: To be developed with MLA.

Cooperating organisations: The organisations which have agreed to promote and distribute the case studies when complete include:

- Ag Institute Australia (the national professional body of Ag Scientists and Ag Consultants);
- Marcus Oldham Farm Management College (to its alumni nationally);
- Northern Australian Beef Research Council (NABRC);
- Southern Australian Meat Research Council (SAMRC);
- West Australian Livestock Research Council (WALRC);
- NSW Rural Resilience Program;
- Monaro Farming Systems;
- Tablelands Farming Systems;
- Holbrook Landcare;
- Birchip Cropping Group;
- Meridian Agriculture: list of farmer clients (400 approx.); plus our communications - Twitter, Facebook & our company website; our consulting team (from Longreach to Casterton).
- Meridian Agriculture also has a strong connection with Best Wool Best Lamb and Better Beef Networks.
- Banks (NAB and CBA through individual Senior Managers)
- Rural Financial Counsellors networks (currently four);
- Country Women's Association (45,000 members in over 1800 branches); and,
- Country Education Program in Victoria.

5. TIMELINES

March 15th 2017 - Communications and MER plan to MLA.

May 15th 2017 - First draft of 16 case studies to MLA.

September 1st 2017 - (the actual timing and order of the case studies will be decided in conjunction with MLA)

- Launch with program overview press release ;
- Six case studies (three of continuing and three not continuing);
- Five Business EDGE Case Studies;
- Four by three minute videos which depict the most important lessons from the case studies;
- Sixteen publication ready case studies (including the six above) written in a format which meets MLA approval

November 1st 2017 - Final versions of Videos delivered to MLA.

June 1st 2018 - Final report supplied to MLA for approval, including a report against the listed program objectives and this and the MER plans.

Until all the interviews are complete it is not practical to be definitive about the choice of case studies or the order in which they should be published.

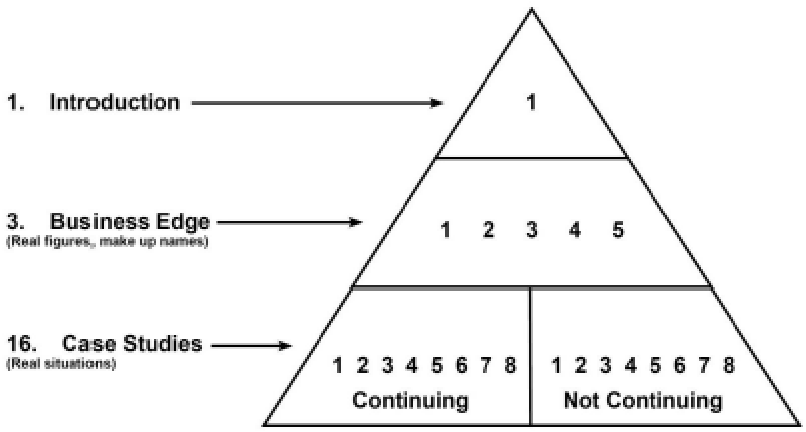
6. PLAN DETAIL

The Communications Plan is a pyramid and is in reverse order to the work undertaken:

- In developing the case studies, thirty farm businesses were considered;
- Sixteen business will/have agreed to participate;
- Interviews are being/have been conducted with the participants;
- From the sixteen participating businesses, six case studies which best compare and contrast (the decisions, attributes, skills and attitudes of the business owner/managers) will be selected for inclusion for distribution by MLA and for the videos;
- The six case studies will be presented in a format/style acceptable to MLA;
- The video messages will be selected in conjunction with MLA and the subject participants selected. The factors which make the case most interesting and the ability of the participants to appear on camera will have a strong bearing on the selection;
- The videos will be produced;
- The remaining case studies will be prepared for inclusion in eventual distribution through the distribution channels listed above in section 4.1.

Figure 1: Communications Pyramid

Each of the case studies will highlight the outstanding features or attributes of the business. In addition they will describe the busineses in terms of age (in years and number of generations), size (area or DSE over time), major obsticals overcome (drought, fire, market) sources of capital (foundation and expansion) and any aspect of the business or its people which sets it apart.



30 Farm businesses considered as case study subjects

The aim is to have the prospective reader 'hooked' by article one and encouraged to follow on down through any one of the five 'Business EDGE' case studies to one of the 16 which has a 'Tag Line' that describes their circumstances.

Top Level: Article One

Level 1 (Top): A sharp piece (see concept article below) which: explains that we have carried out 16 case studies, eight of which are of farm (red meat) businesses which will continue beyond the 3rd generation and in some cases the 5th generation and contrasts the continuing businesses with businesses which, for a variety of reasons, have ceased or will cease to operate. The reason for 16 businesses is that there are some typical sets of circumstances which individuals will relate to. The sixteen will cover virtually all the sets of circumstances. They are shown in Appendix 2: Case Study Tag Lines Table.

Middle Level: 5 draft Business EDGE case studies

Five draft Business EDGE case studies which are short blurbs about the business (which can have made up names etc.), accompanied by profit and loss statements etc. as per the existing ones in Business EDGE.

Bottom Level: The 16 Case studies (Appendix 2) which are described by the tag lines

See Appendix 2: Case Study Tag Lines Table.

7. FURTHER BACKGROUND INFORMATION – A DETAILED LOOK AT THE ISSUE

Historically, few farm businesses in Australia have passed smoothly from one generation to the next for several generations. In the past fifty years the number of commercial farm businesses in Australia has more than halved. This reduction is due to the combination of many factors. These include declining terms of trade, recurring drought, commodity price cycles and the unpreparedness of successive generations to follow in the footsteps of previous generations. But perhaps the greatest reason for the fall in the number of farm businesses is the cumulative effect of government policy which commenced with the desire in the 1770's of the British Government to create a 'Class' of small land owners In the hope to become an established colony. That desire, in one form or another, has been continued by successive Australian state and federal governments to the present day.

In future, as in the past, a small minority of farm businesses in Australia will have the potential and capacity to evolve into successive generational businesses that can continue to earn competitive returns on capital, be financially viable (liquid) and build wealth (growth and return to equity).

Using the ABARES figures in Appendix 1 it is hard to envisage how more than 10,600 (twenty percent of the 53,300) broadacre businesses can remain viable. The 10,600 businesses include all broad acre businesses, so when specialist crop businesses are excluded from the data the number producing red meat will be less.

Numerous studies of, and texts on farm management both within Australia and internationally, fail to point out the management and strategy development required to build the business to enable farm transfer or succession. Similarly, studies on farm transfer or succession generally fail to address those management issues which will create the wealth to make succession a realistic possibility.

8. DRAFT PRESS RELEASE (CONCEPT ONLY)

Building the farm business to enable succession- A case study series:

A case study series, including the key factors which enabled succession has been developed in an innovative project, including producers, MLA, producer advisors and Meridian Agriculture. Following a series of in-depth interviews involving thirty producers from most climatic regions and a wide range of businesses sizes, six studies have been selected for the key messages that they contain.

The studies, which have included individual businesses which will continue to grow and be owned by the current family and others which have been sold, or are no longer viable, have been investigated looking at the key management and human aspects of the business.

By comparing and contrasting the skills, knowledge, attitudes and attributes of the family members and the decisions they have made, the studies provide some valuable pointers, or roadmaps, for other businesses. The lead article in the series summarises the contrasts between the two groups of business. It will be followed by 5 or 6 case studies which best represent the range of circumstances which have been identified. Five studies will be looked at through the lens of the Southern Business Edge and will concentrate on financial aspects. The key case studies will be supported by videos and one page diagrams showing the important lessons which have been learnt. All the case studies and all of the material will be published though the MLA and Meridian Agriculture websites for more information….

9. LEAD STORY-THE CONCEPT

Succession case studies – compared and contrasted: This lead article can be used to explain the program and will tie in with the success/failure document. It will be based on the actual businesses but the piece has been written for demonstration proposes for the communications plan. In the article below the businesses are referred to by A or B. In the series, where permission has been obtained, the real names will be used. In some cases a pseudonym may be required.

Lead Story-The story (Concept only, currently 578 words)

Meridian Agriculture, in conjunction with MLA and over thirty producers, has developed a series of case studies looking at the key factors which have enabled some family businesses to continue to and beyond the 4th generation, while others have been sold or remain but are not viable.

Some important findings from the case studies are compared and contrast in this article. Firstly let's consider two very large, multi-generational, multi-family, multi-million dollar businesses which have several properties.

Study One

Business A has recently been sold; the other (Business B) will remain in the family for the foreseeable future. The major contrast between the two businesses it that while both were profitable, both had a spread of enterprises and both could hold their head up in the way they had performed, one lost control of the Board and family became disenchanted, while the other kept control of the Board and ensured that family members had a real interest in the business. In the case of the continuing business, family members have been encouraged to visit the properties and to work in the business. The Board, although it has outside Directors, is controlled by the family.

In the case of the business that has been sold, the family members decided that it was more important to get expertise from outside Directors and over time the Board became dominated by outside Directors and the outside Directors actively discouraged family members from presenting any of the properties- family members became disenchanted and the businesses have been sold.

Study Two

Business A started as small business and has grown. Business B started as a big business and is now a small business which requires off farm income to rebuild infrastructure and support the family.

Business A now supports a team of eight full time people including four members of the founding family. Business B which once supported a team of ten or more now fails to support one full time person.

Business A was determined that 'we were not going to live like peasants', while business B was determined that they were not going to look like peasants.

Business A grew, business B shrunk. Business B used other people's capital; Business B sold assets and used the capital.

The principals in Business A worked very well together as a team; the principals in Business B, while a team as a family, were not a team when it came to the farm.

Business A concentrated on team work and team decision making while the principal in Business B was autocratic. In Business A there was a long history of succession and involving the next generation early in business decisions. In business B the next generation was chased away.

Business A set out to create a new enterprise, researched their possible client base and created a 'product' to meet the demand. Business B ignored market signals and continued doing what they had always done.

Study Three

The third set of circumstances features multi-generational, multi-family businesses. In Business A, the cousins who now run the business worked out how to go on running the business together and keep everybody involved. In the last 30 years, they've managed to reduce the number of shareholders. That contrasts with Business B where the number of shareholders was getting greater. The return per shareholder was minimal and the only foreseeable action was to sell the business.

The case studies track the size of the businesses over time and the imputed value.

10. APPENDICES

Appendix 1: Total Value of Sales 2012/13 from Broadacre Farms

Sales class	Share of population	Cumulative share of population	Share of value of sales	Cumulative value of sales
Less than $60 000	14.9	15	0.6	1
$60 000 to $80 000	10.1	25	1.7	3
$80 000 to $100 000	5.0	30	1.1	4
$100 000 to $120 000	5.1	35	1.2	5
$120 000 to $140 000	4.9	40	1.4	7
$140 000 to $160 000	5.0	45	1.7	8
$160 000 to $190 000	5.0	50	2.0	10
$190 000 to $230 000	5.0	55	2.4	13
$230 000 to $270 000	5.0	60	2.8	16
$270 000 to $320 000	5.0	65	3.3	19
$320 000 to $390 000	5.0	70	4.0	23
$390 000 to $480 000	5.0	75	4.8	28
$480 000 to $590 000	5.0	80	5.9	34
$590 000 to $700 000	3.0	83	4.4	38
$700 000 to $800 000	2.0	85	3.3	41
$800 000 to $900 000	3.0	88	5.7	47
$900 000 to $1.1million	2.0	90	4.4	51
$1.1 to $1.3million	3.0	93	8.0	60
$1.3 to $1.7million	2.0	95	6.7	66
$1.7 to $2.1million	2.0	97	8.4	75
$2.1 to $2.5million	1.0	98	5.2	80
$2.5 to $3.4million	1.0	99	6.5	86
Greater than $3.4million	1.0	100	13.8	100
Total population of broadacre farms	**53 300**	no		
Total value of sales (gross)	**22.78**	$'s billion in 2013-14 dollars		

Note: AAGIS excludes farms with an estimated value of agricultural operations of less than $40 000
Source: Australian Agricultural and Grazing Industries Survey (AAGIS)

Appendix 2: Case Study Tag Lines Table

Description	Continuing	Not Continuing	Comment
Multi Family, Multi Generation	We set out to achieve all three.	**We lost the connection between the farms and the family.**	First Interviews complete. Both very large businesses, both profitable, both paid dividends to shareholders. Will Able-Smith (S. Kidman & Co) has (today- 7/3/17) authorised the publication of his name.
Multi Family, Multi Generation	Dad grew the assets by trading farms. (1)	**Over the generations there were too many beneficiaries. (2)**	First Interview for 1 complete, Interview for 2 agreed. Both profitable both from similar backgrounds in the same district. One continuing one sold.
Multi Family, Multi Generation	**They just kept on buying and left it up to us to pay the bill. (1)**	**Too many kids.**	Similar situations, different result.
Single Family, Two generations	**We decided that we weren't going to live like peasants. (1)**	**I won't sell on my watch. (2)**	First Interview for 1 complete, Interview for 2 agreed. Both have a similar family history of multi generation ownership. Both started with similar capital and similar area. One has grown to a multi-million turnover, the other is split into three hobby farms.
Single Family, Two generations	**Dad worked off farm and that made room for me. (1)**	**He just kept selling bits off. (2)**	First interview (2) complete. Similar to above.
Single Family, Two generations	**We were determined to grow.**	**We just grew tired of it.**	Contrasts the attitudes of two families.
Single family one generation	**We used the assets of other businesses.**	**We thought there were better returns in other businesses.**	Some people want to farm, others don't. Why?
Single family one generation	**We built off farm assets. (1)**	**It isn't possible to get all three.**	Similar situations in terms of size. One manages to distribute on a 40/30/30 basis, the other on a 80/10/10

9.3 16 Case Studies – Summary and Full Case Studies

Case Studies Key.

Public	C/NC	Number	Name	Description	Quote
N	C	1	Iota	They determined that they weren’t going to live like peasants and used their combined skills to follow their passion.	We weren’t going to live like peasants
N	C	2	Upsilon	Being an only child helped, but with his father he built the business from a small farm to a truly viable one and the eventual division of family assets amongst his three children will be 40/30/30.	We wanted it to be a fair as possible
N	C	3	Rho	The farm was split in three successive generations. For it to remain viable it needed to avoid further size reduction. There are four children. The family confronted the issues and the split is 79/7/7/7.	If the division was even the farm would be sold
N	C	4	Lambda	The start was modest, we share farmed, worked off farm, invested off farm. The seven children were brought up to expect no handouts. They play together and they have stayed together. The two who farm own the business and some of the land. Most of the others still share in the landownership and want to keep it.	It was a modest start but with share farming, off farm work and investments…
N	C	5	Kappa	Without a succession plan the farm would have been sold. Who would invest in a business with no future?	If we hadn’t had a succession plan the farm would have been sold
N	C	6	Pi	After the lean years after wool crashed the shareholders threw down the gauntlet to the directors. Perform or we sell. The business was turned around, several off farm investments were made (unsuccessfully at first) and family members were encouraged to spend time on and enjoy the properties	The family told the directors to “perform or sell’
N	C	7	Mu	The farm was halved, then again and then again. The current owner and his brother revered the trend and have now split with a viable business each. Over a 20 year period the Mu family has achieved a 14% return to capital	We could not allow it to be halved again
N	C	8	Sigma	Their Grandfather set up the two brothers. The brothers just kept buying more land. Their sons this generation then had to pay for it. More expansion,	Our fathers bought it but we have to pay it off

				poor prices and some droughts didn't help. But they were nothing compared to the Swill Franc loan. They borrowed one point five million and paid back three.	
N	C	9	Epsilon	A strong history of succession done well and brothers, with complementary skills, working well together to build the business, under pins this business well	Dad and his brother always had the end game in mind
N	NC	10	Alpha	They inherited a farm which had been successively cut up through five generations. The business wasn't viable but as stewards they handed it on to the next generation	We were stewards, it wasn't ours to sell.
✓	NC	11	Gamma	He was given no choice and was burdened with the family expectation that he should carry on. But he wanted to give his children room to do what they want. So he and his wife decided to sell the entire seed stock operation.	We wanted the next generation to be free to choose
N	NC	12	Zeta	His grandfather, in order to uphold his position in the community, funded his lifestyle by selling a part of the farm whenever he was short of cash. In addition the old man was dictatorial and pushed his family away only to recall one member when in old age he couldn't manage the place.	They kept selling land to fund their lifestyle
✓	NC	13	Beta	The company battled drought, government, price crashes and each time got back to profit. But when the family lost interest and then lost control of the board, they lost the company.	The family lost control of the board
✓	NC	14	Theta	They wanted to keep farming but it was unrealistic. There were too many shareholders as the shares were handed on from generation to generation. The sale was clever and the business was sold with the value paid for the intangible assets. A family member has remained as manager for the new owners.	There were too many shareholders
N	NC	15	Delta	The three brothers took the business from 3000 to 13,000 in one working lifetime. But they spent 20 years and hundreds of thousands of dollars arguing about whether to break it up. The legal and accounting costs were enormous.	They built it and then spent twenty years arguing about how to cut it up

N	NC	16	Tau	They thought they had succession sorted. The family member who wanted to farm is smart, industrious, works hard, was suitably experienced and educated so he got the job and some of the land. Then he changed his mind.	We had succession sorted. Then the next gen farmer changed his mind

Each of the studies is as continuing (C) or not continuing (N C)

Summary - Case Study 1: IOTA Family.

Business continuing

"We weren't going to live like peasants".

Fred and Sue Iota have built a dynamic business. Fred is the fourth generation of his family to own and operate the home farm. Their three children all had post-secondary education and will be able to make a contribution to the business. Two, who are now young adults, work in the business, where the eldest has a high level of responsibility in the business. The Iota family has a long, well-handled history of succession and passing responsibility to the next generation.

Over a thirty year period the Iota family has built the business in the high rainfall zone from 500 hectares (ha) to 2,300ha. The major enterprise is a bull breeding, and the business runs in excess of 30,000 DSE's.

There are ten attributes which have enabled Fred and Sue to build a successful business:

- **Work as a couple and be prepared to 'have a go':** They developed a common interest, were determined that they would not '*live like peasants'* and that they would need to grow the business to allow their children to follow them.
- **Become highly skilled:** They honed their individual skills to ensure that between them they understood their business, their cattle herd, genetic improvement and the industry.
- **Have a compatible attitude to debt:** That is not to say that they always agree about the debt level, but in general terms they do.
- **They are prepared to things differently:** This includes almost every aspect of the business model, management, sale preparation and presentation and advice to clients.
- **Focus on the customer:** While many of their competitors produce the sale animals that they want to produce, Fred and Sue continually try and look beyond the day to day, and work with their clients to meet expectations.
- **Seek external advice**: They attribute much of the success of the business to the external advisors they have retained. Sometimes they have 'outgrown' individual advisors, but they have always maintained a cordial relationship.
- **Allow the business to grow at its own pace:** In reality, that means when they have more stock that they can carry, they find more land through rent, agistment, lease or purchase and allow the herd to grow. At the same time they keep a close eye on the balance sheet, cash flow, profit and loss, and equity.
- **Employ the right people in the right positions:** The staff are as stable as the continual growth allows. Individual employees are given a high level of responsibility and delegated authority.
- **Bring family members into the business:** That has already happened, with two of their three children now working in the business on a full time basis. The elder of the two how holds a senior position in the management team.

- **Treat land as the basis. Keep the capital together**: This is fundamentally important to Fred and Sue. As Sus says ‘the cattle make the money but we couldn’t run the cattle if we didn’t have the land.’

The really important lessons from the Iota family are that they work hard, are prepared to ‘have a go’ and use the best technologies and advice they can find.

Case Study 1: Iota Family

Business continuing

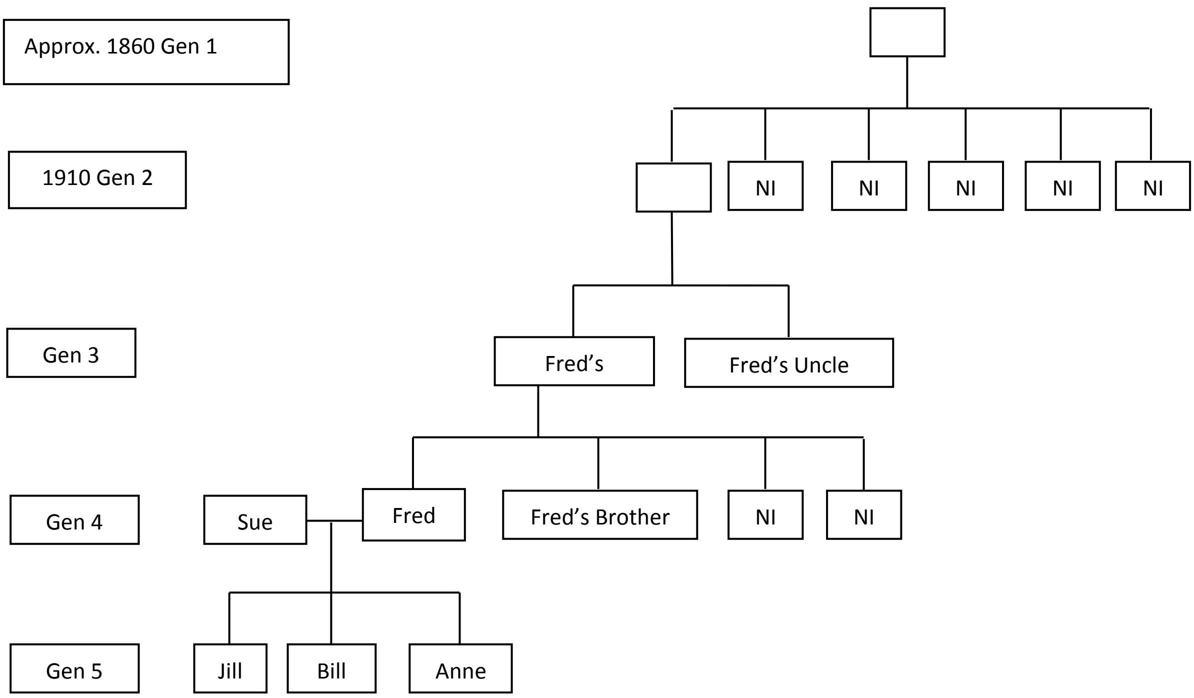
"We weren't going to live like peasants".

Fred and Sue Iota have built a dynamic business. Fred is the fourth generation of his family to own and operate the home farm. Their three adult children all had post-secondary education, and will be able to make a contribution to the business. Two of the children, now young adults, work in the business. The older of the two (Jill) now has a high level of responsibility in the business. Anne is just finding her feet, while their sibling (Bill) has developed a career and is highly qualified in his unrelated field of endeavour.

Over a thirty year period the Iota family have built the business in the high rainfall zone from 500 hectares (ha) to 2,300ha, building the per hectare stocking rate at the same time. The major enterprise is bull breeding and the business runs in excess of 30,000 DSE's. The family has a long, well-handled history of succession and passing responsibility to the next generation.

A genogram of the Iota Family with the appropriate branches is shown in Figure 1.

Figure 6: Iota Family Genogram



*(NI = No Issue)

History

The initial start with Gen 1 (Fred's great grandfather) was a land grant in the late 1860's combined with savings from living frugally. By the time Gen 1 handed over to Gen 2, in about 1910, the area farmed had been increased through leasing. Fred's great grandparents had several children, but only one of the children in Gen 2 married and had their own children.

During their tenure, Gen 2 produced two sons including Fred's father (Gen 3). Fred's father and uncle farmed together from the 1940's to the 1960's, and then split the farm.

Fred's parent's grew the business slightly and had four children. Two (including Fred), inherited the farm, and the other two sought careers away from farming and received no substantial inheritance. The growth of the business in Fred's father's tenure was assisted by a substantial inheritance to Fred's mother.

Fred and his brother farmed together, and the business grew and shrank over the generations until Fred, and his wife Sue, broke away from Fred's brother in the 1980's. The business they developed was destined to become a model which would thrive. Fred and Sue have succeeded because of many factors which will be discussed, but primarily because they recognised that they had complementary skills and were prepared to 'have a go'.

The summary of the business from Gen 1 to the present, including Gen 4 where Fred and his brother split, appears in table 1 (below) and shows that over successive generations, people did work hard to grow the business.

Table 1: Iota Table

Generation	Period	Farm Area/ha	Children	Source of Capital	Challenges	Business Shrunk/ Grew
1	1859- 1900	1,000	9 – 2 inherited farms, only 5 married	Land grant Frugality, savings	• New country • Isolation • Personal hardship • Rabbits	Grew
2	1900 – 1940	500	2 children survived	No expansion	• Rabbits • War & depression • Seasons	Shrunk
3	1940-1975	Initially 500 bought 400 which Ken took over	4, 2 went into the church, 2 farmed, Larry senior went to the Northern property	Larry Inherited 150ha @ Northern Place Bought with retained profits	• Rabbits • Drought	Grew
4 **4 Fred and Sue**	1975 split-in 1988 1986 - 2017	Inherited 500ha	3, 2 farming, 1 in business	Inheritance	• Drought & seasonal variation • Biosecurity, including pests & diseases	Grew

Current Situation

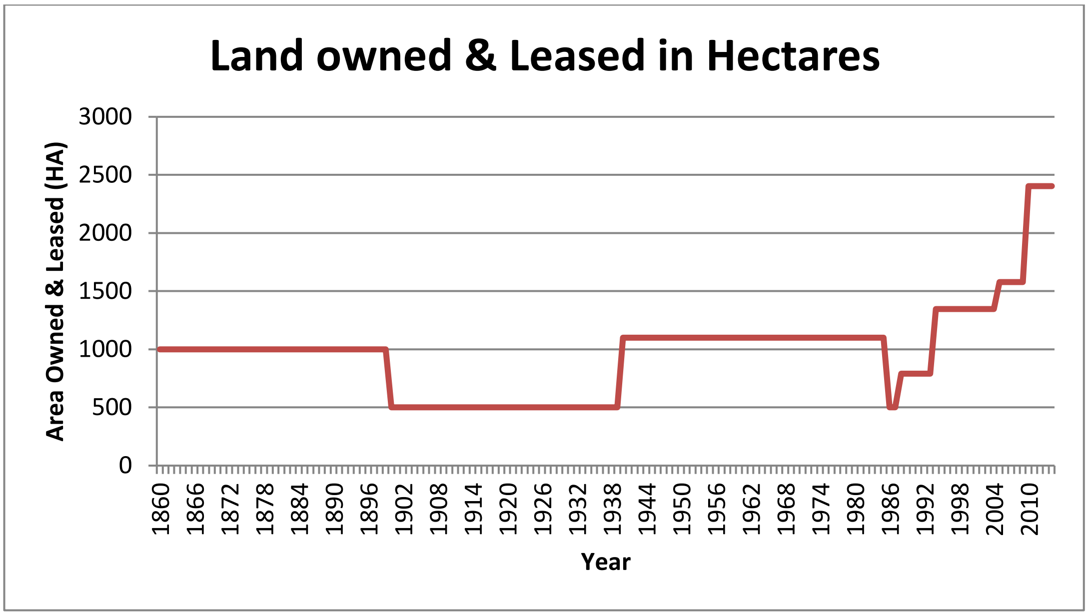
Fred and Sue took over a modest farming business and have turned it into a dynamic business. It has grown from approximately 500ha when they took over, to approximately 2,300ha today and it is still growing. When Fred says '*we were determined that we weren't going to live like peasants*' he is not suggesting that previous generations of the family did. Rather, that from when he and Sue took over, things needed to change, or they would have a peasant like existence. Fred and Sue did change, and they will continue to change into the future.

Fred and Sue have worked hard to expand the business within the current generation, as can be shown in Table 2 and Figure 2.

Table 2: Iota Family expansion under the current generation

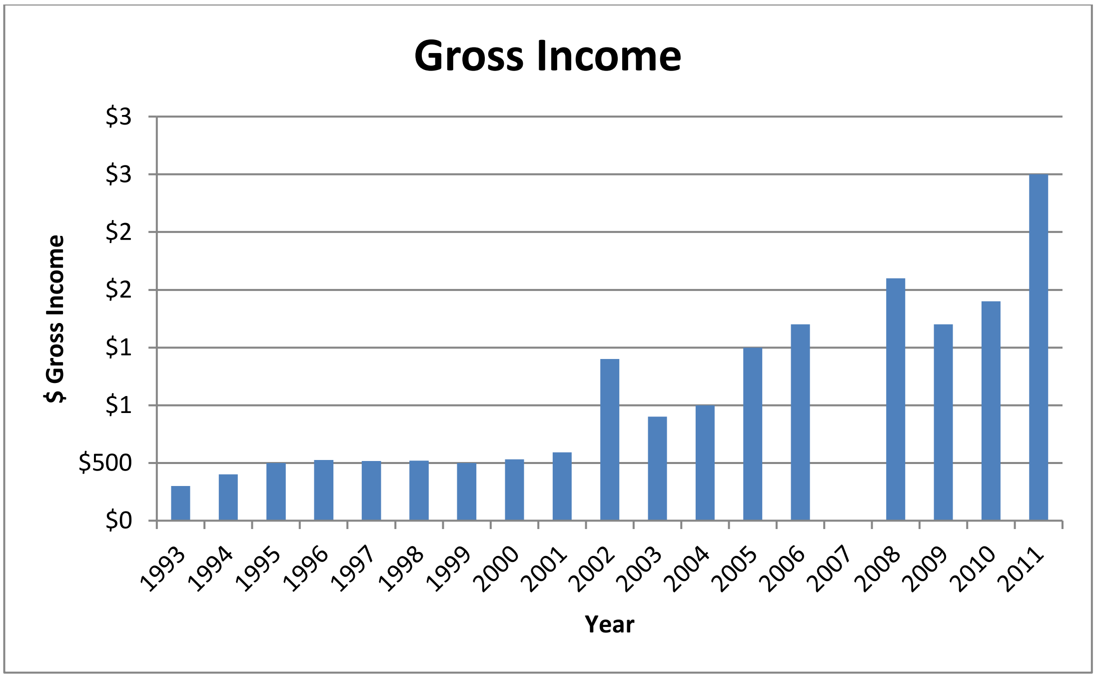
Year	Farm	Ha	Source of Capital	Comment
1986	Home Farm	500	Family	Fred and his brother split the partnership leaving Fred and Sue with 500ha, a house, and some facilities
1987	Farm B	290	Family	
1994 1995 2000 2002	Farm C aggregation	557	Vendor and bank	
2005	Farm E	100		Then sold 10ha with the house
2005 to 2010	Leasing	130		Now with the exception of 130ha no current leases
2010	Farm D	323	Bank	
2010	Farm E	505	Partly bank	Further finance from sale of a surplus house and annual earnings

Figure 7: Land Owned and Leased



Over the last 20 years the business turnover has grown from $250,000 to $3,000,000.The below figure shows how the gross income for the Iota family has grown from 1993 through to 2011.

Figure 8: Gross Income



*Note that data was not available for 2007.

The attributes of the Iota business which have allowed it to grow:

The attributes that have enabled Fred and Sue to grow, and set up, a viable business to pass on to the next generation, are that, as a couple, they:

1. Are prepared to 'have a go';

2. Are highly skilled, and the skills of both are utilised within the business;
3. Have a compatible attitude to debt;
4. Are prepared to do things differently;
5. Focus on the customer;
6. Seek external advice;
7. Allow the business to grow at its own pace;
8. Employ the right people in the right positions;
9. Bring family members into the business; and,
10. Treat land as the basis. Keep the capital together.

Prepared to 'have a go':

Fred and Sue have both been prepared to 'have a go' and believe that you have to keep driving the business to ensure success.

> **Fred:** "You've got to think about providing for the next generation. And so you can't actually have the view '*Oh, when we get the debt paid off we'll be right'*. You've actually got to keep pushing hard… There are family farms around here where people are doing well and it's always because they think outside the square and they push hard and they work hard. And I think in other instances [where the farms have been sold] the people didn't actually work very hard."

Fred went on to describe many situations where people were hanging around the house, or were involved in many off farm activities, and as a consequence employed people to do the physical work. To ensure success, it is important in any business 'to work hard and to 'have a go'.

Highly skilled, and the skills of both, are utilised within the business:

Fred claims that he didn't know much about the cattle business when he started. He was interested in cattle, as was his father, but he didn't understand anything about genetics, breeding or using predictive tools such as EBV's. That was at the beginning.

Fred has developed a keen interest in, and is now knowledgeable about, seed stock. He has a good working knowledge of pastures and grazing and is a first rate stockman.

Sue, as well as sharing a passion for breeding cattle, understanding genetics and breeding, has skills which are complementary to Fred's.

> **Sue:** "For a short while I worked off farm but I thought I should be using these skills [administration and marketing] in this business rather than outside. There are a lot of couples that pursue different interests and when they do that, they miss the opportunity we have captured."

Together, Fred & Sue combined their skills and knowledge to promote and grow their business.

A compatible attitude to debt:

Fred and Sue had a similar attitude towards debt. They were not afraid to take risks when it came to loans and work hard to ensure that they got on top of debt. Sue reflects on their attitude to debt and purchase of Farm C:

> **Sue:** "When we bought Farm C [the 557ha property] we really extended ourselves. It was a big piece because we basically doubled our capacity and hit the drought…"

Prepared to do things differently:

The business return on capital over the last few years is a double digit number. Fred and Sue discuss how they have taken a different approach to grow their business:

> **Sue:** "When you include the land it was 17% per annum over the twenty years."

> **Fred:** "Since 2010, we've bought four places and prior to buying those places, we leased nearly 800ha. That was another significant thing, but we have built our livestock numbers up. None of the country we have bought has been a bargain, some has been slightly ahead of the market… Our business model does increase costs, it increases cartage, labour by one and requires a lot more mental discipline."

When questioned if this was opposed to having the same area of land in one parcel, Fred affirmed:

> **Fred:** "Having six parcels of land does make it easier to pass it on. Our business model is good because it takes the pressure off the balance sheet and we keep growing a little bit."

Fred and Sue leased country and built up stock numbers to ensure they had stock ready to graze country when they purchased it. Their business model has ensured a viable farm that can be passed on to the next generation, as a whole, or in parts.

Focusing on the customer:

Most people who are in the bull breeding business will tell you they focus on the customer. But Sue and Fred really do. They surveyed, they asked questions, they encouraged feedback, and as result of the information received, they changed many of the ways they prepared, presented and sold cattle. This attitude allowed Sue and Fred to become trail blazers.

Seeking external advice:

Fred and Sue attribute much of their early success to a private consultant who continually challenged them. Without that relationship and continual challenges, they may not have been able to see their potential. They still seek external advice, but these days they get experts to look at specific aspects of the business, rather than retaining one generalist consultant.

As with many businesses the pupil outgrew the ability of the master.

> **Fred:** "Our consultant kept saying [when we got to a certain level] you can't breed anymore bulls as you can't cope with what you've got. I got sick of listening to this and although he had been my greatest mentor in agriculture, after ten years we wanted to do our own thing."

Allowing the business to grow at its own pace:

Fred and Sue understand the importance of letting a business grow at its own pace. They did not purchase paddocks next door, but rather grew the business gradually when necessary. Fred reflected on the purchase of their last block of land, stating that he 'wasn't very interested, but our spring cut out, and it had a heap of grass on it. We had 1,000 cows over here and the stocking rate was about 14 DSE's, which was outside our comfort zone'. With Sue away at the time, Fred had an hour long phone conversation [with Sue] and made an offer the following morning. He bought 1,500 tonnes of feed. Sue did her bit and ensured their daughter Jill's name was on the title. Fred emphasised the importance of having a good cash flow for such business ventures, and reflected that if things had have gone pear shaped 'you can pick things up quickly, if you've got a good cash flow'.

It is important to note that Fred and Sue were prepared to buy land when it was available and make it fit within their current enterprise. Fred noted that it takes confidence, 'making it fit [is important], but whether, or not, you'd have the confidence to do it, if you didn't have a business that had a really good cash flow [is a different story].' With stock numbers a major trigger behind the Iota family purchasing additional land, vendor terms have been essential to ensure a successful purchase.

Employ the right people in the right positions:

In an industry renowned for underpaying, under rewarding and under promoting, Sue and Fred have ensured that they employ suitably equipped people, and treat them well. Their key staff have appropriate levels of responsibility and delegated authority.

Bring family members into the business:

Fred & Sue understand the importance of inspiring and involving the next generation at an early stage.

> **Fred:** "We started with a tiny bit, but now we have got a little bit of momentum. If people want one or two of their children to farm they have got to start thinking about it early. The mistake that most people on the land make is that leave it too late to grow."
>
> **Sue:** "We've always said to the kids that the land is not a cash cow, the land is just the framework upon which the business sits. The cash cow is actually the business so don't ever see the land as some sort of windfall because it's not."

Treat land as the basis. Keep the Capital together:

Sue and Fred don't want to put too much pressure on Bill (their second child) to decide about his involvement in the farm.

The Last Word:

The last words in this study come from Fred, who emphasises the importance of keeping a positive outlook, working hard to achieve business growth, and planning early to ensure smooth succession.

> **Fred** "I think the thing that holds people back is negativity. I called in to a bloke at about 7 o'clock in the morning a couple of weeks ago. He was in bed and his wife, about my age was all negativity. 'Oh he's not up, he's got a bad back'. His sons got the same problem, the

> seasons crook. But it's not that bad because they've got really good country. It would be a very valuable asset they could do all sorts of things…
>
> I know a young lady who decided that she wanted to come home. But her parents had made no preparation because they were of the mindset that these young people are not coming on the land. It was too late."

Watch the Iota Business with interest. With Fred and Sue at the helm and the next generation starting to take control, fasten your seat belts. That 17% return to capital will be hard to sustain, but they have every chance of doing it.

Summary – Case Study 2: Upsilon Family

Business continuing

"We wanted to be as fair as possible."

Between the father and son pair of Ken and Jim, the business was built from a small farm to a truly viable one. The eventual division of family assets amongst Jim's three children will be 40/30/30 split.

There are several important aspects which have enabled this business to be successful. The attitudes and aptitudes of people in the business have allowed steady growth. They have done things well but have never made sudden jumps. No big jumps in growth. In 1955 the farm was worth about $345,000 (in 2017 dollars). Today the land is worth $5,900,000 and the total value family assets is now $8,000,000 the annual capital growth claimed by this business, over a sixty year period is 4.9%. At the same time the farm has sustained, maintained and educated two families.

This business hasn't suffered huge financial pressures other than the wool collapse, drought and the cattle collapse, and has steadily moved forward. The decision point from the previous generation to the current owner was easy because the current owner is an only child. The decision point for the current owner to his children has been carefully planned to allow a viable farm and a 40/30/30 percent split, which is a great achievement.

The most important underlying elements to the success of the Upsilon business are the personal attributes of the people involved. These attributes include:

1. Ability: Each family member has worked hard to develop the skills required to manage and grow the business.
2. Respect: While family members have differing views, each had a high level of respect for each other.
3. Determination to run a profitable and expanding business: This determination was evident in Ken's resolve to buy land to ensure the farm would remain viable.
4. A willingness to let go and have a go: Most of the families who owned small farms of a similar size to the Upsilon family have left the district. They didn't 'have a go'.
5. A determination from each of the older generations in turn to hand over to the next generation.
6. Continually investing off-farm.

The Upsilon family is unlikely to create headlines, or be the first to adopt new technology, and are unlikely to buy the farm next door. But if the attributes which have underpinned the family decisions and past performance remain constant, the family farm and off farm investments will continue, and there will be a generation of Upsilons to follow Allan.

Case Study 2: Upsilon Family

Business continuing

"We wanted to be as fair as possible."

A third party looking over the fence at the Upsilon family farm could easily be dismissive of the achievements. Jim, as the current owner and an only child, tells the story: *'we decided to provide a viable farm for one child and treat the others more or less equally. We wanted each of our three children to get a start in the same way that I did.'* Jim was careful in his approach to succession, buying land and building off farm assets to ensure smooth succession.

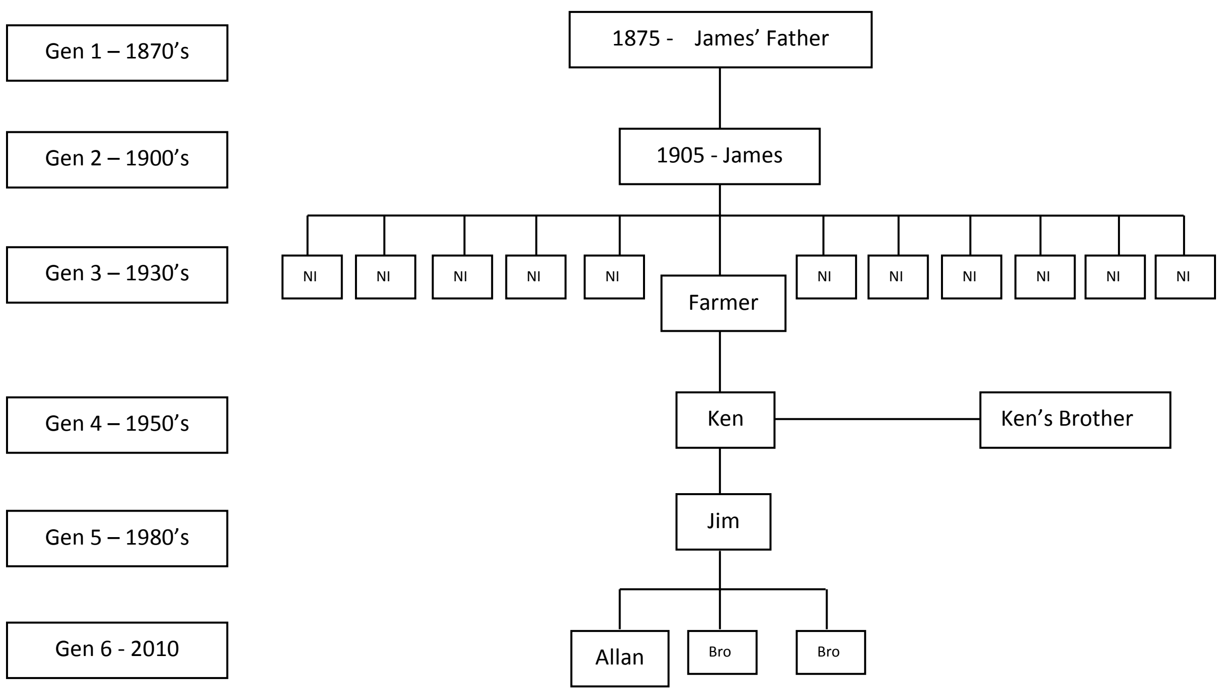
The Upsilon family have owned land and farmed since 1875 and the business has managed to survive, and now thrive. Allan, Jim's son, who has a desire to farm, is set to have a viable farm and his siblings are set to get an almost equal share in inheritance. This business hasn't suffered huge financial pressures other than the wool collapse, drought and the cattle collapse, and has steadily moved forward.

History

The inaugural capital to purchase the original 1,214 hectare (ha) farm came with the first settler of the family (James) in 1875. James travelled with his father from England, married and had twelve children. James's eighth child took over half the farm in 1905 and handed it over to two of his children, including Ken (Jim's father). Ken originally had 186ha and during his life, working with Jim, handed Jim ownership of 930ha. In addition Ken had set himself up so he had a house in town and was independent financially.

The Upsilon family genogram showing the people involved is shown in Figure 1 below.

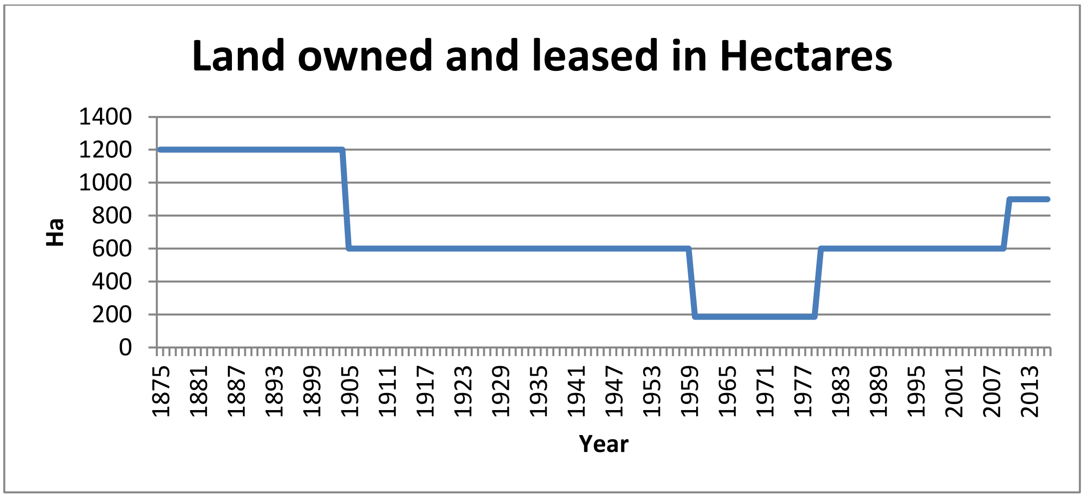
Figure 1: Upsilon Family Genogram



*(NI = No Issue)

Figure 2 below shows the land owned and leased by the Upsilon family over the generations.

Figure 2: Upsilon Land Owned & Leased in Ha



Why has this business been successful?

There are several important aspects and attitudes of the people in the business which have contributed to its success. They maintained steady growth without any mighty leaps. They maintained a solid return on capital, but didn't have any sudden windfalls. Those attributes that have helped with their business success include:

1. Ability;
2. Respect;
3. A determination to run a profitable and expanding business;
4. A willingness to let go;
5. A determination from each of the older generation (in turn) to hand over;
6. Investing off farm.

Ability:

Ken, who remained actively involved in the farm business until well into his eighties, was a hard worker and was always looking for a better way of doing things. As he gradually increased the area of the farm, for a long time he ran wethers. This gave him maximum stocking rate with maximum flexibility. It also allowed him the time required to improve the property. Those improvements included fencing, water, yards and buildings. It was unlikely that any aspect of the farm was going to hit the front page of the paper but Ken and Jim just kept at it.

Respect:

In many farming families, intergenerational competition, an uncomfortable employer/ employee relationship or the pursuit of incompatible goals causes friction and, in extreme cases, a dysfunctional work/family situation. The Upsilon family managed not only to avoid those situations, but developed a relationship which is built on trust and mutual respect.

> **Jim:** "I had worked on the farm, on and off since I was ten but I returned here approximately aged twenty. Ken (Jim's dad) and I always worked quite well together, decision-making was always talked out, both views were given a good airing, and most of the time we had a compromised decision. Sometimes in the earlier years [my] views were only considered but not put into practice. And then further on as we went on I managed the stock and finance part and Ken worked with his passions of engineering and a little bit of cropping. It just sort of evolved as time when on."

There was turning a point when Ken and Jim looked at each other and Ken said, '*Well who's running the show?*'

> **Jim:** "There was a decision that had to be made, but both of us were standing there looking at the problem and no-one was going to address it. I think he was giving me the opportunity to address it, but I was probably standing back thinking I'm not going to step in on what you normally do in your area- sort of thing. So he was starting to withdraw and I was given the opportunity to sort of go ahead."

The question raised by that situation is whether Jim stood back because of respect, or uncertainty.

> **Jim:** "Probably more respect. I probably knew what was needed to be done, but I didn't want to push him away. I was just waiting for what normally happened."

Although the relationship between Jim and Allan (his own son) is different from the relationship between Jim and Ken, it has the same essential elements, respect and mutual trust.

A determination to run a profitable and expanding business:

Ken and Jim were both determined to run a profitable and successful business.

> **Jim:** "Ken had a good business sense and [that] he just wanted to keep establishing the farm, holding it together and running a profitable show."

This typically modest statement ignores the fact that, between them, Ken and Jim turned a very small business into a viable business with significant off farm investment.

In 1955 the farm was worth about $50/DSE with an inflation multiplier of 15. The original farm was 186ha and ran 460 sheep. That would value the land at $345,000. Using the same formula today (930ha* 9.9DSE * 600/DSE) the land is worth $5,900,000. The effective annual interest on a compound basis was 4.69% which is very solid. In addition to the value of the land the business has built off farm assets, and stock and plant, which add a further $2,000,000 to the balance sheet. Assuming that in 1955 the farm, stock and plant were valued at $400,000 (2017 dollars) and the total value is now $8,000,000, the annual capital growth over sixty years is 4.9%. At the same time the farm has kept and educated two families.

A willingness to let go:

Ken understood the importance of involving the next generation early and was willing to let go.

> **Jim:** "It was very early in the piece I was given the management all the stock and all the finance."

This early hand over of responsibility is another recurring theme which differentiates successful business with those which struggle. By Ken showing that he had confidence in Jim very early in Jim's time on the farm, Ken helped Jim to develop the confidence which is an essential feature of a successful Farm Manager. No sudden moves, no big changes, simply a gradual handover.

A determination from each of the older generation (in turn) to hand over:

Ken had been able to hand over to Jim without Jim taking on any debt. Because he has three children Jim wasn't in the same position. So, in order to ensure that the non-farming children started to get some advantage from their eventual inheritance, Jim handed land over to Allan who was then able to borrow to start to buy out his siblings.

This strategy achieved four important imperatives:

1. That the non-farmers started to receive part of their eventual distribution.

2. That neither Jim, nor the farm, had to find the money.

3. That Allan suddenly understood the responsibility of having debt and the work needed to pay the interest and eventually pay off the debt.

4. The non-farming children understood that their brother was buying them out.

Jim confirms the importance of an understanding of debt.

> **Jim:** "I didn't realise how beneficial it would be to Allan to get debt and then pass that cash to the off-farm children. I didn't realise how much it would mean and how well they've used their opportunity. They have an entry into the housing markets and now they are very established."

Investing Off Farm:

Investment has ensured that about 25% of the family assets are now off farm. Jim recalls their strategy, where they '*used the profits from the mid 80's and invested off farm rather than trying to increase size of farm has been a deliberate strategy*.' This achieved several aims.

1. To have a spread of investments from a risk management view point.
2. That the farm remained manageable without taking on too much outside labour, whereas, if the investment had been in farming land only, the management would have required more labour.
3. That there was no guarantee that any of the boys would want to become farmers. The off farm investments have kept the farm more manageable and given a much greater set of choices when it came to succession planning.

A work in progress:

Jim and his wife didn't expect that any of the children would want to take over the farm.

> **Jim:** "No I never expected that anyone would stay on then. We prepared them all for life outside the farm but it was always open if one, two or three wanted to farm. But it became obvious when Allan was mid-teens, he could have been the only one that would farm."

The split of assets between the three siblings will not be entirely even.

Allan, the farmer, will end up getting 40% and the other two siblings will receive 30% each. That decision was made because if Allan had received an equal share then the farm may not be viable. Certainly his equity would have dropped well below 70% and in an enterprise which is almost entirely dependent on grazing, the percentage was considered too risky. In effect, there were two starting points in the plan. One was ‘what does and equal split look like’ and the other was ‘what is required to have a viable farm’. The 40/30/30 split was a reasonable compromise between the two points.

> **Jim:** “I didn’t think we could achieve a viable farm and an equal split. So we had to build in some parameters where you could make it happen. Allan gets land but he doesn’t receive any cash so he can’t have any personal indulgences as early in life, whereas his bothers can. They can purchase houses or use their cash. There were no strings attached.”

Over a period of two years Jim and his wife worked with an external succession planning specialist. The plan was devised with the full knowledge of the whole family. All the family members were consulted, had the process explained to them, and all had opportunity for input. When the plan was ready for implementation Jim arranged to have a family meeting when they were all at home. He chose Christmas morning.

> **Jim**: “I called them together to summarise the plan. They had all been involved, they all understood it. The eldest said ‘*Dad, you can’t have your moment of fame, we understand it, we’re all over it*’.”

All over it, did that mean sick of it or that they understood it? The latter.

The Upsilon family succession is still a work in progress. The first tranche of funds has been paid to the non-farmers, and the farmer has a good stake in the business and a growing stake in the land. All the children now have partners and the family is growing. There is a commitment from Jim and his wife to keep gradually handing over ownership to Allan and at the same time for Allan to use the equity to borrow to buy out his siblings. As with many plans, the core of the plan remains solid but the timing for the next move is uncertain.

> **Jim:** “It’s just where we go next, you know do we make another step or do we let time take its step, or do we start specifically willing land to Allan?”

That question is partly a question for Jim’s lawyer. But even in a family where relationships are very solid there is always a risk in handing over ownership via a Will. Wills can be challenged. It is true that there can also be challenges where the assets have been handed over during the lifetime of the person who gave them. But if the appropriate agreements have been entered into and the work has been professionally, and completely done, a challenge is much more difficult. But if the work is sloppy, hasn’t been ‘road-tested’, if all the documents, including Deeds, Agreements, Powers of Attorney and Wills, aren’t ‘harmonised’ then assets passed on during the givers lifetime can be challenged.

If history is a guide the Upsilon family will do a thorough job.

Summary – Case Study 3: Rho Family

Business continuing

If the division was even, the farm would be sold.

The farm was split in three successive generations. For it to remain viable the business needed to avoid further size reduction. There are four children in the Rho family, who as a family confronted the issues and the split is 80% to the farmer and 20% shared by the other three siblings.

In some families it's accepted that the farmer will get the farm, and the rest of the family will be content with what is left over. That is pretty much the case with the Rho family. Succession up until this point had been managed by continually splitting the farm between the farmers in each generation. As well as size reductions forced by family members, some of the farm was acquired for solider settlement. That's why the farm fell in area to its present size.

The cut up of family assets, 80% to the farmer and 20% to the three other siblings, was enabled by off farm assets. But the current arrangement could not have been agreed without the family confronting the issues. Adam, the farmer in the current generation, made it clear that he wasn't prepared to spend twenty years working on the farm and then find that he had a quarter share. The conversation was blunt *'if you all want your equal share, we will just have to sell it.'* With a young family to consider, he made it clear that he would sell and go and do something else. But his parents wanted to remain on the farm.

The lessons from the Rho family are:

1. Individual families have the right to choose a course which suits them.
2. In this case fair does not mean equal.
3. The family 'bit the bullet' and decided to split the assets 80/20 soon after the farming son committed to running the farm.
4. There is some unfinished business in the Rho family which won't be finished until Adam's parents die.
5. For Adam, relying on his parents Wills may be a dangerous choice.

There may still be some issues to resolve for the Rho family.

Case Study 3: Rho Family

Business continuing

If the division was even, the farm would be sold.

Whilst it is fashionable to expect that a family's resources will be split equally amongst the children, in many farming families that would make succession impossible. In the case of Rho family, where the farm had already been split at the changeover between three previous generations, the farm would be un-viable if the split was even again.

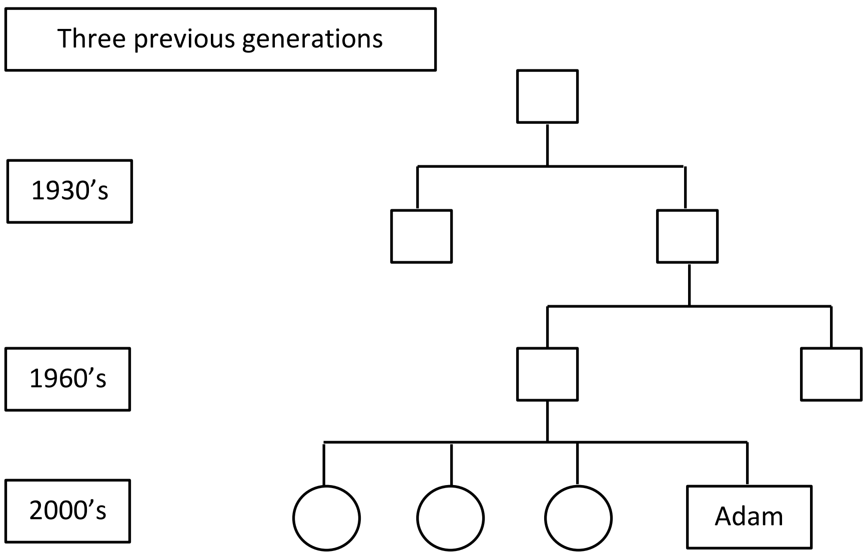
History:

The Rho farm is part of the original family 'Run' which was acquired in 1883. There are strong emotional ties. For Adam, the farmer in the current generation, business viability is as important as the history. With the farm on its third split, Adam outlined the history behind the splits in each generation.

> **Adam:** "The first split occurred in generation three, my grandfather, and the second split was in the fourth generation, between my father and his brother. The property was about 4,000 hectares (ha) originally, but now I have 1,400ha. Some of the reduction in area was through acquisition for soldier settlement and the others were to allow brothers to farm independently".

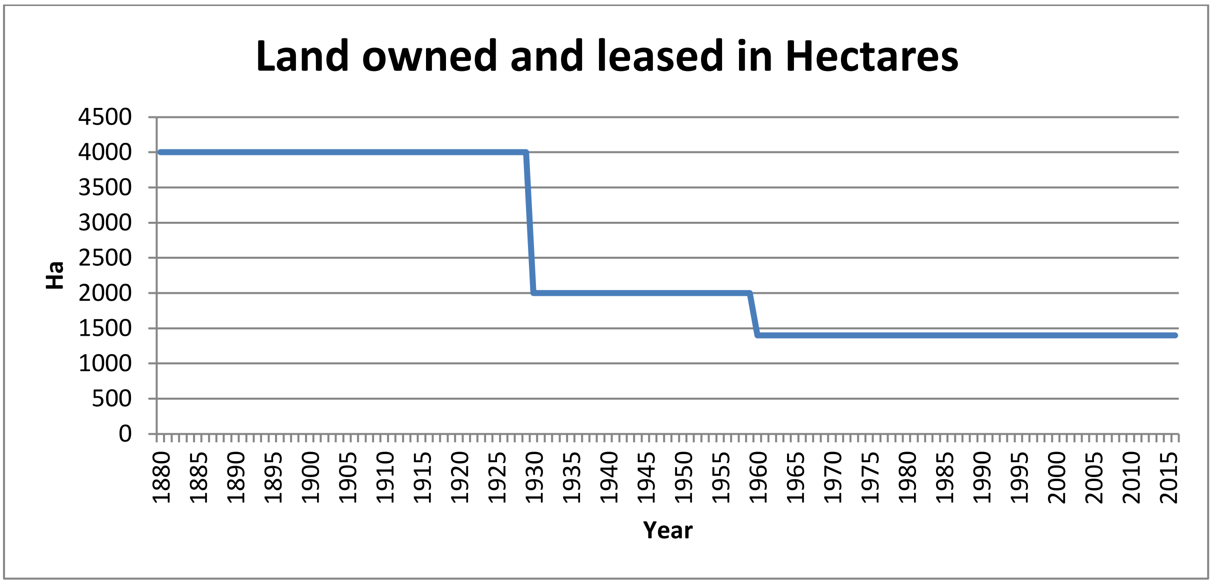
The family genogram below details the people involved in the Rho family story.

Figure 1: Rho Family Genogram



A farm of 1,400ha is viable and likely to remain so. However, in a family with four children where the bulk of the family assets are invested in the farm, an equal split would have left Adam with less than 300ha plus the stock and plant, or around 25% equity. Figure 2 (below) shows the land owned and leased by the Rho family since the farm was acquired in the 1880’s and highlights the split in each successive generation.

Figure 2: Rho Land Owned and leased in Hectares



A story of Succession:

Adam went to University to study business and completed an Ag marketing course. He travelled to America to work on farms, and later in the marketing department for a seed company. It was after this overseas stint that Adam returned home to work on the family farm. The Rho family had some hard decisions to make when it came to succession planning, and it was five years after Adam had returned home that the Rho family started to examine a viable succession plan.

The family met and discussed the thorny issue; an equal split would lead to an unviable farm, meaning the family property would need to be sold. In preparation for succession, Adam’s parents have acquired some real estate that the three non-farming siblings will inherit. It is unlikely that Adam would have remained farming with the prospect of the farm becoming un-viable. In that case the farm would have been sold and his parents, who wanted to remain living on the farm as long as possible, would not have been able to do so. While Adam’s sisters, all three of which have successful independent careers, are happy with the succession plan, and are set to inherit property that their parents have acquired, the future is still uncertain. Adam recalls the family discussion:

> **Adam:** “We sat down and talked about the future. It isn’t all signed which makes me feel uncomfortable. I’m not totally worried about my sisters, but you don’t know what their partners could put in their minds - we shouldn’t think like that but you do think about it.”

The conversation in the room was blunt and all cards were laid on the table. With a young family, Adam did not want to risk their future and effectively told his sisters that.

> **Adam:** “If you all want your equal share, we will just have to sell it. It was as blunt as that. Just tell me now, because I don’t want to get twenty years down the track and then get hit with this. That would be no fun for me, I have little kids.”

But what if Adam's sister's wanted a larger share of the assets? Thankfully, it never got to this point, but if his sisters had wanted a larger share (say 40%), Adam would have sat down and worked out whether a larger split with his siblings would have been practicable.

> **Adam:** "If I worked it out and it was financially unviable, then that is a bad business decision. So you might as well get out. If you got money back out of it, invest that and do something and go and work and find another field. I couldn't tell you an exact percentage as we never got to that point."

To ensure an inheritance for their three daughters, Adam's parents have built their off farm assets (which amount to around 20% of their total assets) through good farming practices, and buying and selling land. Adam recalls that they have *'worked hard to get it'*, and they have ensured that there is something for their daughters to inherit.

Adam is working hard to ensure that he runs a successful business and grows assets further for the future generations. Operations on the Rho family farm have changed a quite a bit since Adam returned home. The number of enterprises has been reduced with the cattle sold, and a heavier focus on cropping, grazing and livestock trading. The business has also gone into trade steers, keeping them for several months and selling depending on the season.

As in any business, change is inevitable and since his return home on the Rho family farm, Adam recalls some of these changes and how much harder it is to save money in the current climate. Cost of production is a major factor and Adam compared the cost of inputs when he came home about fifteen years ago with those of today.

> **Adam:** "The purchase of 100kg of MAP fertiliser was $97 per tonne and now it is $750. We got $245 for wheat and this year I got $253. I came across these recently and reading them actually made me feel sick."

Unsurprisingly, farming is getting tougher for the Rho family. They do not have spare money like they used to. Adam recalls that when he first came back to the farm '*we always had a little buffer all the time. That's now gone. Every year I am on budget with my costs so then we're at the lap of the gods as to what we get at the other end. We're price takers not makers*. The situation is getting harder.

It is hard to say if Adam's children will want to farm in the future. He has one son, aged 10, and two daughters, aged 8 and 6. Adam is unsure of his position should one child want to farm, or maybe even all three.

> **Adam:** "To tell you the truth I don't know. That is a tough question. I guess I'd have to take a step back and look at the whole picture, including the financial side. This wouldn't be for probably twenty years down the track and the farm may not be in a position or viable to run two operations. We might have to bite the bullet and sell the farm."

Adam recalls his parent's decisions around the percentage split with 80% to Adam and 20% shared between his three siblings.

> **Adam:** ‘My parents just basically said that if you [my siblings] want your entire share we will have to sell it, pure and simple and Adam will have to go and do something else. That’s it in a nutshell.’

That was a choice that Adam’s parents were not prepared to make. But Adam will be well advised to secure the ownership to ensure that the land isn’t handed over to him via a Will. Wills, when challenged can bust the toughest nutshell. If the seeds of discontent are present in the family, handing over the farm via the Will is a good way to enable them to flourish.

The lessons from the Rho family are:

1. Individual families have the right to choose a course which suits them.
2. In this case fair does not mean equal.
3. The family ‘bit the bullet’ and decided to split the assets 80/20 soon after the farming son committed to running the farm.
4. There is some unfinished business in the Rho family which won’t be finished until Adam’s parents die.
5. For Adam, relying on his parents Wills may be a dangerous choice.

Summary - Case Study 4: Lambda Family

Business continuing

It was a modest start, but with share farming, off farm work and investments…

In the early 1960's, Eleanor inherited three contiguous paddocks totalling 1,300 hectares (ha). They had no improvements, poor water and the place was infested with rabbits and wattle. In 2016 dollars it was worth about $700,000. It was battling to run 1,000 DSE.

Matthew and Eleanor Lambda had seven children. Two of them, Allan and George, have purchased and manage the farm business including stock, plant and contracts. The seven children, now middle aged adults, are part of a happy extended family. Six have chosen to retain ownership of family land. One choose to sell their allocated share and this was managed amicably.

Today, Home Farm, situated close to a major rural town with an annual rainfall of 550mm, is the centre of a farming operation which covers 3,293ha of owned land, plus 2,162ha of leased land. Allan and George run in excess of 30,000 DSE and, in addition, trade up to 4,000 prime lambs annually. Concurrently the family has built significant off farm investments. The farming enterprise alone is worth $20,000,000.

George and Allan own the business and all but the 1,200ha which is jointly owned by them and their siblings. This land is leased by them. Business expansion came in small steps, ensuring that they had livestock ready by leasing, vendor finance and family guarantees.

Matthew and Eleanor set in place four guiding principles and the current generation has added a fifth:

Everyone is expected to work (and work hard):

'We were all expected to pitch in and help'.

If any of the children had time on their hands Matthew would ensure that they had something useful to do.

Whatever we have will be divided (absolutely) equally:

'The starting point was that family assets would be divided absolutely equally'.

Don't expect to be given money:

But there is a difference between '*It's up to you'* and '*you're on your own'*. The reality was that there were no free lunches, but if any really needed assistance it was forthcoming.

Invest off farm:

The primary area of off farm investment, at least initially, was to buy residential land and develop it. That strategy allowed Matthew to get leverage on the investment and add value by doing much of the work.

Be prepared to do a deal:

This principal of doing business had a subset; which is, '…*and leave something in the deal for the next bloke*'. When Allan and George were working to provide certainty for each other and their immediate families, they put a deal together which involved swapping land and keeping the houses they lived in. The attitude of give and take allowed them to reach agreement.

The Future:

There are mechanisms in place to ensure that if at some future time any do want to sell, that a valuation can be agreed. There are also restrictions on the number of siblings who can sell at any one time, the time between sales, and an agreement that the sales must remain within the family.

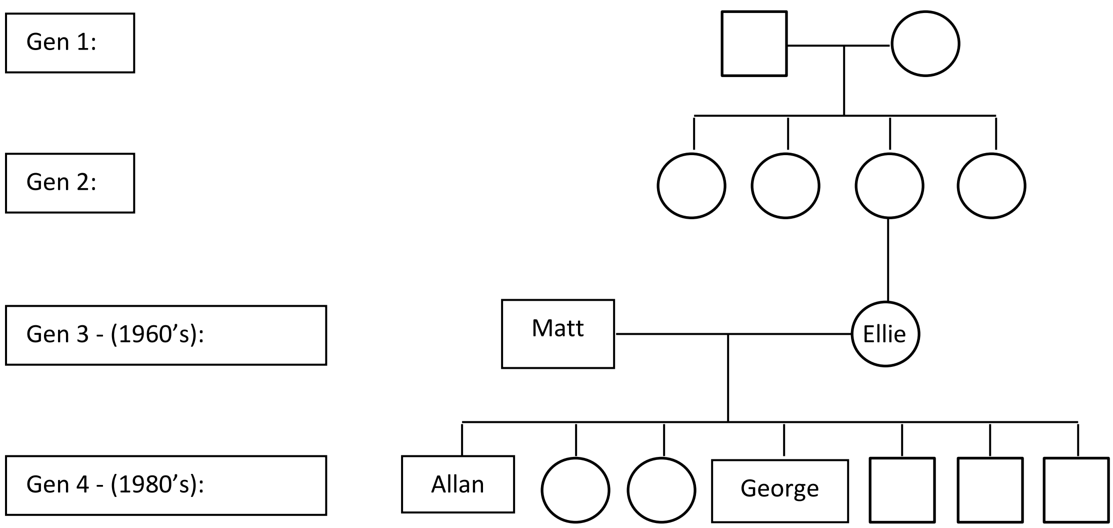
Case Study 4: Lambda Family

Business continuing

It was a modest start, but with share farming, off farm work and investments…

The people in this case study are Matthew and Eleanor Lambda and two of their children; Allan and George. The remainder of the children, all part of a happy extended family, are important in that they have accepted the 'family rules'. Most still have some land ownership.

Figure 1: Lambda Family Genogram



In the early 1960's, Matt and Ellie Lambda settled on a block of about 1,316 hectares (ha). They were the third generation of the family to own the place and it was handed down more or less debt free. Matt owned a small farm in another district on which he ran a few hundred sheep. His main source of income was seed harvesting.

The property, Home Farm, has an annual rainfall of 500 to 550mm and is reasonably close to a major centre. When Matt and Ellie took over the place it was effectively three paddocks, had no improvements, no buildings, poor water, and was infested with rabbits and wattle. In 2016 dollars it was worth about $700,000. The place was battling to run 1,000 DSE.

Today, Home Farm is the centre of a farming operation which covers 3,293ha of owned land, plus 2,162ha of leased land. The family now run in excess of 30,000 DSE, and in addition trades and finishes up to 4,000 prime lambs. As well as expanding the farming operation the family had significant off farm investments. In addition to the farm and off farm development, Matt and Ellie had a large family. The adage, 'the family which plays together stays together' is applicable to the Lambda family, and is an important factor in its continued success.

The business is now jointly owned and managed by two brothers, Allan and George, and along with most of the rest of their siblings (six in all) are joint owners in some of the land. One sibling choose to sell their allocated share and this was managed amicably. The siblings who are involved in land ownership are happy with the return and have no plans to sell. There are mechanisms in place to ensure that if at some future time any do want to sell, that a valuation can be agreed. There are also restrictions on the number of siblings who can sell at any one time, the time between sales, and an agreement that the sales must remain within the family.

Before describing the steps the family took to achieve this remarkable record of growth and family harmony there are some important principles and attitudes which Matt and Ellie set in place. These principles and attitudes were about how the family and the business operated.

Matt and Ellie had four guiding principles and the next generation has added a fifth:

1. Everyone is expected to work (and work hard);
2. Whatever we have will be divided (absolutely) equally;
3. Don't expect to be given money;
4. Invest off farm;
5. Be prepared to do a deal.

Everyone is expected to work (and work hard):

'We were all expected to pitch in and help'.

As Allan and George tell the story, everyone was expected to work when time allowed. During slack times on the farm as young adults they might be taken to a development site to help out. There they might act as builders, labourers, or in general clean-up tasks before painting. The overriding principle was that if we had time on our hands Matt would ensure that there was something useful to do.

Whatever we have will be divided (absolutely) equally:

'The starting point was that family assets would be divided absolutely equally'.

The statement above, coming as it did from Mark, one of the siblings who has a city based professional career, was the catalyst for making this business interesting as a case study. Whilst it is easy to say 'the asset division will be equal', it isn't easy to achieve that and pass on a viable farm. Later in this study we will explore how it has been achieved.

Don't expect to be given money:

One of the recurring themes in businesses where succession is achievable, is that families have managed expectations. In Ellie and Matt's case this went further than '*You will all be treated equally'* to '*Don't expect to be given money'.* The rules of the family were clear. We will support you until the end of your school education, and then it is up to you. There was no expectation that Matt and Ellie would contribute to university fees or assist with buying houses or starting business.

But there is a difference between '*It's up to you'* and '*You're on your own'*. The reality was that although each of the children understood that there were no free lunches, if any really needed assistance, it was forthcoming.

Invest off farm:

The primary area of investment, at least initially, was to buy residential land and develop it. That strategy allowed Matt to get leverage on the investment and add value by doing much of the work. Although not a builder, Matt understood how, and was capable of, doing all the site preparation, digging and pouring foundations, and assisting with a good deal of the construction. Some of this was done with farm (and later family) labour.

Be prepared to do a deal:

This principal of doing business had a subset; which is, '*and leave something in the deal for the next bloke*'. There were several occasions where the preparedness to '*do a deal*' was probably the difference between a go/no go. When both Allan and George, who were married with their own children, were working out how to provide certainty for each other and their immediate families, they put a deal together which involved swapping land. They wanted to ensure that they each owned the house and land where they live. Unless they had entered the negotiation with an attitude of give and take, they would not have reached an agreement.

Another example is when they (Allan and George) were negotiating to buy Farm C. During the negotiations, the vendor, whose business was in a '*distressed state',* dismissed the agent acting on his behalf. Allan worked hard to stay in the deal and managed by working with both the dismissed and the newly appointed agent to buy the property.

The business now:

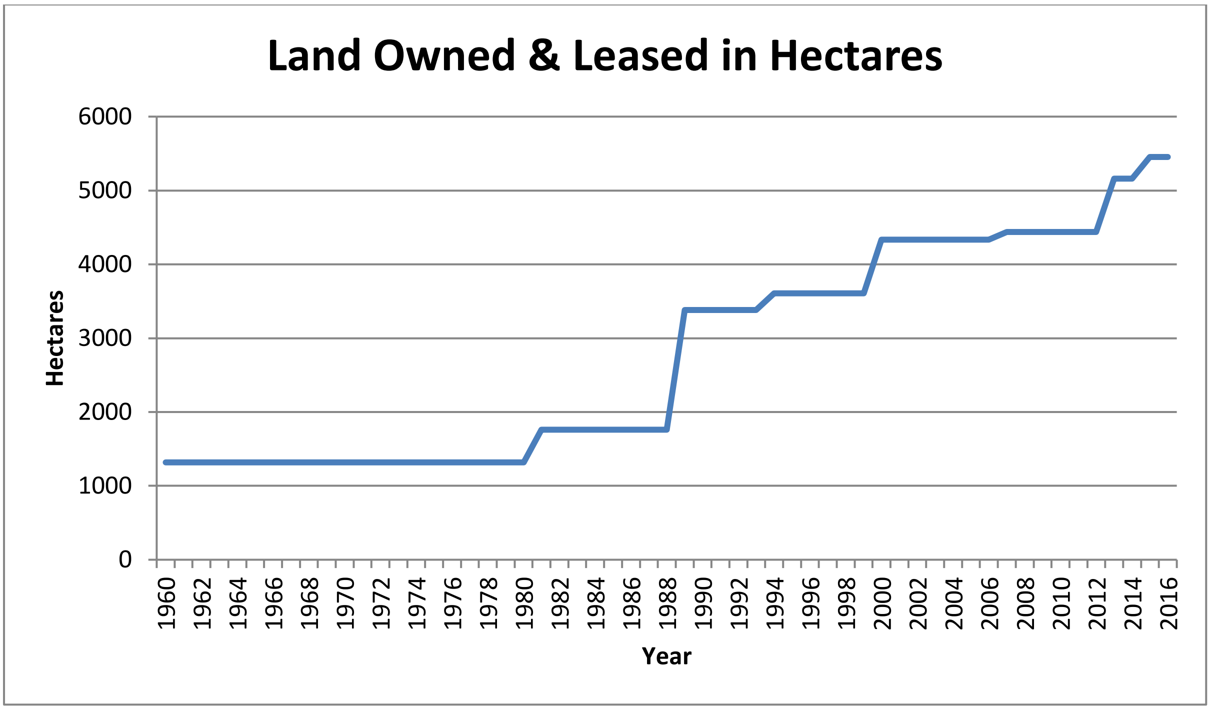
George and Allan and their families own the business. That is the stock, plant and contracts to lease land, both from the family and from third parties. They also own, partly as individuals and partly together, all but the 1,200ha which is jointly owned by them and their siblings. The farming enterprise alone is worth $20,000,000.

Table 1: Lambda Record of Property Purchases

Property	Year Purchased	Area Acres	Area Ha
Home farm	1960	3,250	1,316
Home farm addition	1981	1,100	445
A	Leased 1989	4,000	1619
B	1994	550	227
C	2000	1,800	728
D	2007	250	101
E	2013	1,000	404
F	Leased 2013	800	323
G	2015	180	72
H	Leased 2015*	544	220
		Total	**5,455**

*Irrigated land

Figure 2: Land Owned and Leased in Ha



How did they do it?

There was no sudden change. The growth was gradual. At the point when Allan came home in the mid 1980's Matt had developed the pastures, subdivided, put in water, and built a decent house, shedding and yards. In the early days he carted and spread the super himself. He had also established the pattern of active off farm investment.

Allan worked both on farm and off farm, eventually managing a small farm for a third party and leasing various parcels of land on his own account. Matt was surprised when Allan was about to get married that he (Allan) asked for a written agreement which gave his wife surety that if anything happened to him (death or permanent disablement) that she could remain living in the house for a predetermined period. Matt was surprised, but he agreed.

Later, when George had been home for a few years and both George and Allan were in a position to buy some land, the first priority was to buy the land where they lived. The catalyst was a compulsory land acquisition. Allan and George recognised this as an opportunity to rearrange things, and working with Matt, and a city based brother, they devised the plan which started to separate the business from land ownership. This allowed them to expand by buying more land, and leasing and securing, the non-farming member's investment in family assets.

A technique that Allan and George employed constantly was to build up livestock numbers, making room by leasing and then borrowing heavily to buy land. This technique provides two advantages. First there is the advantage of reduced taxable income because of a reduction in stock sales, and secondly when land is purchased they already have the stock to run on it.

The purchase of Farm C in 2000 is typical. They had the stock and the deposit. Matt agreed to act as guarantor and they persuaded the bank to lend the money. It was a good decision. The farm for which they paid just under $1,000,000 is now worth $4,500,000. Given that improvements and interest were paid for out of the earnings from the farm, a multiplier of 4.5 in sixteen years is very solid.

Where to now?

The challenge for Allan and George is that they have been so successful, the business has been performing so well, and paying a respectable lease figure to the non-farmers, that when they (the non-farmers) add the capital growth, they are very comfortable with the return. So comfortable that nobody wants to sell.

It is most likely that in the foreseeable future, as Allan and George's children start to make career choices, that the issue of the non-farmer siblings will become important. At the moment there are five siblings who jointly own 1,200ha. That is manageable while the shares are owned by the siblings. But as the siblings pass their share to the next generation, if they are allowed to pass them on in parcels to each of their children there could soon be twenty or more shareholders.

Moving ownership from siblings to cousins will be a new ball game but the family is following the 'Family in Business' model shown earlier in this series.

Summary - Case Study 5: Kappa Family

Business continuing

“If we hadn’t had a succession plan the farm would have been sold”.

Without a succession plan the farm would have been sold. Who would invest in a business with no future?

With equity hovering around the mid 60’s, and the older generation having progressively less energy, something had to give. The 2000 – 2010 drought had a negative impact, both financially and mentally on the people. The bank was getting nervous.

Rob and Diana Kappa had a further challenge. Rob wanted to ensure that the farm remained viable, but Diana was determined that the eventual distribution of assets to their two children would be fair. In Diana’s terms, fair meant very close to equal. The eventual split between the two children will be 60/40 and the family has agreed that this is fair.

The introduction of the possibility of a succession plan triggered the imagination of the next generation. Returning home became a viable option. The succession planning process took about seven years. It was managed by a facilitator with input from the bank, the accountant and from a business advisor.

The three overall aims of the Kappa family, funds to enable retirement, a viable farm and happy non farming children, are similar to the aims of most farming families.

Although the debt for their farming son will be high, it is manageable. Rob and Diana will be able to retire and their daughter is accepting of the result.

The lessons from the Kappa family are:

1. Without a succession plan, the next generation would not invest time in the business.
2. With the broad plan in mind, land was given to the next generation to allow borrowing to start paying out a sibling.
3. Ensuring that a suitable house is provided for the exiting generation was essential.
4. The farm had been falling behind in terms of productivity, and the entry of a new generation created a huge amount of energy.
5. Without succession in mind they would not have increased productivity.
6. The plan evolved over a seven year period.

Case Study 5: Kappa Family

Business continuing

“If we hadn’t had a succession plan the farm would have been sold”.

> **Rob**: “If we hadn’t started a succession plan Rob Jnr would not have come home. Without him here we would not have increased production and without that increase we would have ended up selling the farm.”

Rob is the fourth generation of his family to own the farm. It took about two years from the time Rob and Diana Kappa decided to do something formal about succession, until they ‘seriously’ started by engaging a professional to assist them.

In addition to the family farm on which they lived, Diana had an interest in some farming land handed down from her family. From the time they approached the professional to assist them with a succession plan until they had agreed on the plan, was a further five years.

From the very beginning Diana had insisted that the eventual total distribution of family assets had to be fair. Both their two children had spent some time working on the farm and either could have taken on the responsibility. At the commencement of the planning process Robert Jnr. was working as a tradesman interstate. His sister Rosemary was working locally.

Over the years Rob had put together a portfolio of residential rental properties partly in the nearby town and partly in a capital city. The debt on all assets was about 28% and the proportion of off farm assets was about 27%.

During the formation of the plan there were many occasions when it appeared that some of the off-farm assets would have to be sold, but Rob was dogged in his determination to hang on to them.

The family set five goals for the plan. They were:

- Maintain family harmony;
- Ensure the final distribution is fair;
- Build the business to ensure higher cash flow;
- Keep at least some off farm investments to provide retirement income; and
- Build a new house for Rob and Diana.

Although there were times when, due to tough seasonal conditions, it seemed that some off farm assets may have to be sold, the basic goals didn’t change.

Maintain family harmony:

This was agreed by all, but really driven by Diana. At times it wasn’t easy. Robert Jnr. and Rosemary were both in relationships and the family needed to accommodate that situation. The family made the decision that both, the discussions, and the decisions, relating to the plan would be on a ‘No DNA, no say’ basis. This worked well for them. The underlying factors which enabled the family to work through the process were that they do really care for, and respect, each other and that they ‘play together’.

The push to sell some of the off farm assets came from Diana. Her motivation was to ensure that in taking on the farm, Robert Jnr would not be too burdened with debt, and that he would have a family life.

The fact that the family plays together, that it takes holidays together, and all the family enjoy each other's company, has also been a big factor in ensuring success.

That doesn't mean that the process hasn't been stressful, or that emotions have not run high at times. Both stress and emotion have surfaced, however on each occasion the family members have parted amicably.

Ensure the final distribution is fair:

Very early on in the process Diana wanted to know '*What is fair*?' The family agreed that it would not be possible to keep a viable farm, have sufficient investments for Rob and Diana to retire and to provide an equal share for Rosemary. The family realised that an equal distribution between Rosemary and her brother would render the business unviable. Equally, if the farm was sold in the near future and funds put aside for Rob and Diana to retire, the total eventual distribution would be reduced.

With Robert Jnr. taking on the debt and some future, paid employment commitments to his father, the eventual split between he and Rosemary will be 60/40. The family has agreed that this is fair.

Build the business to ensure higher cash flow:

There was a period when it seemed unlikely that Robert Jnr. would come home and farm. During that period, which coincided with the effects of the millennium drought, development (particularly pasture development) slowed down. Father and son accepted that they would have to lift productivity to create cash flow and that the business had the capacity to achieve higher profitability.

Together, they enrolled in courses such as 'Making More Money from Sheep" and 'Lifetime Ewe Management' and in a very short time span lifted the production capacity of the farm and as a consequence the cash flow.

Keep at least some off farm investments to provide retirement income for Rob and Diana:

In business there are 'Good Decisions' and 'Right Decisions'. Consequently it can be argued that there are 'Bad Decisions' and 'Wrong Decisions'. Only hindsight can tell which category a decision falls into. Given the cash flow situation at the time, when it was first suggested that some of the residential rental property should be sold, and Rob doggedly refused, it looked as though that was a bad decision. But what appeared to be a bad decision at the time looks like the right decision now. There is an opportunity to enhance the value some of the rental properties and the family has the required skill to carry out the improvements. This will improve the balance sheet position and as a consequence ensure that Rosemary ends up with 40% of the family assets.

Fund a retirement house for Rob and Diana:

This point has been non-negotiable within the family. Although there has been acceptance that Diana would not get the house she wanted, as soon as she wanted, it was agreed that the house was a priority which could not be put off forever. At the time of writing, the plans are in an advanced stage, and the method of funding has been agreed as part of the overall plan. That method includes the transfer, to Robert Jnr, of the ownership of some unencumbered farming land which is not connected to the farm. Robert Jnr. will borrow against that land and in turn pay for the house. In the event that he encounters severe financial stress, the land could be sold without significantly compromising the business.

Ensure the farm is profitable:

There is still a lot of work to do to ensure that the farm is profitable in the long term. Currently the equity, when the commitment to build Rob and Diana's house is included, sits at a little over 60%. Low equity at what is effectively the establishment of a new (Robert Jnr.) business is to be expected. Equity at 60% is manageable, while interest rates are low, the season is favourable, and prices are high. In the long term, equity will need to increase to ensure long term viability. Whilst investments in pastures and equipment are necessary, a plan to reduce debt is essential.

The lessons from the Kappa family are:

1. Without a succession plan, the next generation would not invest time in the business.
2. With the broad plan in mind, land was given to the next generation to allow borrowing to start paying out a sibling.
3. Ensuring that a suitable house is provided for the exiting generation was essential.
4. The farm had been falling behind in terms of productivity, and the entry of a new generation created a huge amount of energy.
5. Without succession in mind they would not have increased productivity.
6. The plan evolved over a seven year period.

Summary - Case Study 6: Pi Family

Business continuing

The family told the directors to "perform or sell".

The Pi Family own and operate a very large farming business based mainly on livestock production, in both the high rainfall and pastoral zones of southern Australia. The actual area and the stock numbers are not important in this study. The important factors are that the family is multi-generational, with cousins working together to govern and manage a business which is in the top 100 of Australian primary production business.

The family had been able to steer the business through 60 years of drought, rabbits, the depression, the 1974 cattle crash and many, mini collapses in the livestock industries, but the wool collapse of the 1990's really took a toll.

> '*The wool crash in 1991 is probably a significant milestone in the family. There were good returns up until then and then it went to almost no return*.'

That was the start of 10-15 years of disquiet which culminated around 2004. The family members remained patient for a few years, but after a time they had enough. They demanded that the business perform:

> *'Then there was an ultimatum on the table; profit improvement, or wind-up the company. That was a wake-up call and the Board brought those two positons to the shareholders. They didn't even get a seconder to wind-up the company so everyone voted for profit improvement*.'

In order to perform they agreed that the business needed to set production and financial goals, to benchmark externally and within, and to grow by adding to existing properties rather than adding new properties to the portfolio.

This strategy, combined with solid off-farm investment and a strong shareholder engagement policy, has ensured that shareholders are happy with the new arrangements. If any becomes unhappy, there is an agreed method of buying and selling shares, and they have implemented a 'Share Trading Post'.

The business was turned around. Several off-farm investments were made (unsuccessfully at first) and the family members were encouraged to spend time on and enjoy the properties. This engagement has ensured that the shareholders derive benefits in addition to the financial returns.

The elements of the success include:

1. The implementation of the share trading post was a significant point. The investment is more stable.
2. There is always a capital growth component in agriculture almost every farmer borrows against it but the Pi family doesn't.
3. Commercial property investment allowing leveraging against something with a known income.
4. A new acquisition policy to own more farming land, in addition to the commercial property.
5. Ensuring that returns from the land are optimised.
6. Benchmarking to reinforce high levels of profitability.

7. Leveraging on property interdependence.
8. Ensuring that family members are welcome on the properties and at business events interspersed throughout the year.

The family has put a lot of thought into succession and there is every reason to expect that the business will remain in the family for future generations.

Case Study 6: Pi Family

Business continuing

The family told the directors to "perform or sell".

Allan is the spokesperson for the Pi family. The Pi family company produces over 1,000 bales of wool annually in addition to running beef cattle and prime lambs, and significant horticultural interests. The company owns significant pastoral and high rainfall country. Rather than growing the portfolio of nine properties by purchasing unattached land, the company has added to the land area by buying land adjoining the properties it already owns. The family doesn't make a fuss, doesn't seek publicity, and is rarely in the news.

The company is almost 100 years old, all the shares are held by descendants of the founders and a member of the fifth generation sits on the Board. The company had a strong wool focus until the collapse of the wool floor price scheme, but since then has diversified its interests from Merino wool production to a number of other agricultural, horticultural and viticulture interests.

Some companies grow organically, but the Pi family had considerable assets derived principally from agricultural production before the company was established. The motivation for the establishment was very forward looking. Shortly after the end of World War One the founder, and his son, decided to start the company to look after the interests of the daughters/sisters in the family. The provision for the daughters/sisters was very unusual then as primogeniture was the norm.

> **Allan:** "The father and the son had previously been in partnership and set up the company to give an income stream to the sisters, or the daughters. The whole scenario was about providing for the whole family and going through succession. So now the company is still fully family owned, a third of the shares descend from each of the two brothers; the other third is from the three sisters. The reason for the establishment of the company was succession."

The shareholders, in addition to their shares, individually own properties which are not part of the company. Some of those family members have succession issues within their nuclear family. '*They've got one property and it is difficult to share it between multiple children*'.

Succession isn't easy in a nuclear family, so is it harder, or easier, in a family company? Allan used the example of one of the Directors who is going through succession planning with his children and trying to determine how to make the eventual distribution equal. Another has said to the daughter, you either have to be working on the farm, or you're not going to get the farm, and it won't be equal. As the company has passed through the generations, the number of shareholders has become larger and so the slice of the pie at generation 5 to 6 is smaller. With about 75 shareholders now, some have a very small proportion. The minimum shareholding is 500 out of seven million shares, but there are some shareholders that still have around 10% of the company.

The Directors have discussed pruning the family tree which is something that has happened in a few quite larger companies. In some they bought out their cousins, another bought out the rest of his family:

Allan "We have looked at that and that hasn't really got any legs at the moment. We work on the premise that if you are a family member and you are engaged with the family company you accept a lower return on investment than listed shareholding. Because as the generations go further down your shareholding is smaller, you probably live in the city and could be less engaged in the business. So it's vital that we need to keep our family members engaged, otherwise we are going to have to produce an investment grade return on their investment."

Keeping family members engaged is a fine principle, but it takes some managing.

Allan: "At the basic level, we try and have shareholder trips to properties so that they can walk over them and see what's going on. Our annual report is fairly comprehensive, so we talk about what actually happens on each property, lots of photographs. We meet more often than just the AGM, we have shareholder functions. We are now encouraging family members to have an agricultural career, whereas from probably about the 1960's to 1990's that was very much discouraged. At that time family members were discouraged from going onto the properties."

While it is easy to understand the initial motivation of the founders, over the intervening years, there must have been challenges to the Board. It seems amazing that five generations of family members were happy to remain committed. The leadership took a very forward view and came to understand the importance of engagement. Alan explains how they might have arrived at that.

Allan: "The wool crash in 1991 is probably a significant milestone in the family. There were good returns up until then, and then it went to almost no returns, and that was probably the start of 10-15 years of disquiet which culminated in around 2004. Then there was an ultimatum on the table - profit improvement or wind-up the company. That was a wake-up call and the Board brought those two positons to the shareholders. The choices were improve profit or wind up. They didn't even get a seconder to wind-up the company so everyone voted for profit improvement."

Wind up was plan B, let's concentrate on Plan A; improving profitability:

Allan: "I think it was pretty structured in that way too, to get the shareholders on board. So at that point we had a profit improvement program and we had to work out how we were actually going to make value for shareholders again. And it's probably been fortunate that commodity prices have gone the right way. But some of the things we have done in that time include adding some liquidity to shares by holding share trading posts. The shares at the moment probably have an $18 asset backing, back then they probably had a $10 asset backing, but they were being sold at $2 – so no one wanted to sell their shares because there was no value in it. So we bought in a share trading post with a proper tradable value and also put in a buyback provision, a buyback of last resort, so if anyone actually wants to get out of the family they've got the opportunity to do it now.

It is a discount. So the formula we use is a 35% discount to actual asset value (or market value) and we get everything valued every year."

How was the discount of 35% arrived at?

Allan: "We determined that by looking at Prime Ag when it was listed on the Stock Exchange and was trading at about that discount to NTA [i.e. net tangible assets] at the time."

Is there a limit on the number of people that can get out at any one time?

Allan: "No, it's never really come up. So when there is a shareholder that actually wants to sell all of their holding, it generally overwhelms the market of buyers, but that's when the buyback provisions kick in, and it's never been more than a couple of percent. And also it's definitely a Board Policy, and I think that the shareholders would back it up, that because they have been bought back at a discount to market value, they would borrow to buy out shareholders."

Showing that there was a way to get out was important but what about improving the performance?

Allan: "So there was that [enabling exit], and putting that in place was a big key, the second thing was starting to get some proper returns.

The company has always been a conservative borrower and it really didn't have any debt. Whenever the company purchased another property it generally borrowed money from the shareholders rather than the bank. But that's created a lazy balance sheet. The retort from the company was, '*well pastoral and agricultural returns aren't really consistent enough to allow us to borrow against it so we would only borrow maybe 5% of the asset values'*. So we sold a significant asset of about $30M, gave about one third back to shareholders in a special dividend and the rest of the money we put back into the company and built a commercial property portfolio. The returns on that are known and consistent monthly, but also consistent yearly, it makes it easier for us to borrow against assets.

So now our Board Policy is to borrow up to about 20% of our assets. That's allowed us to go out and buy a lot more properties, we are probably, on average, purchasing a new property about every 18 months for the last 5 or 6 years."

And 80% equity is very solid?

Allan: "Yes, the bank still laughs when we say that we're not going above that. And so a lot of the properties have been add-ons to existing properties, but before we purchased them they were being operated as a family farm in their own right, so it's not just one or two paddocks. Because we can borrow the money and use some of the returns from good commodity prices, we can pay that money. So our acquisition policy is really geared up which allows us to pay higher dividends to shareholders, but also they've now got this indicator of share price so the capital growth is moving up as well. We can demonstrate that even if you are only in this for an investment return, we are doing as well as, or better than, the market in general. This is helped by the fact that the market in general hasn't been going great guns in the last few years. It's put Agriculture back onto the good list, because [at the moment] everything else is not as good."

Agriculture certainly had a period when it wasn't returning well and whether it's on the good list or not, is as much as anything, dependent on what happening to property/land prices:

> **Allan:** "I'll also just go back to the decade of disquiet following the wool price [collapse]. The Board strategy at that time was to diversify in order to not, solely, be reliant on wool. But pretty much all the investments the Board went into were shockers. But the company has stuck with those investment and they are starting to turn good now. We sold out of a citrus farm last year with an average of 11% per annum over the life of the investment, including that millennium drought."

For a shocker, 11% was pretty good, but in the early days of the investment the returns were poor. The shareholders weren't getting a dividend, the Board was reducing the reliance on wool, but the alternative investments were performing poorly. That caused disquiet. It was a key point in the company because it could have fallen over. It would have followed many companies where the first generation starts, the second one builds, and the third one gives it all away. The third generation was in control at that time, so it actually could have gone the way that a lot of family companies go. But they had that buffer of the share portfolio which allowed them to struggle through the 1990's until prices improved.

Was the investment in physical assets that they could see and hold important, rather than the money market or shares?

> **Allan:** "I think the off farm investment strategy started in the 70's, but the company built quite a large share portfolio pre 1991, and it was around then that they actually liquidated the shares to get rid of all their debt. That's another thing said, if you held those shares in 1991, this company would be worth much more now; but that is hindsight. And we are not interested at all in having paper investments now because it's not attractive because of the CGT [Capital Gains Tax] rules."

When the Board had put the option to liquidate, they had stacked the argument a bit. Did somebody have the foresight to stack the argument, or was it just that they wanted to go on doing what they were doing?

> **Allan:** "At that point there were members of the Board who could see the disquiet and also the fact that the company was going a bit wayward. So they brought in a share valuation expert. And the first thing that this expert really said was, '*I've got buyers in China that can take this all off your hands for you if you want, just 'name your price'*. That focussed the Board and forced the question - Do we really want to continue as a family company or do we want to get out now?"

Selling was clearly a commercial option. There was a sell out clause and the shareholders would receive 100% of their share value. Retaining ownership without improving profitability was not an option. The alternative to selling was to ensure that the company became truly profitable.

The possibility of getting out, took away some of the perceived necessity?

> **Allan:** "Yes, I'm sure there's an element of protectionism in the family. Individuals said I would definitely keep my shareholding if it is going to go off-shore. I think the fact that there

> was this opportunity and potential that you could give everything up and go away tested the family on whether they wanted to remain as a family company or not."

Alan compared the Pi family to the Kidman family. His understanding, from outside looking in, was that the Kidman family lost control of the Board. They bought in independent Directors and over time the number of independent Directors was greater that the number of family appointed Directors. As a result the Board became dis-engaged from shareholder base and vice-versa. The family lost control of the Board and they lost control of the company. Ultimately, shareholders sold because they were not in control anymore.

Alan says there has been some discussion about having an independent Director or independent Chairman because it can assure good governance. But the Kidman experience has really focussed attention and people don't want to sell. They do want to keep the company in the family.

In this family company few shareholders have actually had to purchase their shares so they probably don't even recognise the monetary value of their shareholding. Less than 50,000 shares out of 7 million have been purchased.

> **Allan: "**A reason why people probably accept a lower return is because they don't actually attach a dollar value to it."

Is there a level of stewardship '*I'm holding this for the next generation?*'

> **Allan:** "Definitely, and I've heard a lot of shareholders say – '*well look I've got this percentage of the company and I've got two kids, so it's my job to try and double the value of my shares so that I can pass down to my descendants the same that I inherited*."

That's a real stewardship attitude:

> **Allan**: "Yes, absolutely and I think that's something in a company that you can do. It's a lot harder if you are owning the property in your own right as a partnership or sole trader, because then you get these issues of having to split the farm up or whatever."

The company is involved in benchmarking, both between properties and with a commercial benchmarking service. They put a lot of weight on benchmarking, particularly because they know they are in the top 20% of ABARES. The company has also increased property interdependence. That may mean accepting a lower profit on an individual property if it's in the whole company's interests. An example is the purchase of a property under an OJD order. The company has a policy to get rid of OJD, so they decided to spell it for two years and only run cattle and lambs. In order to get profitability from that property they weaned calves and lambs from all the other properties onto the OJD one and that was mutually beneficial. It gave a better result for those individual properties and now that's part of the property strategy.

The elements of success for the Pi family include:

9. The implementation of the share trading post was a significant point. The investment is more stable.

10. There is always a capital growth component in agriculture, almost every farmer borrows against it, but the Pi family doesn't.
11. Commercial property investment allowing leveraging against something with a known income.
12. A new acquisition policy to own more farming land, in addition to the commercial property.
13. Ensuring that returns from the land are optimised.
14. Benchmarking to reinforce high levels of profitability.
15. Leveraging on property interdependence.
16. Ensuring that family members are welcome on the properties and at business events interspersed throughout the year

The current management and shareholder engagement strategies should ensure that this business continues. It is profitable and growing. The family has succeeded in moving the ownership from siblings to cousins, has sound management and strong inter-family communication.

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 claims to have 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.

Case Study 7: Mu Family

Business continuing

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

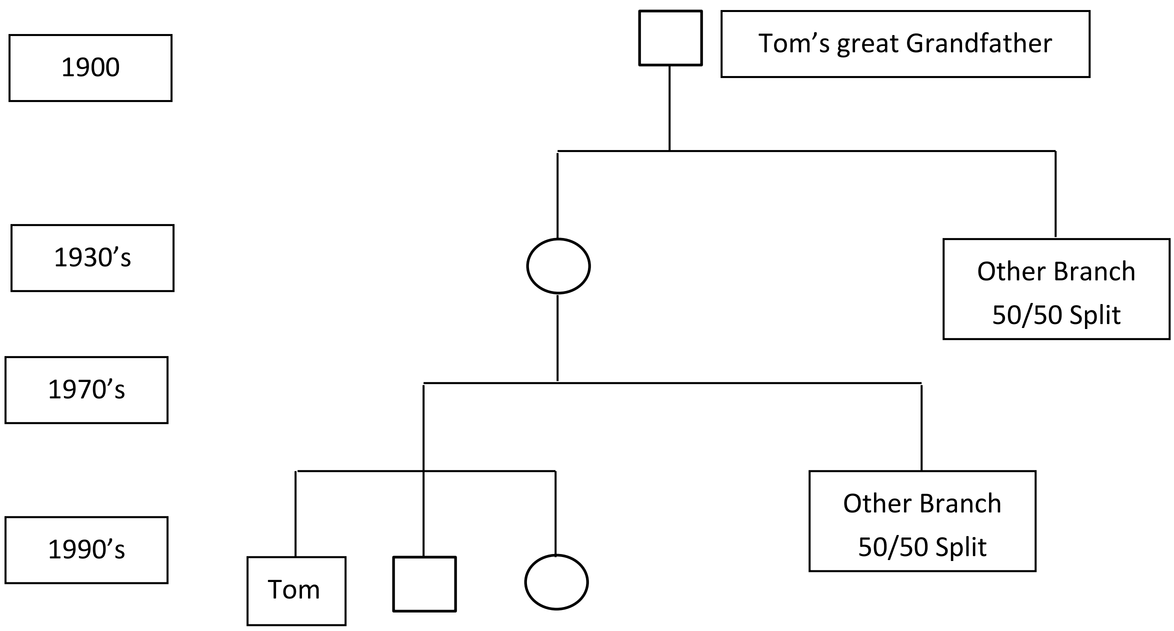
If there is a set of attributes which sets the Mu family apart from other similar sized farm businesses, it's the attitude to financial gearing and the use of capital and debt. Debt has hovered between 30% and 40% for successive decades. Tom Mu has continued to borrow to expand both his farming enterprises, and his non-farming investments. It's a story of calculated, manageable risk which has delivered sustained growth over more than two decades.

In 1994, Tom Mu started with one third of a 1,200 hectare (ha) farm, valued at $500/acre, or approximately $500,000. He now has 60% equity in a property and share portfolio valued at $15,000,000. That makes his equity $9,000,000. The compound interest rate claimed is 14.75%. It's a remarkable story.

The story starts in 1904, when Tom's great grandfather purchased two properties (both of which have dual purpose land) in the district, which has a 650mm annual rainfall. He was a stock and station agent. He put together two magnificent farms. If there were mobile phones around at the time, he would've been forced to sell up, as his creditors would've tracked him down. He was a huge risk taker and just got by. He put the two farms together, and over the generations the family ended up with land, which has subsequently been split up through the generations.

> **Tom**: "We are the 4th generation to have a go at the farm. It was about 3,200ha at the time when my grandfather brought the property. Generation two split the farm. My grandfather had two daughters, and it was split 50/50. This property was 1,200ha under my parent's stewardship. Mum and Dad inherited 800ha, I think, and then Dad built it up to around 1,200ha."

Figure 1: Mu Family Genogram



Tom's parents didn't consider debt at all. Tom recalls that they didn't have debt, and that it worried them, '*they ran into debt a couple of times and they did not like it. They ran through their career at 95 to 98% equity with a small overdraft*.'

There was a massive change of attitude between the generations with Tom exhibiting some of the adventurous nature of his great grandfather, but with a prudent attitude to risk. Given their conservative nature Tom's parents did well to grow the farm.

> **Tom**: "Dad had a small farm which he sold to his brothers when he moved here. So when they moved up here they had something behind them. They did well tacking on a couple of the blocks next door from other relatives."

Tom, who has an older sister and a younger brother, left school and worked in the Riverina for some time before travelling overseas. He completed an Agribusiness course at Marcus Oldham and came home seven years after leaving school. If history was to repeat itself the farm would shrink again. But Tom didn't muck about.

> **Tom**: "Before I came home we bought some country down the road and I loaded us up with debt. We did the transaction when I was at college. By the time I came home in December it had settled after the harvest. So we bought a another small block down the road so we could keep the station hand who dad had employed and I could join the business and learn the systems from both my Dad and the station hand."

Tom's parents were ready to hand over. His mother had some unhappy memories and was happy to move.

> **Tom**: "The ghosts hang around a very long time, so Mum was happy to leave here. Dad was happy to follow and willing as he knew we were up to it."

Basically Tom's mother said '*here you go, if you stuff it up it's on you'*. It was a great opportunity. Tom was 25, his elder sister was 27 and living in the city and his brother, who was 21, had not decided whether he wanted to farm. A few years later his brother decided that he wanted to come home. Tom was living in the big family house and his parents had moved into town.

> **Tom**: "We first initiated succession planning with our accountant before we brought in a lawyer to help us. Our accountant sat in on some of our meetings."

In the early meetings, not long after Tom came home, both his Dad and brother were quiet, as they really didn't know what they wanted to do. At the time it was too early for his Dad to leave and his brother was too young. They each said their bit but couldn't really enact anything as family members didn't know what they wanted to do.

They tried it again the next year and Tom's Dad and brother said a little bit more, but they were not as vocal as he or his mother. His sister wanted to be part of it, but not to be a farmer.

By the third year a lawyer was called in and they were ready for him then; to take action and put a plan in place. They were selling the block down the road and buying a better block.

Tom: "My brother came back and we were both living here and we had the block up the road. My mother saw a farm of similar size as ours on the other side of town and suggested we sell the block. We did some figures and talked to the bank and essentially doubled up and bought Farm B. That way we had a farm each of similar size."

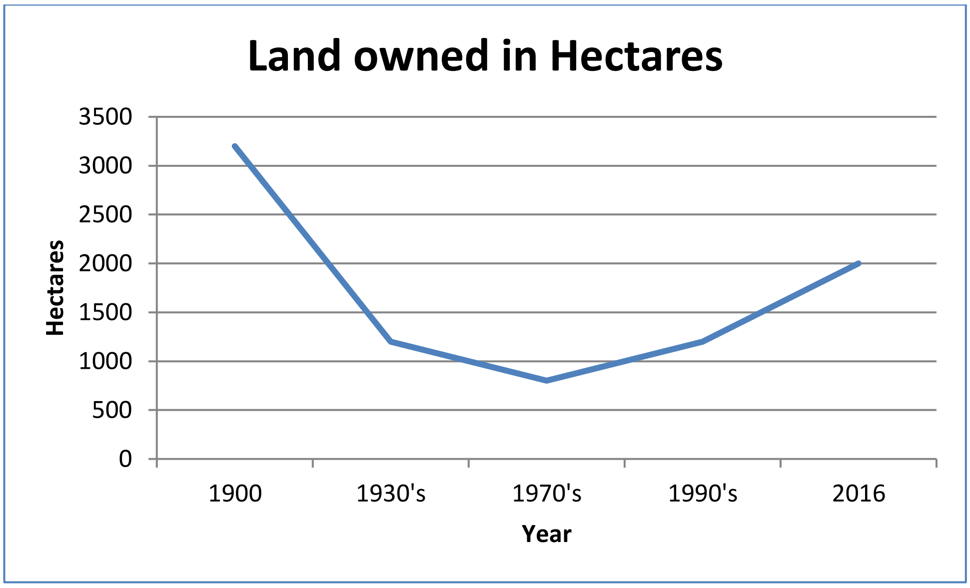
They had to work together because the bank wouldn't allow them to split. They had a big debt between them and with equity below 60% they needed focus. That initiated succession. That was in the late 1990's and interest rates were around 11%, but they locked some in at 12.5%. They had a couple of good trading years and then the 2000's drought hit and then the land values went through the roof. But they still needed cash flow to pay the interest.

Tom: "We had to generate cash but we couldn't reduce the debt because the seasons didn't allow us and because our equity was low. We never capitalised our interest, we always made our payments."

Looking back, Tom accepts that they skated on thin ice but says '*we were in our 20's and didn't know any different*.' But although it was tight, they didn't ever capitalise interest. They bought Farm B which is roughly 50km from the home farm and traded as one business, drew wages, and shared people and machinery.

Figure 2, below, shows the Mu family land owned in hectares throughout the successive generations.

Figure 2: Mu Family - land owned (hectares)



The issue of their sister's share was manageable because the brothers had borrowed for expansion and their borrowing accounted for almost half the total assets (40% in total).

Tom: "We had that property for five years and we didn't capitalise much on it. We paid $440,000 and sold it for $550,000."

However, they hadn’t paid any off the loan.

> **Tom**: “No we’d grown with a little bit of machinery; we’d capitalised to then be in a position to purchase the other farm without any other expense. My brother was coming on board, machinery and everything we had around us was right. Livestock went straight across so it worked quite well. We then had to work out how to keep our parents and sister secure. We cut everything into thirds. My brother and I got a greater share but we also got the debt that went with it.”

Tom’s sister will inherit the off farm assets and she is happy. In round figures she will be given a third of the assets, as valued at the time of the split. Their parents have helped her out with buying a house in the city. She was quite emotional over the family home and mainly just wanted some ownership of where she had grown up. She accepted that it could not still be her home, and home for Tom’s wife and children. Those siblings leaving the farm need to roll forward a few years and ask themselves is this going to be their family home or is going to be their brothers wife’s family home, it can’t be both.

> **Tom**: “It was very challenging and that is probably one of the hardest things because it wasn’t clean.”

None of the siblings were married at the time so they ended up deciding to create value. They allocated a part of the farm which could be split off without affecting the core, to go to their sister. They transferred ownership into their sister’s name, unencumbered, and leased it from her at market rates

The partnership between Tom and his brother worked very well. They set it up to trade together for five years (as the bank suggested) and ended up trading together for 12 years. Then the split as amicable:

> **Tom:** “When our kids were younger, probably seven or eight years ago now, my brother rang me and said:
>
> ‘*Everything is going great but let’s split*.’
>
> I thought right – so how do we do this? So we just added everything up, we a got a valuer in, to value the country on each farm; we got an agent in to value the stock, our machinery dealer to value the machinery. We laid it all on a big piece of paper, the two farms, what stock was on each, what machinery we’d kept as we had a boom spray each and we shared a seeder and a few other things.
>
> My brother said: ‘*That sounds good but I don’t want to do any farming, I want to contract it out*.’
>
> I said: ‘*If I keep our employee and machinery, can I put your crop in? Someone has to do it and I’d do it at a better rate than a contractor*.’
>
> He said: ‘*No problems*.’

I then took on all his machinery which meant I had more debt. We then got to our land, stock and plant as a gross on each farm and we adjusted it with debt and come to a net figure very nearly close to what we thought was ok."

A similar discussion occurred when Tom's sister decided she wanted to sell her block to Tom. At the time she needed to upgrade her house in Sydney. It was a stepping stone for her and the sale was managed amicably.

Were you in a position to buy it?

Tom: "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."

The thing that's different about this story is that that big jump – doubling.

Tom: "It was ridiculous, would I do it now? I doubt it. I know too much, I know how hard it can get and I have a family to consider. It's funny, Dad didn't like debt, yet he was more than happy for us to manage debt and he could advise us."

Tom reckoned that they had 40 years to get it right and if, worst came to worst, they could have sold the place they bought, or at least sold part of it. They had a year of vendor finance, something like 20 - 30%, which allowed them to trade.

One year of vendor finance was useful, ten would have been better.

Tom: "Doesn't happen. Our bank supported us and I am still with the same bank now. We didn't increase staff levels, my brother came on and we shared the station hand between us. We made it work with crappy old machinery. The combine we used to put over some country, the hours we would sit on them just because we didn't want to buy an air seeder. In the first year we put in 800ha with one combine, a 130hp tractor and an old grouper."

Where are you up to now?

Tom: "Looking after Mum and Dad. The banks had first mortgage, and paying out the remainder of my sisters third."

What of the future?

Tom: "This farm was 1,200ha when we took it over. It's now over 2,000ha so it's a 2 labour unit business. It's equivalent of a 4 DSE country so it's a 20,000 DSE farm. I'm very comfortable for our stewardship. There is no need to expand our farming business for the next 10-12 years because of the scale we have now. We may expand if there are opportunities to purchase land that is under market value. Naturally we have debt, as you don't go from 1,200 to 2,000ha without picking debt up on the way."

In the twenty year period since Tom came home, the farm has built, split, and then rebuilt again. Tom went from a big farm to a small farm, then building it up to a big farm again.

Tom: "Yes, but you learn a bit along the way. I took on debt when we split so I didn't have a full equity farm because we had scaled up. Our land values had gone from $1,235/ha to $3,200/ha so equity position was very strong."

They bought Tom's brother's farm at $1,235/ha (1,214ha). At the time, that farm was on the market and they made an offer before auction and got it. But Tom thinks that the bank wouldn't support him to the same extent now.

> **Tom:** "Timing and time. I had time to get it wrong and then get it right again, and I wasn't retiring during the GFC. That would've hurt. My brother and I split in about 2008 and land was $3,800 per ha, when we bought it in 1997/98 for $1,235 per ha and by 1999 it had gone to $1,730 per ha then just continued to roll.
>
> The first year I was home we bought the farm down the road and we put in 2.5 times what our normal cropping area. Some of the country paid for itself in one year."

It hadn't been cropped for a long time and it was highly fertile?

> **Tom**: "I haven't had gross margins like it since. It was over $1,000 per hectare gross margin and we paid just over $1000 per ha for it. It was over a couple of hundred acres of this farm, this wheat just went. It was on lupin stubble, the guy had farmed lupins the year before and well just drilled wheat into it."

It paid for the siblings to work together, they couldn't have done what they've done on their own. Now they have separate, but co-operating businesses. They didn't double up on machinery. That sounds like a copybook approach! Now looking forward, what next?

Are you setting yourself up so that if one of your kids wants to follow they can?

> **Tom:** "I'm 45, my kids turn 13 & 15 this year. I was 25 when I came home and I think that's a good age to understand what you want. It takes a few years to figure it out."

Tom is setting the business up so he will be able to give an equal start to both his children, whether they want to farm or not.

> **Tom:** "The minute we started on our own we were onto that. We just want to be able to give them the opportunity that we had, which is a start. We don't want to make it [too] easy, but give them a start."

The children are getting that start. Tom has involved the kids in the farm since they were little. When they were 3 or 4 he gave them a cow each. They now have 32 cows in their mob, with another 14 heifers to be joined, making their mob close to 50 heifers. They are responsible for the mob, riding horses to check them and bring them in for marking and weaning etc. Having the own 'mob' given them a big sense of ownership and Tom reflects that it's 'been *a big key in having them understand*.'

Tom also shows his children that he enjoys what he does.

> **Tom:** "It's positive, not negative, so the kids see how much we enjoy what we do. Our aim is to hand on our farm in better condition than when we got it. The kids see that it's not a drag. They're both very keen on farming at this stage. They both want to be farmers and they fight over who's getting what paddock."

The land values have gone from $1,200/ha to nearly $3,700/ha. Consequently, the business equity has grown from the high 50's to the high 70's purely because of increases in land value. All Tom needed to do is to pay the interest. That growth in value will help him to hand over a viable farm, *‘we want to be able to hand on our farm; we are custodians’.*

As Tom sees it he and his wife will have a thirty year tenure and then it is for the next generation to enjoy if they want to be farmers. No pressure on them to become a farmer, ‘*it has to be in your blood to do it; you have to enjoy it to want to do it.’* Tom thinks he will get a pretty good understanding if they’re interested: “*If they’re at Uni and they come home from holidays and want to put a crop in, you get that feel I reckon over time.’*

> **Tom:** “There is a tendency these days for people to want to do something else and maybe at 35 decide they don’t want to be a merchant banker and want to take it on. You could even put a manager on and satellite run it. There’s opportunity. We want the kids to pursue careers and whatever chosen field they are interested in. They don’t have to go to University. It’s purely up to them. How do we hand it on and not be a noose around their neck?”

That’s part of the three aims (funds for retirement, viable farm, happy family), and although Tom has pondered the question about how to hand the farm on, 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.

Summary - Case Study 8: Sigma Family

Business continuing

"Our fathers bought it, but we have to pay it off".

Their grandfather set up the two brothers. The brothers just kept buying more land. Their sons, this generation, then had to pay for it. More expansion, poor prices and some droughts didn't help.

Succession to this generation was dictatorial but it worked, although leaving a legacy of huge debt. Succession from this to the next is very consultative with professional assistance. This generation will also hand on some debt to the next but it will be more manageable.

The Sigma story is a great one with some important lessons:

1. In generation 2, two brothers realising that the farm wasn't going to be big enough when they both had families, managed to get a farm each. The present generation is benefiting from the start provided by their grandfather.
2. In generation 3, two brothers David and George decided that the business had to be corporatised.
3. David and George purchased land at such a frenetic pace that equity was low, and as a result, the business almost failed.
4. Borrowing off shore was a significant contributor to the near failure.
5. In Generation 4, five sons started out working together. One brother, when he realised that the burden of debt was too great for him, was able to exit. The remaining four have been able to carry on the business through drought, the Swiss franc affair, the wool crash and low cattle prices and have effectively had to buy a significant proportion of the land that they now farm.
6. The remaining four have agreed on the big picture for the future:
    a. They will lease the farms to the business on favourable terms.
    b. They will put money aside in good years to ensure that a dividend can be paid in bad years.
    c. They will start to involve the next generation in what is, effectively, a family forum, bringing the whole family together, providing them with opportunity to understand what working in your own business really means. This will give them then the opportunity to decide if they want to be part of the business, either working directly on farm, or in an associated business.
    d. They will be using the principles outlined in the 'Family in Business' model.
7. They have also worked out how the next generation can have input into the Board.
8. Effectively, they have appointed a family forum and a family council.
9. They will develop a Shareholder Agreement and what is effectively a Buy-Sell agreement for the next generation.

With all of the steps that they have put in place there is every reason to anticipate that the business will carry on until the next generation have children who would want to be involved in a senior management level. This is probably 30 years from now. In preparation for those circumstances, the process will need to start again in a few years.

It is a good story.

<u>Case Study 8: Sigma Family</u>

Business Continuing

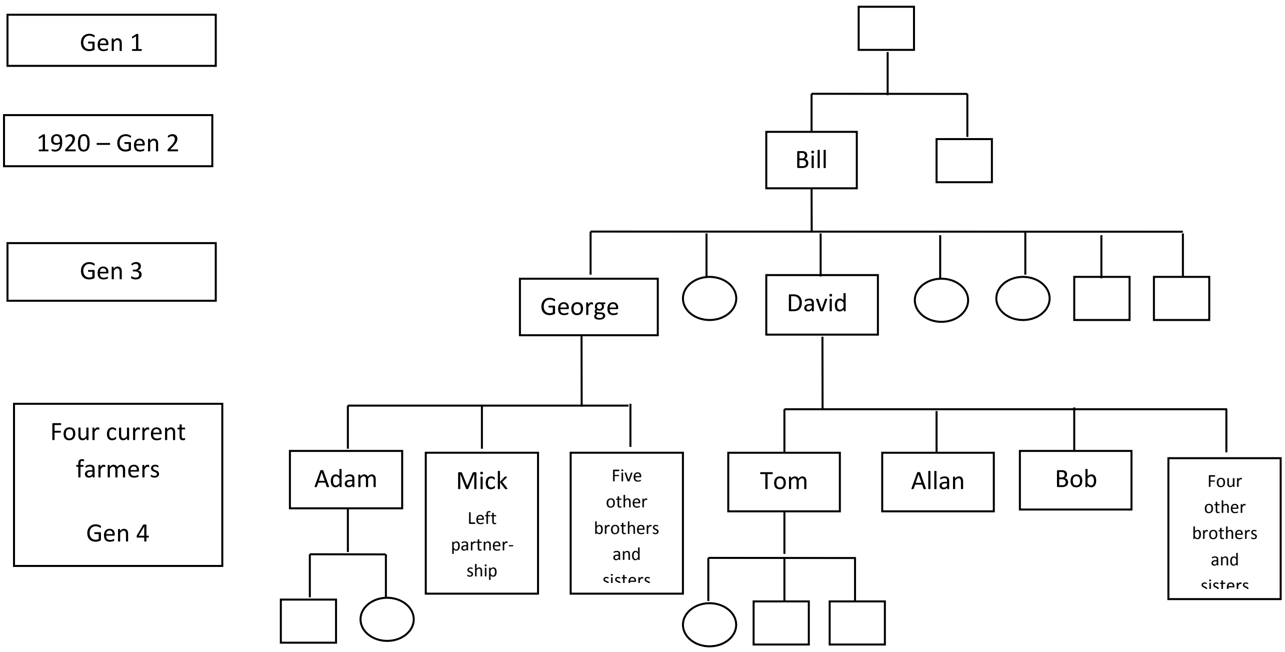
"Our fathers bought it, but we have to pay it off".

Prior to 1920, two brothers in the Sigma family had been farming in a nearby district in the 700mm rainfall band in southern Australia. In about 1920, the family purchased Farm A, a holding of 800 hectares (ha) which is now the central property of the current business. One of the brothers, Bill, moved to the newly acquired Farm A. The exact timing is unclear but soon after he moved Bill became the sole owner.

Gen 4 is represented by Tom, one of the brothers and his cousin Adam.

The Sigma family is a large family as can be seen in the Genogram below.

Figure 1: Sigma Genogram



> **Tom**: "Originally Farm A was 800ha. Not long after more land was brought, so the starting area was 1,700ha with no debt."

Bill and his wife had seven children and two of their sons, George and David (Gen 3) built the business to the present 7,800ha and 'corporatised' it.

> **Tom**: "Bill ran the farm until he died in the mid 1950's, but he wasn't motivated in the way George and David were. They were totally motivated and driven by the business. Bill maintained the farm size through to the early 50's. George and David took over around that time and it was those two that then drove the business, but they weren't the only children."

George and David had three sisters and two brothers.

> **Tom**: "One ended up with a house in town which I think was her payout. Then the other two were trustees of the Farm A and I don't know if they ever got any money".
>
> **Adam:** "I don't know that they got very much. There was some sort of payout and I know Dad looked after one and paid all her expenses. We're still paying annuity to another."

Whatever the level of agreement or disagreement among the siblings at the point of incorporation in 1996, George and David had 50% equity. Corporatisation forced two issues. The first was that George and David took control of the lion's share of the company. The second was that they allocated shares so that the five children in the next generation who wanted to farm, received 80% of the shares between them and the nine non-farmers received the remaining 20%.

Corporatisation proved later to become the business saviour because, although they kept on purchasing land, they only paid a minimal amount off the principle. At the day of reckoning when the bank could have withdrawn support, the business was too big and it would have become very messy for the bank.

The business carried significant debt, and Gen 3 left it for Gen 4 to pay it off. Gen 4 has three brothers and a cousin in the company. Shortly before Gen 4 assumed control, acting on advice from the bank, $1,500,000 was borrowed in Swiss francs. When the loan was called in by the bank the repayment amount was $3,000,000, or double the amount borrowed.

The rationale to borrow in Swiss francs, before the relative values of the currency's changed, was simple. Bank interest on loans within Australia was sitting at around 16% and Swiss francs could be borrowed at interest rates as low as 4%.

During this period, the Australian dollar (AUD) exchange rate peaked in 1982 then plummeted in 1985. To translate this into money, a loan of CHF (Swiss franc) $1M would have looked like this:

In 1982: Exchange Rate of 2.2 – CHF 1M = AUD 454K

In 1985: Exchange Rate of 1.4 – CHF 1M = AUD 714K

This situation worsened over the following year. The worst position was a 0.93 exchange rate in January 1988, at which time CHF $1M would have been AUD 1.075M. So it was possible to borrow CHF 1M at a cost of AUD 454K and pay back AUD 1.075M.

Put simply, for every $1 AUD borrowed $2.35 (plus interest) needed to be repaid.

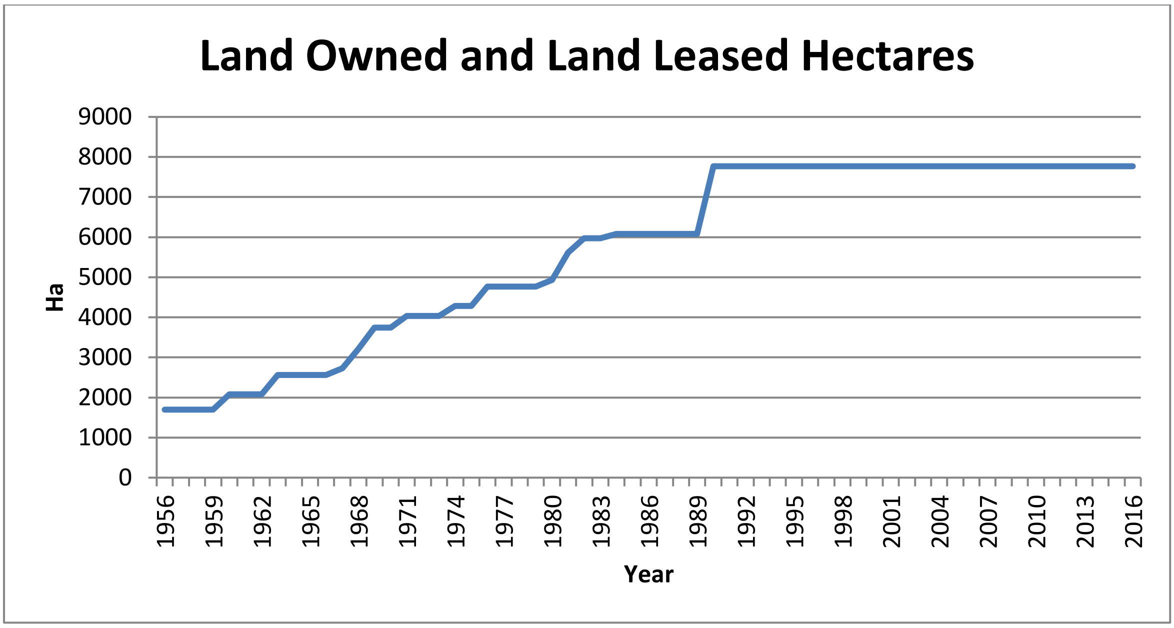
The Swiss franc strategy was almost the end of the company. But they owed so much that the bank would have incurred a huge write off if the business had been sold. The bank hung in (just) and the family disposed of all non-farming assets. It took a long time to get back to a reasonable (80%) equity.

The pattern of purchasing which led to the low equity is shown in Table 1.

Table 1: Record of property purchases

Property	Year Purchased	Area Purchased (Ac)	Area Purchased (Ha)
A	1956	4,200	1,700
B	1960	940	381
C	1963	1,200	486
D	1967	400	162
E	1968	1,200	486
F	1969	800	324
G	1969	500	202
H	1971	730	296
I	1974	600	243
J	1976	1,200	486
K	1980	400	162
L	1981	1,300	526
M	1981	400	162
N	1982	536	217
O	1982	160	65
P	1982	180	73
Q	1984	270	109
R	1990	870	352
S	1990	3,300	1,336
Total			**7,768**

Figure 2: Sigma Land Owned and Leased Table in Hectares



Gen 4, the sons of George and David, had to concentrate, negotiate and work hard to hold the business together. They also had to sell non-core assets, some at fire sale values:

> **Adam:** "Our debt continued to grow throughout the 90's after we [Gen 4] took over. Farm A was corporatised in 1996. That provided the succession frame. Acting on advice from an adviser and the accountant the decision was to corporatise Farm A and give everyone a shareholding. All the family members from both their families received a percentage of shareholding in the entity, which hosted about four companies and two family trusts. It was a shareholding of a very complex set of entities. Five of us boys ended up in the business and we bought one out."

> **Tom:** "By 1996 there were farmers and non-farmers. At that stage there were still two of David's children who hadn't made a decision as to what the future was going to be. Whereas, the other five had, so they put shares in trust for them to be either distributed to them if they decided to be farmers, or to be distributed back to David's family."

The decision to corporitise was made so the management, future ownership, and debt were all together in a package that the family could manage, and assist in negotiation with the banks. It made it easier to actually make some decisions. At the time, in the 90's, given the debt situation and very poor income, due to poor commodity prices, they realised that any decision to split the farm "*would have absolutely cruelled our chances of surviving*". So they took the view that they would corporatize, and that provided an instant solution to a problem that had grown over time.

> **Tom:** "There was a real hole in the last 20 years [and] we've been trying to work through all the issues of."

At one stage they had an off farm investor who loaned them $1,000,000 in a really tight time. The initial thought was that he would convert to a shareholder one day, but the more he looked at it, the less he liked the idea. He maintained his investment for five years and it helped from a business point of view. He also gave the family pointers in how to run a company, but when he got to the end of the five years he realised he couldn't easily exit if he became a shareholder. At that stage there was no-one to sell it to.

> **Tom: "**During those five years our debt reduced significantly and also the land values had a leap in value. We went from land worth $2,100 per ha to $3,700per ha."

Looking back, the family still marvel at how George and David managed to get the bank to agree to so many land purchases. The expansion was all funded by bank finance.

The thing that really stands out as putting the business under extreme pressure was a 25% expansion of the business in 1989. Things like low wool prices, the floor price scheme disappearing, high interest rates and drought were manageable, but when they coincided with a big expansion, the business was on a knife edge.

The business had a good run and just before wool fell over they were thinking about buying a place for $1,877 per ha. It was a big price and their consultant said ***"look it's too dear".*** George and David used to joke that when they had an argument they would just go and buy a block of land and make up.

> **Adam** "Although it was a joke, I think there may have been something in that. They had this belief that they had to buy land. If it fitted they didn't really care about price. They had to have it."

The ABARES report of the early 90's predicted that agricultural prices would halve for the next twelve months. The bank had set a trigger in place for the Swiss francs and the likelihood was that the payback figure of $1,500,000 was going to double to $3,000,000. Even with all those factors in view George and David bought more land.

> **Adam:** "We'd ridden on the back of the ute all around a farm which was for sale and looked at all the sights, beautiful rolling country. Then I can remember going with Dad to the bank in Sydney and our Bank Manager said "*you're looking to buy 4,000 acres".* Dad said "*no that's George*" and he said "*well if you want to buy it, just come and see me, we'll fix you up*". That's what it was like.

Adam remembers telling his father that they shouldn't buy a place. It was going to make things really tough. Adam argued that they had enough land. He wanted some breathing space. Adams father said "*no, I'm going to buy it*". And he did.

Then the bank issued the ultimatum to reduce debt.

> **Tom:** "It nearly killed us too. There was some pretty dramatic rationalisation of liquidating anything that wasn't producing (non-core assets)."

They had an apartment in Sydney that they bought in 1973 for about $53,000. It was sitting up on a ridge overlooking Sydney Harbour in a beautiful position. But 1995 the bank wanted the non-core assets sold. That apartment was sold for $220,000 and within twelve months it was worth in excess of $1,000,000. They also sold all non-farming assets, including a house in town on a small acreage, and a boat.

So at this stage with the older generation, although in failing health, still in charge and in some sort of denial, it was tough on Gen 4. It affected one of Adam's brothers so much that he took his share, at a reduced value, and left. But the others stayed together as a team and decided to work their way out of it.

At that point the bank estimated the equity was 50%.

> **Adam:** "The bank never thought we'd get assets out of it, they thought we were gone. They didn't give us a chance really. They didn't close us up, but they were prepared to let us bury ourselves. But we never ever missed a payment, interest payment, anything."

They made the budget work, and ensured that they kept every commitment. They were young blokes who could go outside and not worry too much about things, and just keeping working. They think in a way it bound them together, they believed that they had no choice.

> **Tom**: "What we had in front of us was what we had in front of us. In a sense it is actually easier than some of the things we're faced with now. Basically, we had a goal, at the end of the year we had to meet this interest payment, pay some off the debt if we had some left over and then do it again the following year. Our focus was to hang onto what we had and things would work out."

They were trying to put money aside to enable succession to the next generation. From the corporatisation process in 1996 through to about 2000 there was no road back. They paid the first dividend in 2003/2004 and thought they were starting to win. The debt had dropped by about $2,500,000. With land values starting to springboard in the 2000's, both the family and the bank could see that they were starting to return a profit. This hadn't happened for a long time. Things were looking up and everyone was telling them they had a future.

Although they had been banking with one bank for thirty years they tendered the business with other banks. They were unhappy with the Swiss franc issues, and believe this was poorly managed by the bank. They weren't people that knew agri-business. They went through the tender process and things were looking up. Westpac, their new bank had a good attitude to their business.

> **Tom: "**And then we got that 2000's drought and all of a sudden that $2,500,000 debt that we had reduced, just came back in 2 years."

The debt was back, but on a much larger asset base. After the decade of clawing debt back it was hard, emotionally and physically. It was a hard time, and hard going out every day and working. They were older and it seemed tougher.

> **Tom**: "It was bloody hard work, but we kept at it and we paid massive money for stock feeds and we introduced a whole heap of weeds on the farm that we don't need, in doing so. Once 2009 came, it was still a drought year but we broke even so it wasn't a bad result."

Since 2010 they have had the best run in the history of the family. They have been consistently budgeting on a $1 million pre-tax profit and consistently achieving nearer $1.8 million. It's just been working now, but it has created big issues for succession plans.

> **Tom:** "Suddenly you realise that you're 60 years old. You're not young anymore."

Remember, at this stage, there are four sons of the Gen 3 brothers (George and David) in Gen 4 who own and manage the farm, three siblings and one cousin. The cousin (Adam) has a daughter and son in law involved in the business, and working on the farm, but the three brothers (Tom, Adam, and Bob) don't. They do have children working in agriculture, but off farm. This is a core issue for Adam.

> **Adam:** "I'm a 20% shareholder of this company and the other three are a bit more or a bit less. When the next generation comes on, if you put more than two sons on the farm out of your shareholding they're 10% shareholders. It's not the end of the world but I have my doubts whether that's going to work."

The questions the current generation are asking their children include; "Would you choose to be in business with your brother or your cousin"? The current generation didn't have to make that choice. They were never asked if they wanted to be part of the family farming business. They finished school and/or University and just came back.

For this business to continue on into the fifth generation, they have several options. The current generation has become self-sufficient for retirement. A few years ago they were thinking they were going to need their shares to fund retirement. The more they think about the succession plan and what it means to the farming business, the more they realise that cashing out the shares is not a good option. Getting the value within a private company is difficult, and they believe they have a responsibility to the business. They see themselves as caretakers of the company, with a responsibility towards the stewardship as well. They ran a partnership on top of the company's structure, so they didn't have to pay Superannuation or Workers Compensation, and now they have to face the consequences of that decision.

> **Tom**: "I'm 57 and suddenly realised, you know, in about 10 years' time I've got to be able to step away from this place and look after myself."

At the end of the day, they want to be able to give their shares to the next generation. They will probably follow the lead of David and George. They made the decision back in 1996 that when the shares were distributed amongst the 14 children, that the farmer's sons who wanted to farm would get the lion's share and they did.

> **Adam:** "We've all seen farms with three or four kids and one boy wants to run it, or one girl wants to run it, and the other three are given 25% each. Then the farmer has to buy them out and it doesn't work, it kills them."

There is an element of a stewardship, with the current generation wanting to have some influence on the place in 10 years' time; leaving a legacy. They want to hand shares on but ensure that the company is viable. They understand they have to get the farm to the position of consistently paying a dividend. Then they can afford retirement, and hand over the running of the farm to the next generation, if they want to work the land. The millennium drought disrupted the plan to a certain extent; it put them back about five years.

One part of the plan which has worked, is that each of the current generation owns the house they live in, and a small parcel of land.

> **Tom:** "There was a change of council regulation that you could as a farmer title off a couple of hectares and a house block".

The challenge now is for the company to make profits and pay dividends. The next generation has the opportunity to expand, when the current generation hand over the titles.

The Sigma story is a great story with some important lessons:

1. In Gen 2, two brothers realising that the farm wasn't going to be big enough when they both had families, managed to get a farm each. The present generation, represented by Tom, Adam and Tom's two brothers, is benefiting from the start provided by their grandfather.
2. In Gen 3, two brothers, David and George, decided that the business had to be corporatised.
3. In Gen 4, five sons, including Tom and Adam, started out working together. Adam's brother, when he realised that the burden of debt was too great for him, was able to exit. The remaining four have been able to carry on the business through drought, the Swiss franc affair, the wool crash and low cattle prices and have effectively had to buy a significant proportion of the land that they now farm.
4. The four have agreed on the big picture for the future:
    a. They will lease the farms to the business on favourable terms.
    b. They will put money aside in good years to ensure that a dividend can be paid in bad years.
    c. They will start to involve the next generation in what is, effectively, a family forum, bringing the whole family together, providing them with opportunity to understand what working in your own business really means. This will give them then the opportunity to decide if they want to be part of the business, either working directly on farm, or in an associated business.
    d. They will be using the principles outlined in the 'Family in Business' model.
5. They have also worked out how the next generation can have input into the Board.
6. Effectively, they have appointed a family forum and a family council.
7. They will develop a Shareholder Agreement and what is effectively a Buy-Sell agreement for the next generation.

With all of the steps that they have put in place, there is every reason to anticipate that the business will carry on until the next generation have children who would want to be involved in a senior management level. That is probably 30 years from now. In preparation for those circumstances, the process will need to start again in a few years.

It is a good story.

Summary – Case Study 10: Alpha Family

Business not continuing

"We were the stewards, it wasn't ours to sell".

The Alpha family inherited a farm which had been successively cut up through five generations. The business wasn't viable, but as stewards they handed it onto the next generation. Faced with this situation many families would have sold and moved, however the Alpha family, with a strong sense of family history, combined with the weight of the past and the burden of being the eldest child, meant that selling was not an option. The farm is in the 700mm plus rainfall belt and was never truly profitable but they got by, lived happily and educated their children.

Handing the family farm over to the next generation was a difficult task that required four key questions to be answered:

1. Would it be fair to hand over to one child?
2. Should we force the children to be in business together?
3. What gives the best chance of keeping the farm in the family?
4. Should the split be equal?

It was a difficult decision to make and taking into account the above questions the Alpha family are sure they've made the right decision. The land was split equally amongst the members of the next generation, who now farm together on land which they own as individuals. The enterprises have remained unchanged.

The key messages from the Alpha family are:

1. Some families place more importance on stewardship and keeping the farm in the family than on economic factors.
2. In order to meet the stewardship obligations some families will forgo many of the trappings of modern day life.
3. It would be unfair to postpone the eventual decision about ownership by leaving it up to the next generation to decide.
4. The best chance of keeping the farm in the family may be to split it up between the siblings.
5. Individuals make choices and one choice, no matter what the consequences are can be '*It won't be sold on my watch*'.

Case Study 10: Alpha Family

Business not continuing

"We were the stewards, it wasn't ours to sell."

The Alpha family farm isn't viable. In reality, it wasn't really viable when Nick's father took it on. But Nick and Sally Alpha are content with their lot. They are amongst a diminishing group of farmers who have an attachment to the property and family history, which outweighs economic reality. They could have sold the farm and had enough money to buy a viable farm in a district where Nick could have followed his farming passion, but they choose to stay. They see themselves as life stewards holding the farm in trust for the next generation. Although they hold title, in Nick's words '*it isn't ours to sell.'*

Nick's farm and family story is a copy book example of a farm which has been successively cut up to allow the members of successive generations to farm on their own account.

The 1840's generation comprised an equal partnership between two brothers. They handed over smaller areas to their children. In the 1920's the farm was split again, and again in the 1940's. The brothers who took over part of the original holding in the 1940's split it three ways in the 1950's. Nick is a member of the fifth generation of his family to have farmed the land since it was first occupied by his ancestors in 1840.

When Nick took over in the 1970's his father retained part of the farm, which was subsequently sold outside the family. There were injections of capital in Nick's parents' generation from family sources which took the pressure off Nick. In addition to that source of windfall capital, Nick's father had an Uncle who didn't marry and, as a consequence, in that generation there was more land to share. In addition, Nick's wife, Sally received a modest inheritance from her family.

The farm wasn't a viable farm when Nick took it over, and if Nick and Sally hadn't developed a direct to customer niche market product they would not have been able to make a living. But they did make a living, while also educating their children and then handed the place over. Staying came at a personal cost of needing to be very careful with money, avoiding taking holidays and being available to look after their customers virtually 365 days per year. The other cost is that they will have to continue working into their late seventies.

The farm land is now owned by the next generation. Nick and Sally own a modest house in town, and return to the farm to help out. Together Nick and Sally had achieved their life's aim; to hand over the place to the next generation.

From Nick and Sally's viewpoint, selling was never an option. They probably hadn't read what Dr Simon Longstaff from The Ethics Centre wrote in relation to the ethical question surrounding any possible decision to sell. Nick didn't need to seek outside input. But had he consulted Dr Longstaff, Nick would have found that Dr Longstaff distinguishes between assets passed down through a family, such as heirloom jewellery, and wealth that has been accumulated during your lifetime purely through your own work and efforts.

According to Longstaff**,** *'While legally you might be entitled to dispose of an heirloom however you like, either during your lifetime or in your Will, ethically you cannot sell it if you accepted it knowing you were expected to keep it in trust for the next generation***.'**

As Nick and Sally contemplated a future, they believed that ethically the farm wasn't theirs to sell. There was no prospect of handing a viable farm on to the next generation, so the situation was difficult. None of the children were in a position to buy the farm, or buy out any of their siblings. As they saw them, the choices were:

1. Hand over to one child and allow the others to miss out;
2. Hand over with joint ownership;
3. Hand over to those who want to farm so they can borrow to buy out those who don't want to.
4. Hand over in separate (about equal) parcels, so the problem of who gets what is dealt with now.

If the farm was kept intact, anyone of the next generation has the skills to manage it and any of them could have taken it on. So there was no oblivious successor. The option of handing over to one child was rejected.

If the farm was given to the children jointly they would have to work together as joint owners. Although the siblings get on, they don't get on well enough to be welded together in business. Any arrangement which involved joint ownership was only prolonging the day when the farm would have to be split.

None of the children had the resources to borrow and buy out any of their siblings so option three was dismissed. That left option four, hand over in separate but about equal parcels, as the only option worth consideration.

There were four background questions:

The first was '*Would it be fair to hand over to one child*?' The answer to that was no.

The second, *'Should we force the children to be in business together*?' Again the answer is no.

The third, '*What gives the best chance of keeping the farm in the family?*' The answer in this case was by splitting it up.

The last question was whether the '*Split had to be equal?*' In this case the children answered the question for the parents, and the answer was no. The monetary value of land going to each child was near to equal. However, one of the siblings acquired the homestead and surrounding buildings which is now being run as a conference centre and accommodation business. The siblings now farm together on land which they own as individuals.

There was nothing easy about the process, or the eventual decision. Nick and Sally are comfortable that they have made the right decision. They would have been better off financially if they had sold, and it is likely that the next generation would have been better of (financially) also. But the decision wasn't mainly about money. In fact it wasn't about money at all.

So what was it about? Nick had the final say. **'***It won't be sold on my watch'***.**

The key messages from the Alpha family are:

1. Some families place more importance on stewardship and keeping the farm in the family than on economic factors.
2. In order to meet the stewardship obligations some families will forgo many of the trappings of modern day life.
3. It would be unfair to postpone the eventual decision about ownership by leaving it up to the next generation to decide.
4. The best chance of keeping the farm in the family may be to split it up between the siblings.
5. Individuals make choices and one choice, no matter what the consequences are can be '*It won't be sold on my watch'*.

Summary – Case Study 11: Gamma Family

Included with the not continuing studies

"We wanted the next generation to be free to choose".

The Gamma property has been in the family since the 1930's and Mark, the current farmer, was given no choice, and was burdened with the expectation that he should carry on that family business.

> **Mark**: "My Grandfather talked about the sheep stud and said, '*That's your legacy, don't bugger it up*!' And they are pretty heavy weighted words in regard to his thinking."

Mark and his wife Anna, have built a successful seed stock business almost from scratch, carrying on the family seed stock tradition but changing from sheep to cattle. When it came to succession planning for his own children, Mark wanted to give them a choice to do what they wanted. Consequently, he and his wife decided to sell the entire seed stock operation, capitalising on the 2017 beef market prices.

> **Mark: "**A mate of mine said '*God you guys are in for a good ride'* and I said '*yes, wouldn't I be a silly fool if I didn't capitalise on it'*"

The decision was a gusty one, and it wasn't about money, at least not in the short term. The cash from the sale of cattle will make succession easier, but that wasn't the main reason for the decision. The real reason was to give the next generation the opportunity to do what they want to do, rather than what they are expected to do. In arriving at the decision the family leaned heavily on outside professionals and trusted advisors. The Gamma family business is now a commercial operation, where some succession models have been put in place to ensure smooth business operations. The next generation are enjoying the challenge that lies ahead of them.

The real lessons in this study are that:

1. In spite of ninety years of sons following in their father's footsteps, Mark, and his wife Aggie, have broken the mould.
2. They have allowed their farming son the room to move and farm the way he wants too.
3. They have also freed up capital which will provide them with more flexibility in the way they hand over assets to their other son, who may not want to farm.
4. They have taken advantage of a market on a high and have not been in a hurry to restock. For the moment, while prices are at current levels they will renovate some pastures and either short term lease, or take on agistment.

Case Study 11: Gamma Family

Included with the not continuing studies

"We wanted the next generation to be free to choose".

When a property has been in the family since 1930, and there are expectations and the weight of history on the current generation, it would be very easy to continue to carry on with the current enterprise mix and then when the next generation is in charge let those people decide if they want to change. But that isn't what the Gamma family has chosen to do.

Mark, and his wife Anna, had built a cattle seed stock business almost from scratch. It had become the dominate enterprise and fuelled expansion. The expectation was that one of their sons would follow their lead and take on the business. But the next generation had other things in mind. When Mark started work he didn't have such choices.

There had been a stern call to arms, almost a warning from Mark's Grandfather to Mark when he first came home to work on the farm.

> **Mark**: "My Grandfather talked about the sheep stud and said, '*That's your legacy, don't bugger it up*!' And they are pretty heavy weighted words in regard to his thinking."

Mark and Anna decided to allow the next generation decide what they wanted to do, without being constrained by history.

> **Mark**: "Let's take the buckets off the next generation, let's tip them out and let them fill up them up again some other way."

The most important thing in their minds was that although they really want the next generation to farm, they want them to have a free choice. That choice extends to whether they want to farm, where to farm and what enterprises to run. Mark wants their children to have free choices because when he and his brother started work there was an expectation that they would farm. They weren't asked '*would you like to do anything else*?'

They see themselves as lucky because they had more than one family farm to do it on, but there was an expectation that they would come home and play their role. Mark and Anna believe that with the education and the opportunities available for young people that they have to be able to choose.

> **Mark**: "They've got so much they can do. With us there was an expectation to come home and, if I asked my contemporary's *'who would have gone farming in this day and age',* you'd probably only find 10-20% would."

Mark had been thinking about how to capitalise on the 2017 beef market without letting it wash and come back to reduced values. He didn't want to miss out on what could effectively be a good financial opportunity for the family and the business. Initially he contemplated selling all the commercial cattle. But observing his sons and noting what they were interested, he couldn't see beef seed stock as their area of passion. But then there was a 'light bulb' moment.

> **Mark**: "I was having lunch one day with a mate and we were talking about the beef industry and he said '*God you guys are in for a good ride*' and I said '*yes, wouldn't I be a silly fool if I*

> *didn't capitalise on it'*. Then I came home and said, '*Come on guys, let's get in the office we've got to have a talk'* and that probably was the catalyst, that one conversation, but the rest was twisting around. Anna had told me in July last year, '*Do something about it or shut up'*. She said '*it's not fair to keep saying to our boys,* '*do we sell, and do we not sell*?'"

Ideas which had been rattling around in in his head for six months suddenly started to take form. There was that combination of things; great market opportunity and what does the next generation want to do. Mark has always wanted to try and do the right thing, particularly in relation to succession. But what's right, how do you know what's right?

Mark recounted the first meeting he had with a succession advisor, who asked him what he wanted. His answer was '*the rule book'* **-** a guide of how to do it. Another thing that stuck in his mind is advice from a Sydney businessman. He was the fourth son of a father/son farming enterprise and he really wanted to go home, but his father said '*sorry, there's no room for you, you better go find something to do'*. He bought a little business and turned it into a very big business. His views on succession influenced Mark. He said '*I don't get all this stuff that you're talking about. I reckon you ought to sell the lot and give them enough to start again and watch them.*'

Mark thought that was an interesting concept, but he pointed out that people become attached to these family farms. The businessman's theory isn't silly, but there is still that emotional attachment to the land. Those thoughts spurred Mark on and he thought, '*how can I change this for the better, for the future?'*

Mark decided that if either of the children wanted to get into the seed stock business of breeding and selling bulls, it's easy for them to start from scratch. Mark proposed to the family that the current seed stock business should be sold as quickly as possible so as to take advantage of the market. The family enthusiastically agreed.

The decision to disperse the stud was made in October, and the first of a series of sales was planned for the following March. The family agreed that they would do whatever was required to bring a very large number of cattle onto the market in a very short period of time. It was a lot of work.

> **Mark:** "A lot of work… but I love a challenge and it's what everyone said '*You haven't got time'*. '*You need 12 months'*. And I said '*You watch me'*. We were pretty busy, but its organisation, it's planning, it's management. You spend the time with your staff and say *'look, in sale week this is what's going to happen' - 'these cattle are going to walk through a process of paddocks to the sale ring, they are going to be available for everyone to look at on the way, but there's this step process that we've got to do and we've all got to know what we're doing and we've all got to know when it's going to happen*.'"

The following March they had four sale days all in the same week, Tuesday to Friday. They put 1,500 lots up for sale in those four days, including live cattle, embryos and semen. Each lot was sold through the ring individually. In order to avoid flooding the marked younger bulls were held back until September.

Now it's a purely a commercial farm. The next generation is free to choose how they farm it and there is sufficient cash in the system to allow a wide range of choice. Some of that may go into superannuation for Mark and Anna. There is likely to be a change in farm management now, with the next generation taking over and Mark doing less. Mark and Anna will keep a close eye on the financial situation and gradually allow more authority.

They have put some succession models in place, including the use of a trustee management company, and a management company over the whole business with corporate trustees. This structure allows flexibility when required for the future of the business.

The son who is at home, is enjoying the challenge.

> **Mark:** "He did his first real budget with me the other day which was only finishing up this financial year. I'm saying to him you have to live this now. For the future, you've got to live this."

Most people won't sell cattle when the market is riding high and Mark's reflection is worth noting.

> **Mark**: "Is it a ballsy decision… Once you make a decision like that, yes you have the flutters and all that sort of stuff, but you make it and then you've just got to get on with it. What's the point of going backwards?

Mark likes looking forward. He didn't want to keep doing the time consuming stud work for the rest of his life. So if someone else wasn't going to take a lot of the workload from he and Anna, that part of the business had to be sold. The customer always wants to talk to the principal, they always want the person who is supposedly running the stud and it is very demanding.

> **Mark:** "Staff, clients. It still comes back to me."

No matter what Mark says it was a gutsy decision.

The real lessons in this study are that:

1. In spite of ninety years of sons following in their father's footsteps, Mark, and his wife Anna, have broken the mould.
2. They have allowed their farming son the room to move and farm the way he wants too.
3. They have also freed up capital which will provide them with more flexibility in the way they hand over assets to their other son, who may not want to farm.
4. They have taken advantage of a market on a high and have not been in a hurry to restock. For the moment, while prices are at current levels, they will renovate some pastures and either short term lease, or take on agistment.

Summary - Case Study 12: Zeta Family

Business not continuing

They kept selling land to fund their lifestyle.

His grandfather, in order to uphold his position in the community, funded his lifestyle by selling a part of the farm whenever he was short of cash. In addition, the 'old man' was dictatorial, pushed his family away, only to recall one member when in old age he couldn't manage the place.

It's a common and sad story. Although the grandfather desperately wanted the farm to stay in the family, he did everything he could to make that less likely and more difficult.

Succession was easy for Rick's grandfather when the farm passed to him. He was the eldest son. But he wasn't interested in succession so the business skipped a generation, and at a time when he was lacking in clear judgement, his family had to sort it out.

Although they used appropriately skilled professionals, the journey was difficult because family communication was poor and relationships which were already strained at the beginning of the process, broke down completely. This is often seen in family succession. The question needs to be asked: If they don't have the ability to communicate how can people talk about succession?

Rick's Ten Commandments are:

1. Start now.
2. Understand and respect each other's feelings.
3. Commit to the process.
4. Commit to what is agreed.
5. Equitable is not always fair (and vice versa).
6. Seek and verify sound professional advice.
7. Set and adhere to 'ground rules'.
8. In-laws can be 'outlaws'.
9. Observe and focus on the outcomes.
10. Never lose perspective.

And the lessons from the Zeta family?

As well as Rick's Ten Commandments, it seems that previous generations were so caught up in community matters that they didn't concentrate on the farm. Rick's grandfather, the patriarch, was old school conservative. While he was managing the farm he had a good run with the wool and generally solid prices. He ran at low input and kept selling bits off to pay the bills. He didn't like being challenged, so few people, including family members, challenged him.

He managed to push the next generation away only to recall one of his children, when in his dotage, he was not capable of physically or mentally managing the place. The 'recallee' was expected to assist but not really allowed to make any decisions. If Rick manages to create a viable business it will be because of income from off farm investment.

Case Study 12: Zeta Family.

Business not Continuing

They kept selling land to fund their lifestyle.

The Zeta family first settled in 1846 in the Monaro region of South Eastern NSW. The first generation was a squatter and selector. His four sons actually bought the property in 1885. It was 3,200 hectares (ha) for which they paid £20,000 ($1.6M in 2016 dollars). The homestead, which was built in 1868, has had continuous ownership and occupancy by six generations of the family since 1885.

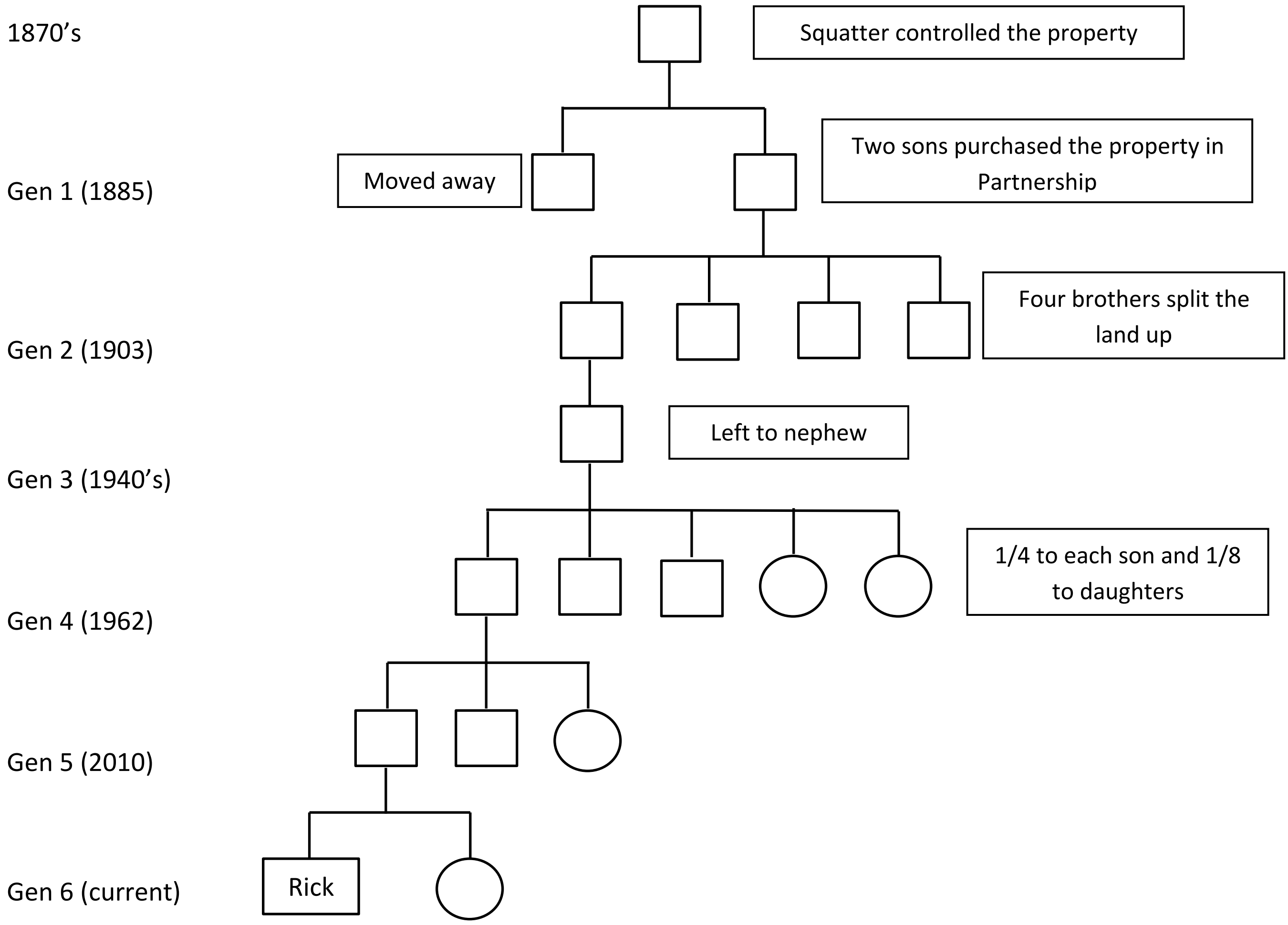
The Zeta family owned other properties amounting to 16,200ha, but the partnership dissolved in 1903, when the land was split between the four brothers. The oldest son also died that year and his family took some land, while the current branch took the remaining farm, which is the subject of this case study.

Rick's (the current farmer) great grandfather was the youngest child and when his uncle died in 1942, the farm was left to him in gratitude for the work he had done for him in the past. Rick's grandfather had been working on the farm and his father left one-quarter each to his three sons and one-eighth each to his two daughters. There was a large amount of probate to pay so Rick's grandfather bought much of the property from his brothers and arranged for his son (Rick's uncle) to buy his sister's land by guaranteeing his loan and covering all his costs. He also gifted around 100ha each to his daughters to avoid the probate problem in the future.

Consequently, the land area has decreased in this way over the years as the figure 1 below shows.

Figure 1: Zeta Family Genogram, including comment on land ownership and split.

Ownership commences in 1885 with Generation 1.



During its ownership of the property the Zeta family has endured some of the biggest droughts, floods and snowfalls in Australia. The family is proud of its heritage, but to some extent it has been pride which has limited the ability of the business and rendered it unviable today.

When Rick, the current and sixth generation owner, took over there was a complex ownership and management structure, a low input history, pastures were mostly under improved, and structural improvements were generally decaying. To add to this mix there was limited off farm investment, the family had too few active and too many passive contributors. All the members of generation 5 had a view about the management, but only one actually contributed. There was a long history of extended family involvement in local district and industry activities.

Members of generation 5, the generation before Rick, had no real opportunity to manage the property other than what was almost a 'caretaker capacity' in the twilight years of generation 4.

Rick, the current owner, has the following assessment:

> **Rick:** "I think we would all agree that the longer you leave it to plan succession, the lower your potential for success. Because, if nothing else you get health complications coming into play, particularly mental health issues and dementia with older generations. You also get the various parties that might be interested in a farming business, go away, get married and have kids and it just gets more and more complicated. So I would argue that the critical lesson is to get started ASAP."

As Rick sees it, succession is multi-faceted and involves:

1. Future needs:
    a. Farm and off farm
    b. Aged care/accommodation
    c. Dividends and returns
2. Assets and Liabilities:
    a. On farm
    b. Off farm
    c. Immediate
    d. Future
3. Commitments:
    a. Past debts/loans
    b. Unpaid contribution by family members
    c. Bequests and pledges, both formal and informal
4. People:
    a. Owners
    b. Managers
    c. Next generation
    d. Aspirations

A Generation Missed

In Rick's experience, when you miss a generation on the place and you are trying to play catch up, it gets pretty difficult and it's hard going to recover. So it would have been easier to start earlier, to gather physical and financial data, encourage family participation, and understand and manage expectations.

> **Rick**: "Set a process in train, explain to the family what is happening and seek professional advice. Ensure that the professional advice is from people who are impartial, independent [not seen to be too close to any individual family member], competent [with a proven track record] and well networked. It is also important to get a cost indication/ undertaking to ensure that the advisors have no baggage which will make them unsuitable, that they are accessible and compatible."

Although they used appropriately skilled professionals, the journey was difficult because family communication was poor and relationships which were already strained at the beginning of the process, broke down completely.

In Rick's case, although it was obvious for some years that a generation would be skipped, it would have been possible to keep the momentum of the farm if the older generation had permitted it.

> **Rick:** "I have a mate where the farm was running perfectly well but he wanted to go away and get experience in Agribusiness off the farm. There was not a lot of communication. His parents got to the point where they made assumptions [which is the worst thing you can do of course] and they got to a point and said '*We've had enough, we'll sell it'*. Even though he came back and said '*I am interested in it*', it was too late. Mum and Dad had switched off and they had seen the light for retirement, or at least the end of the farming business, and that place got sold in the end even though the son was, arguably, perfectly well equipped to come home and take it on. They had actually just progressed too far mentally and probably financially as well to reel it back in."

Rick has strong views on how much input (life) partners have in the process. He has seen many situations where the 'outlaws have railroaded the process' and thinks that although 'outlaws' can be included in discussions, the decisions should rest with the 'blood' members of the family.

> **Rick**: "No DNA, no play, but in the case of an in-law who has been living and working on farm, remembering the difference between equitable and equal is important, I would break the DNA rule there. It is easier if you are negotiating and having these discussions as a nuclear family before partners etc. have come onto the scene because siblings generally get on, don't they, they might fight and scruff a bit, but they generally get on. Where it gets bad is when more parties come on board."

Rick thinks there were attitudinal and generational aspects, such as '*I'm the patriarch of this family, my word is final*.' Unfortunately there was a fair bit of what Rick described as *'petty, belligerent behaviour*'. Every farm transition needs someone to drive it, and in this family that '*sure as hell wasn't going to come from the patriarch'*. In fact, Rick thinks that because of the attitude he had, that sort of iron fist, his children would never raise succession. Rick often asked his mother how it was left up to him to resolve. His reflection is: *'The old fellow rules with an iron fist and no one would raise it with him. They wouldn't dare raise it'.*

If Rick hadn't wanted to take on the situation, it would not have been resolved. The whole family agree that the place would have been sold; gone. Rick's message is that unless there is someone who is willing to get in there and drive the process, and say *'hey we should think about getting a facilitator to come along and at least open up some discussion about it',* it won't happen. In his view, the most practical lesson is that there is no downside in going as early as possible in planning. '*I can't think of a downside, even if people's circumstances change, because when they partner-up etc.'*

Rick described a big property, set up for two boys to come home, but one realised he wanted to be a tradesman. Because they got into it so early, it was actually a relatively seamless resolution. The two biggest lessons for Rick are the importance of going as early as you possibly can, and understanding the fact that farm businesses, and particularly farm family businesses, are unique. '*You often have this situation where someone has put in a disproportionately high level of input; blood, sweat, tears. How do you take account for that, like we had to? Also, how do you articulate that to other parties that don't really understand that?'*

Rick thinks that people need to be realistic, and accept that the issues surrounding family farm succession will sometimes cause individuals to become very emotional. *'I don't think you should try and suggest- 'hey you need to just put the emotion to one side altogether', I just don't think that's realistic.'*

The Lessons:

> **Rick:** "I suspect they were of a generation [and they are rapidly coming to an end] where in farming you could basically just toddle along, do a bit of this and a bit of that. Plenty of labour, fair bit of money coming around, plenty of commodities, cheap inputs all that stuff. That feels like a long time ago now".

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And the lessons from the Zeta family?

As well as Rick's Ten Commandments, it seems that previous generations were so caught up in community matters that they didn't concentrate on the farm. Rick's grandfather, the patriarch, was old school conservative. While he was managing the farm he had a good run with the wool and generally solid prices. He ran at low input and kept selling bits off to pay the bills. He didn't like being challenged so few people, including family members, challenged him.

He managed to push the next generation away, only to recall one of his children when he was in his dotage and not capable of physically or mentally managing the place. The 'recallee' was expected to assist, but not really allowed to make any decisions. If Rick manages to create a viable business it will be because of income from off farm investment.

Summary – Case Study 13: Beta (*Kidman*) Family

Business not continuing

The family lost control of the board.

Once the largest private landholder company in Australia, S. Kidman & Co Ltd was recently sold for an undisclosed sum. The company battled drought, government, price crashes and each time got back to profit. But when the family lost interest and then lost control of the Board, they lost the company. Although it was sold at what appeared to be the top of the market, many family members regret the decision.

It's quite likely that if it was put to a vote again, the family may decide to keep the company. But it is now too late. In some ways, the sale of the business cannot be seen as a business failure, because it was sold for an entirely acceptable sum.

But the sale was a failure, in that at least some of the family shareholders only agreed because they had become disinterested. Perhaps this is one of the lessons of Australian agriculture, if you're not truly interested in agriculture for its own sake, not just for the dollars involved, you'd be better to invest somewhere else.

The lesson of study is crystal clear.

1. In any family business, shareholders must remain in control of the Board.
2. The company had withstood everything that nature, markets and governments could throw at it. It had come back from the brink of financial ruin on at least two occasions. But it could not withstand the disinterest of its shareholders.
3. Agricultural investments require patient capital, and to be patient, shareholders may want to be involved.
4. There was no company succession plan. Either it would be kept, or it would be sold.

Case Study 13: Beta (*Kidman*) Family

Business not continuing

The family lost control of the board.

The Beta family business is not continuing. The shareholders lost interest in the business, and then lost control of the Board. The company was sold, in 2016, after a lot of public comment.

Because of the iconic nature of this business this case study starts with a conversation, rather than with a description of the business. The business will become apparent, but first imagine a conversation in a drought ravaged, much depleted, outback station store in the late 1890's. Two men are talking. The boss who has just arrived after a long, hot, dusty and dry ride on horseback asks:

> '*What are you doing?*'
>
> *'Storekeeping'.*
>
> '*What, storekeeping on an empty bag of sugar?'*
>
> He paid the men off, the wife of one, argued. He responded. '*If I don't pay him off he'll have nothing. The only money I have in the world I have with me. When I pay you off I'll be stone broke*.'
>
> He stayed the night in the empty homestead. Next day he was left alone. On all his stations he had lost 35,000 head. Crows feasting on his cattle. He was totally crippled by drought.
>
> He herd the crack of a whip, a little later another, then another.
>
> Again he heard the crack of a whip. Strange! No real drover ever returns empty handed to the crack whip.
>
> And again the crack of the whip. Then he heard the lowing of thirsty cattle. Then he heard thunder.
>
> As it started to spit with rain he met the drover who said, *'I've brought your cattle. I'm drover Gleeson, with 1,200 Avon bullocks for delivery….. It looks like these storms are the break of the drought.'*
>
> *'They are!'* said Kidman. *'Look away to the East, black with falling rain! God be praised*.'
>
> It was 1901, and the Federation Drought was disastrous for him, but within a year he had made £40,000[1] ($5.8M in 2016) and began buying on a large scale again.

The above account is a work of fiction, but it's based on fact. Many aspects of the Idriess account of the story are corroborated in the biography, written in 1987 by Jill Bowen, with research assistance

[1] Edited extract and value taken from The Cattle King, Ion L Idriess Pacific Books pages 144/45

from the Kidman family. Sir Sidney Kidman had no cash at the time but he was far from broke. He still controlled a string of stations in SW Queensland. Bowen[2]wrote;

> 'If Kidman's estimated 70,000 [head] stock loss had been measured at the Avon Downs Bullock price in 1902, his loss would have been £857,500. That is $60.3 million in 2017.'

Bowen corroborated the £40,000 figure (above).

> 'I went home and in ten months I had made £40,000[3]'

By 1903 Sidney Kidman owned, or was a part owner of, 98,420km^2 of land, and eventually owned, or had a large interest in, an enormous area of land. The empire is variously stated to have covered from 85,000 square miles (220,000km^2) to 107,000 square miles (280,000km^2), covering some 68 properties stocked with about 176,000 cattle and 215,000 sheep.

He could grow and fatten the cattle in the north, and bring them through his string of stations to markets in the south. His stations provided good feed and water on the way, so he was able to sell them in top condition. Kidman, who was knighted for his services to the nation during the First World War, died in 1935.

S. Kidman & Co Ltd was once the largest private landholder in Australia. The entire landholding was placed on the market in 2015. It comprised eleven cattle stations with a total area of over 100,000 square kilometers and a herd of 155,000 cattle.

Between the Federation Drought, which broke in 1901, and nearly broke Kidman, and it's sale in 2016, S. Kidman and Co had withstood two world wars, the great depression, the 1974 cattle crash, and droughts in 1911-16, 1918-20, 1935-45, 1963-68, 1972-73, 1982-83, 1991-95, and 2000-2003.

The company, which had proved to be extraordinarily resilient, and had a total value publically estimated at A$360 million, was sold in 2016 for an undisclosed sum.

One of Kidman's great grandchildren, Will Abel-Smith, the sole decedent of Sir Sidney who worked in the company, shared the story. The business was built on sound business principles. It was cautious, conservative, and made sure that it could always pay its debts, cover depreciation, pay tax and provide shareholders with a solid return.

> **Will:** "We've always been a pretty conservative business, not much debt really until we bought Helen Springs. We always said there are three points that we make; our net profit [will be used as] a third for tax, a third for shareholders and a third to re-invest in the business. If you're not putting that back in then you're going backwards.
>
> So [our rule was] always make sure that, whatever your depreciation number is, that you've got that back into your business every year."

[2] Bowen, Jill. The Forgotten King. A & R 1987 page 117.
[3] Bowen, Jill. The Forgotten King. A & R 1987 page 120

The business went from about 100,000 cattle and about 20,000 to 40,000 sheep in the 1980's to running 235,000 cattle in 2014. The drought hit, and they dropped back to 160,000 odd cattle. But the business grew quietly in a conservative way. There were times when the company nearly fell over. As well as the Federation Drought, the cattle crash of 1974 nearly tipped it over. Will hadn't started working in the business then, but recalls:

> **Will: "**A previous Chairman spoke at our final AGM and said '*you know guys, I don't know if you all remember this, but in 1974 we had to sell our head office, we sold a number of properties to* keep things going. *We were gone [done for, finished]'*. The whole thing was so close to being done and whether that [experience] shaped his thoughts going from then on, [because] he was around then, but he said '*to turn [the company] around and sell the things, we gave a very good share portfolio back to shareholders well over $400 million, that's a pretty good result. From being damn near broke, to returning a sum like that is a good result.'"*

By any measure it was a good result. The company was travelling well so why was it sold? Will thinks that the former Chairman was very keen to get more advice. He was very much the driver of getting independent people into the business. He kept pushing for more unrelated Non-Executive Directors saying, *'it's not a family business anymore, it's just a corporation, and we've just got to push on'*.

> **Will:** "The real reason that this got sold is because the family just felt disconnected from it. And there was [not] enough love of the business to keep it going. It just felt separated [from the family]."

The principle of ensuring that a family business is run following the rules of good corporate governance is a sound principle. The business was large, geographically spread, subject to the vagaries of markets, government regulation (which for some months blocked its sale) and the weather. But at some point, the principle of following sound corporate governance caused the start of the disconnection from the business of the shareholders, who were all still members of the family.

> **Will:** "There are probably a few different parts of it. The family have been kept out of the business over the years, I'm the only family employee, there were three family Directors."

The former Chairman decided that he wanted the business to be run as an independent entity, so in the end there were more independent Directors than Family Directors and the people who actually owned the business were the minority on the Board. Consequently, the shareholders felt that they were not as connected to the company as they were previously, and started looking at things like rates of return.

As with most farm businesses the return to capital came from two sources. Part of the profit came from operational activity and part from capital gain. The majority came from capital gain, which isn't liquid and cannot be distributed until assets are sold. When they did the numbers, the rates of return were actually reasonably good. With capital gain and cash returns of 1% to 1.5%, the company was consistently returning 7.5% to 8% to the shareholders.

> **Will:** "Unfortunately the capital you can't get to - you can't eat it unless you sell it. So the small cash return of 1.5% to 2% wasn't exciting people, who therefore, weren't as connected to the business as they were previously. I was pushing for change because I'm the closest to

> it and I had another cousin who was trying quite hard to get family back in control, but it didn't win enough support."

Now that the company has been sold, there are some family members who regret the decision. Perhaps this regret is driven by nostalgia, perhaps it is because the cattle market is at a very high level, and perhaps it is because, at the moment, it is hard to find an investment with a comparable return at a comparable risk. Whatever the reason, there is more than a little regret in the family that it has been sold.

> **Will**: "Now it's funny, there are enough people [family members] now who would have loved this thing to keep going and are upset now that it might have happened, that if they had backed family, but at the time they just weren't going to do it. They just weren't prepared to change the rules or re-think how it happened."

The business was five generations old and was effectively owned by nine people. There were about twenty five family shareholders who might have had 1,000 to 5,000 shares and about 25 or 30 outside shareholders who owned 2% but they didn't have a lot of impact. The vast majority of the company was owned by nine family members.

> **Will:** "So we were sort of at the point where something had to give and we couldn't pull it together."

Will believes that if he had been able to get the older shareholders to think about it more they might have voted to keep the company. But they weren't going to make a decision until they were pushed to the edge*. 'And then, by the time we got to the edge, it was too late*.'

When he talks to these people, some say '*Oh we could have saved it'*. But Will says that they '*should have stood up a bit earlier.'* There are some who may have regret, but the majority wanted to sell, and most of them are happy with a good result, selling at the top of the market. Ultimately, they all did very well, as the price paid was well above valuations.

The lesson of this case study is crystal clear:

1. In any family business, shareholders must remain in control of the Board.
2. The company had withstood everything that nature, markets and governments could throw at it. It had come back from the brink of financial ruin on at least two occasions. But it could not withstand the disinterest of its shareholders.
3. Agricultural investments require patient capital, and to be patient, shareholders may want to be involved.
4. There was no company succession plan. Either it would be kept or it would be sold.

Case Study 14: Theta (*Kininmonth*) Family

Business not continuing

There were too many shareholders.

'He could see that it would be necessary one day, mainly because of the unequal shareholdings, so it was best to sell it at a time, and in a way, which would give the best result.'

The Kininmonth family purchased Mt Hesse in a walk-in-walk-out sale. They family wanted to keep farming, but it was unrealistic. There were too many shareholders, as the shares were handed on from generation to generation.

The business survived drought, rabbits, the depression, wool and cattle collapses and having a large slice resumed for solider settlement. It survived the wool collapses of the 1990's, when gross farm income went from over $1 million to $300,000 in one year. That was particularly difficult. But they made sure that the property was maintained. *'The gates were hanging and buildings had new spouts on them, all that sort of maintenance was done.'*

Although the shareholders were engaged and encouraged to visit the property, it was becoming obvious that as the next generation became involved, and the number of shareholders multiplied, that it would be difficult to provide sufficient returns. The very deliberate strategy was to sell when market conditions were right.

The sale was clever and the business was sold with the value paid for the intangible assets. *'In the end they had an inspection, we all had dinner together, and they accepted the pre-prepared contract, virtually without amendment.'*

A family member has remained as Manager for the new owners.

The key lessons from the Theta study are:

1. Keep the shareholders engaged.
2. Be aware of the dangers of parcels of shares becoming diluted.
3. Have a shareholder agreement which sets rules about the dilution of holdings.
4. Ensure that the business is 'sale ready'; that means having it ship shape.
5. If you sell, sell on a walk in walk out basis, where the intangibles are valued and paid for.
6. When selling a 'trophy property', manage the sale carefully.
7. In this case, unlike the family, the corporate owner is prepared to continually re-invest the annual profits.

Case Study 14: Theta (*Kininmonth*) Family

Business not continuing

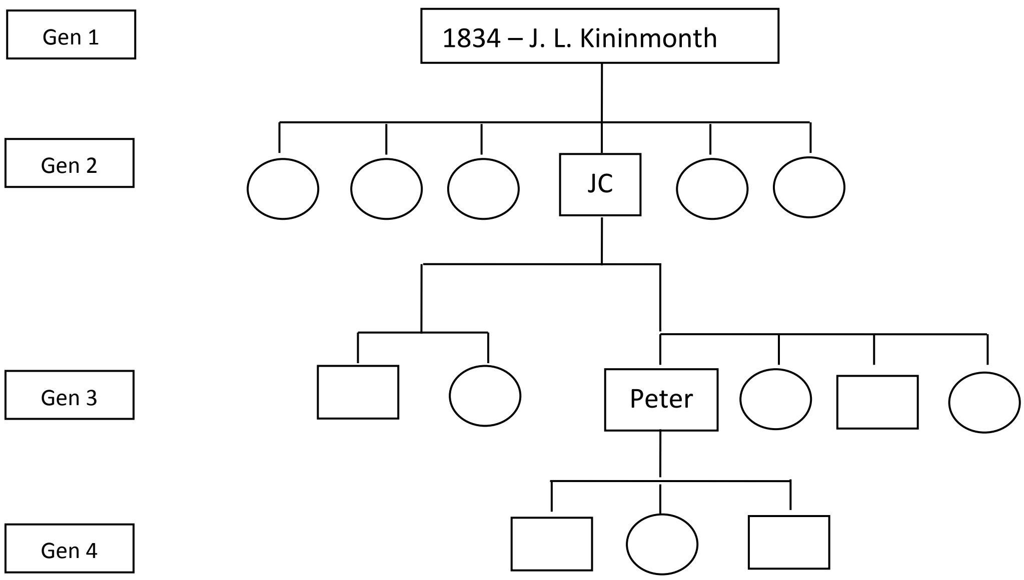
There were too many shareholders.

John Highett and William Harding formed a partnership and were granted 'A Licence To Occupy The Waste Lands Of The Crown' for a fee of 10 pounds in 1837. The area they chose was Mount Hesse, 'Run number 1', covering an area of 18,500 hectares (ha).

James L Kininmonth, the Manager and partner in the neighbouring 'Barunah Plains', bought Mount Hesse, now 6,500ha, in a walk-in walk-out sale. J L Kininmonth had six children, including one son, James Castairs (Jim) Kinimonth.

Jim Kininmonth employed an Overseer who ran the property very successfully with around 16,000 sheep and 150 cattle. The overseer retired in 1926 leaving management to Jim, who managed the property on behalf of the whole family. J L Kininmonth, in an unusual decision for the time, had left his estate equally to his children, so Jim was a one sixth owner. Two of his sisters married and went to live in England. One didn't marry, and another one married, but did not have children. Nevertheless, there were five 'breeders' in Jim's generation, and Jim married twice so the number of potential owners was beginning to escalate. Figure 1, below, shows the Kinnonmonth family genogram.

Figure 1: Kininmonth Family Genogram



1952 - Peter Kininmonth

In 1952, aged 22, Peter Kininmonth (one of Jim's children from his second marriage), took over the management after the death of his father. At that time the property was 6,500ha, had 22 staff and carried 16,000 sheep, with 450 cattle, and 42 horses. The Soldier Settlement Commission acquired 2,950ha, leaving the property with a total of 3,550ha in 1956. By the mid 1980's Peter had increased the carrying capacity through improved pastures, superphosphate, labour and time saving technologies, to 20,000 grown sheep, 452 cattle and 120ha of crop, managed by a permanent staff of four. The business was humming.

1990 - David Kininmonth

The current manager, David Kininmonth, took over the management in 1990, and like his father, was almost immiediately faced with a difficult situation. Having produced the record clip of 124,000kgs of wool in 1989, the end of the reserve price scheme led to a dramatic fall in profitability of merino sheep, and to major changes in direction at Mount Hesse. The property enterprise mix was diversified, although still having wool and sheep meat production as the main focus.

> **David**: "I had to go through 89-90 transition where the income went from $1 million to $300,000 in one year. We had five staff on, and everything that goes with it."

At that point the major enterprise was wool. There was a mini wool boom and David recalls that '*Australian Wool Innovation's predecessor was buying all our wool for inflated prices, it was an absolute disaster'*. David's way of getting through those tough times was to keep the staff and shareholders engaged, and let them know that they are doing things and that the property was being maintained*. 'The gates were hanging and buildings had new spouts on them, all that sort of maintenance was done.'*

One of the reasons David was so keen to ensure the place was well looked after, was that he was a family member, although not a shareholder, and he was working for the Trustees to keep the business profitable and ongoing. That was what he was asked to do. To do that, when times were poor, he needed to have engagement with the shareholders. *'My way of having engagement with the shareholders was to let them know that we are actually doing things even though the financial returns were poor'*.

The shareholders were very supportive right up until David's time as Manager. They liked having a share in Mt Hesse, especially the two English families. They found that this was their link to Australia, and their kids came out to stay and worked on the farm. But at the end of the day the shareholdings became too small, there were too many people involved to keep them all engaged.

> **David**: "It was really Dad who drove the decision to sell. He could see that it would be necessary one day, mainly because of the unequal shareholdings, so it was best to sell it at a time, and in a way, which would give the best result."

The unequal shareholdings had started in David's Father's generation because some families only had one son, or one daughter, and others families had has two. Some families had one sixth and others had a one seventieth share. The shareholdings were only going to become more uneven as time passed.

The method of sale was unconventional. Rather than only appoint an agent, they decided to seek expressions of interest from likely purchasers. They did appoint an agent, but the trustees handled all the negotiations. They were not in a hurry, and wanted to sell on a 'walk in walk out' basis, this would ensure that they would get paid for the intangibles of the business. They were very selective, had very few inspections, and from when the present owners first showed interest, until the deal was done, was only a matter of weeks. *'In the end they had an inspection, we all had dinner together and they accepted the pre-prepared contract virtually without amendment.'*

David has found that managing for a family corporate rather than for your own family required a big transition. The biggest difference is that with family ownership all profits were distributed, and for a Manager that makes it very difficult to do any capital improvement. The Trustees had a limitation to borrowing money, so when Mt Hesse was sold it had an overdraft of about $120,000. It was only short term so that would have been covered by the wool sales in a couple of months and then cleared. They would have $400,000 to $500,000 sitting in the bank earning one or two percent. '*But today it's very different, they want to see the property developed. They are happy to leave their profits in the company basically to go into improvements*.'

It took the new owners a little while to understand how a farm is so different to factory. *'In a factory, absolutely everything they do depreciates'*. For that factory to survive, it needs a pretty high profit margin. Most farms have a low profit margin, but significant capital gain.

The key lessons from the Theta study are:

1. Keep the shareholders engaged.
2. Be aware of the dangers of parcels of shares becoming diluted.
3. Have a shareholder agreement which sets rules about the dilution of holdings.
4. Ensure that the business is 'sale ready'; that means having it ship shape.
5. If you sell, sell on a walk in walk out basis, where the intangibles are valued and paid for.
6. When selling a 'trophy property', manage the sale carefully.
7. In this case, unlike the family, the corporate owner is prepared to continually re-invest the annual profits.

Summary - Case Study 15: Delta Family

Business not continuing

They built it, and then spent 20 years arguing about how to cut it up.

Why did a family that had grown 1,200ha to 5,300ha over a fifty year period end up selling it at a fire sale?

The Delta family ran a successful sheep, cattle and cropping business in the 730mm rainfall belt west of the divide in southern Australia. The second generation handed over ownership to generation three when the eldest of that generation was in his late teens. The transfer was part of a strategy to avoid death duties. Generation three ran the farm successfully allowing some of the sons (generation four) to return home in their early 20s. At that point, in the 1960's, generation four started to grow the business further.

The development plan was simple; three years of crop, then pasture with cattle grazing for two to three years and then sheep grazing for four years. As soon as they had too many livestock they would lease land, then purchase it usually borrowing all the money. The growth to 5,300ha was as steady as the final sale was abrupt.

While there was often tension amongst the brothers, they agreed on the big ticket items, and kept out of each other's way by dividing responsibility for the management of the sheep, cattle and crop. In the late 90's consultants were engaged to assist in benchmarking and they pushed the family to start succession planning.

Over a twenty year period the Delta family worked with thirteen succession planners. Each time they ended up with no progress, and a bemused, confused, sometimes slightly damaged succession planner that would be dispensed with. The brothers would start again with a new planner.

The brothers eventually decided to appoint a liquidator to sell everything. The controlling brother tried, once again, to play for time, but eventually had no alternative other than to sign the agreement.

There are four lessons in this story:

Lesson One - **a good news story:** The business grew in size and value, where it went from 5,000 DSE's to 50,000 DSE's with about 70% equity. The starting capital in 2016 values was about $2.2 million. This was grown to a real net value of $7.4 million

Lesson Two: Failure to agree on how to dissolve the partnership led to liquidation and a fire sale at about a 40% discount.

Lesson Three: The method of the engagement of the planner. One of the brothers had a habit of pressuring the succession planner. When progress was apparent this family member would change the rules or throw in a 'curveball', and stop the progress. The clear lesson here is that all communication between the family and the planner must be transparent.

Lesson Four: If the family had a shareholder agreement, with an enforceable buy-sell arrangement they would have not have ended up as they did. Buy-sell agreements can provide a mechanism to allow resolution of the issues.

After the legal mediation process ended with agreement to liquidate, it didn't take long for word of a fire sale to spread and the value to drop. The combined cost in time and professional fees, combined with lower production towards the end of the company and the fire sale of the assets puts the total cost at about $3,000,000.

The emotional cost was huge, and the family is fragmented.

Case Study 15: Delta Family

Business not continuing

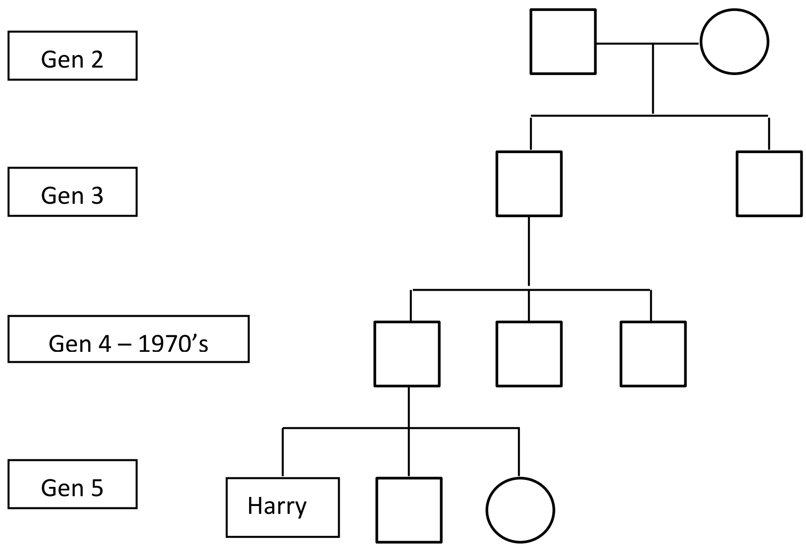
They built it, and then spent 20 years arguing about how to cut it up.

How could a family that had managed to grow a farm from 1,200 hectares (ha) to 5,300ha over a 50 year period, end up selling it at a fire sale? And how, at the same time, did a business which was so successful end up a failure?

The Delta family ran a very successful sheep, cattle and cropping business in the 730mm rainfall belt west of the divide in southern Australia.

The second generation handed over ownership to generation three when the eldest of that generation was in his mid-twenties. Generation four took over the management and ownership of the land and the stock and plant in the 1970's. The eldest was in his late teens. This story about generation four is told by Harry, who is a member of generation five.

Figure 1: Delta Family Genogram



Harry's father was the eldest of three boys, who were given the original property through a death duties transition, via their father, when they were quite young. Harry's father was only seventeen. The farm was about 1,200ha at that stage, and over the years they built it up to 5,300ha.

The expansion and development plan was simple. As soon as they had enough livestock to stock all their land they would borrow and buy more land to grow crop. They would crop it for three years, then develop the pasture with cattle grazing for two to three years. Then it was used for sheep grazing for four years. Although the relationship between the brothers was often tense, they agreed on the big ticket items.

> **Harry:** "From a management perspective, even though the boys couldn't agree on what colour the sky was, they agreed on the management and growth strategy."

One brother looked after the cattle, which he ran very well. The middle boy looked after the sheep enterprise and some of the pasture rotations, which was also run pretty effectively. The youngest looked after the cropping. They all had their own cost centres which they each had their own control over. They were keen and worked hard to improve the productive capacity of the property, including pasture renovation, spreading super, fencing and other general maintenance tasks. Even though they had their issues, they were production focused and that is how they were able to grow the farm, whilst minimising the discussions between themselves.

The use of fertiliser was high. The growth to 5,300ha was as steady as the final sale was abrupt. Harry explained how the business was managed.

> **Harry:** "One of the things they set up was rotations, which worked like clockwork. There was a ten year pasture rotation. Of that three years was cropping, the cropping just rolled around regardless of pasture quality."

The Delta brothers killed some beautiful pastures over their time, but they were just in time to go for the rotation, there were too many weeds. Within the seven year pasture cycle, the first two years was always cattle, to allow easier grazing pressure on young pastures. Sheep would have it until it came back into crop.

There was no argument over land usage, as they had an effective management system of the rotations. The whole place was split into blocks of about 160 to 200ha and each block had four or five paddocks. Then it was a matter of one, two or three rotations until it was ready for crop again.

Although there was tension between the brothers, they managed to keep out of each other's way by dividing responsibility for the management of the sheep, cattle and crop.

> **Harry:** "That was all agreed upon and they all knew that was a good way to manage the country. That worked well, it wasn't an ad hoc process at all. All three of them had pretty good management capacity, and knew their enterprises. I don't think budgeting was a problem back then, they just knew it was going to pay for itself and they just did it."

The business was very successful and the brothers knew that eventually they would need to split it to allow each of their family's to control their own assets. Over a period of twenty years the brothers engaged, and then dismissed, some of the most successful succession planning professionals in Australia.

> **Harry:** "Consultants were engaged, initially just to assist in benchmarking and all of them were pushing the family to look at succession planning. At the end I think we went through 13 succession planning facilitators all with their pound of flesh on the way through."

This raises one important question, was there something wrong with the family, or were the facilitators not up to it? Harry describes:

Harry: "Well some of the facilitators I don't think were up to it, I got involved in the succession planning process when I finished University. I actually did a proposal in my third year [Farm Management] to run the property as a corporate, set up a Board structure, pay dividends etc."

That proposal was rejected, as was the suggestion that a farm management lecturer (who was a respected succession facilitator) be retained. The family almost had an Aussie rules football team of succession planners. Each time they ended up with no agreement, no progress, and a bemused, confused, sometimes slightly damaged succession planner. One after the other they would be dispensed with, and then the brothers would start again with a new planner.

Harry: "This is where the story is a bit murky."

Harry has spoken to two or three of the succession facilitators about what was actually happening. The brother (one of Harry's Uncles) who didn't want to relinquish or lose control actually threatened facilitators. This brother was actively trying to stop the process. One facilitator that they had engaged towards the end, vowed never go in a room with Harry's uncle again. The words used to describe the situation to Harry were that his Uncle *'was physically threatening*.' In the Uncle's view, the facilitator was pushing too hard. According to Harry his Uncle used scare tactics because of what was happening. There was a repeated process of stop-start facilitators, and his Uncle knew that if the current facilitator was stopped, there would be another gap of twelve months before another facilitator was engaged. Whatever way he could stop the process, he brought himself another eighteen months.

A really surprising aspect of this story is that Harry's parents managed to shield Harry and his siblings from the feud. *"Mum and Dad were good about it. We went to all the family functions and kept the peace, I wasn't aware of it until I came home on the farm."* Harry felt that the succession planning would work.

Harry: "I thought that we would have been able to do it, but it was all lip service. Day to day management things were fine, we made good decisions and we worked through that, but trying to transition to the next generation when we were purchasing other country, and things like that, it was all lip service for what his [the Uncle's] total intentions were to be."

It resolved when the brothers eventually decided to appoint a liquidator to sell everything. The 'controlling' brother tried, once again, to play for time, but eventually had no alternative other than to sign the agreement.

There are four lessons in this study.

Lesson One - The farming lesson was a good news story. The business grew in size and value, and it went from 5,000 DSE's to 50,000 DSE's, with about 70% equity. The starting capital in 2016 values was $1.8 million in land, plus stock and plant valued at about $450,000, giving a total of about $2.2 million. This was grown to a real net value of $7.4 million.

Lesson Two - Failure to agree on how to dissolve the partnership led to liquidation, and a fire sale at about a 40% discount. The fire sale did help the continuing farmers, but financially hurt those who retired.

Lesson Three – The method of the engagement of the succession planner. Although it was not apparent at the time, one of the brothers had a history of interfering with, putting pressure on, being heavy handed and on occasions threatening the current (at that time) succession planner. As soon as the planner appeared to be making progress this family member would interfere, change the rules, apply pressure, throw in a 'curveball', and stop the progress. The lesson here is that when multi members of the family are engaging a succession planner, they need to have a set of rules that if any of the individuals talks to the planner, that planner is free to share the essence of the conversation, if not the detail, with the rest of the family members. A succession planner who takes sides, or even reluctantly has the ear of one family member, is unlikely to be able to succeed.

Lesson Four – The shareholder agreement. If the family had a shareholder agreement in place with a way of forcing a buy-sell arrangement they would not have ended up in the situation that they did. Such buy-sell agreements can be quite cutthroat in their nature, however they do provide a mechanism to allow resolution of the issues. In this case, the final resolution came by the family having a formal legal mediation process, during which it was agreed to liquidate the properties.

It didn't take long for the word to go around the district that it was a fire sale, and although some of the family members were able to purchase land that they wanted at a reduced rate, the net financial effect on the family was negative. The cost of the liquidation is in the millions of dollars. This is made up of time, legal and accountancy fees, lowered production towards the end of the company, and the fire sale of the assets. The emotional cost was huge, and the family is fragmented.

Summary - Case Study 16: Tau Family

Business not continuing

"We had succession sorted. Then the next gen farmer changed his mind".

The Tau family thought they had succession sorted. The family member who wanted to farm was smart, industrious, worked hard, was suitably experienced and educated and hence he got the job and some of the land. Then he changed his mind.

As with many of the examples in this series, money wasn't the issue which impeded progress. The problem was that the family member, who took on the farm, came to believe that the debt was too great. He may have been scared off. He started to question his decisions.

Succession in this family had been handled well, there were no demands from the bank, the business was growing and profitable, but still it failed. It failed through a lack of confidence in the generation that needed to keep it going.

In reflection on the failure of the business, Tom, who was handing the business over to his son Mick was philosophical. He thought there was an element of *'we're getting out of our depth as far as debt was concerned.'* In Tom's view the debt was manageable, they weren't paying off land. But they wanted to purchase land and didn't have the collateral. Tom suspects that they were looking at others of their cohort who have an easier ride in other businesses. '*Perhaps it's a case of grass is greener over the fence. That may not be a fair comment. I just don't know.'*

The important lessons from this study are:

1. Building scale doesn't automatically mean increasing profitability.
2. There is always the possibility that the person who returns to manage and take ownership of the farm will change their mind. The implication of that possibility should be considered.
3. Gifting land without some guarantee, handcuff, undertaking from the person who receives the gift is a dangerous move.
4. Allowing a situation where a key parcel of land, including all the important infrastructure can be sold to an outside party is also dangerous.
5. Relying on goodwill could have created a dangerous situation.
6. That in a business which was expanded in cooperation with family members and neighbours that it was the decisions of the family members, not the neighbours, which caused the venture to fail.

<u>Case Study 16: Tau Family</u>

Business not continuing

"We had succession sorted. Then the next gen farmer changed his mind".

The Tau family thought they had succession under control. The farm had been in the family since the 1870's. But because of a death during World War Two, and as a result a childless widow, the farm passed to the current branch of the family in the 1970's. The farm had been conservatively managed and was in reasonable repair when Tom Tau took over. Tom was appropriately trained and had a good level of practical experience. There was a lot of room for improvement, but the farm was in reasonable condition.

Tom, and his wife Ruth, settled in, started a family and began to develop the farm. Roll the calendar forward to the early 2000's and the Tau's have three grown children, one of whom is working on the farm, while the others have followed other chosen professions.

The farm, of about 730 hectares (ha) in the 550mm rainfall belt, is mostly arable. Whilst it was big enough to create a satisfactory level of income for Tom and his family, it was obvious that it lacked the scale required to sustain another nuclear family. One of Tom's children, Mick, had shown a passion for farming. He had appropriate tertiary training, and following some years working on other farms, came home to assist; with the aim of taking over management and eventually the ownership of the Tau family farm.

As Mick gradually started to assume management control, the first step in growing the business was to lease some land. But that wasn't going to grow the business quickly enough. Particularly as Mick had married Sue, and they had started a family.

In an effort to get scale quickly the family set up a three way partnership with Tom and Ruth having one third, Mick and Sue with another third and an unrelated neighbouring family held the other third. Each party leased their land to the New Farm business at around $60 an acre (about $150/ha). Mick was appointed the Manager of the business operations, Tom was an employee, and there was one other full-time employee. The New Farm business was run under a board structure and the families were equal voters. They took on more land under this structure.

> **Tom:** "I think the Tau family bought in about 730ha and the neighbouring family bought in about 610ha and we leased about another 610ha nearby."

The business of New Farm was formed in 2002 and continued until 2011. Together the neighbour, who was the prime motivator of the whole concept, and the Tau family put in significant effort with meetings, planning and drawing the whole plan together. '*The gestation period was probably a good two years I reckon.'*

It appears that in terms of income generated, the arrangement worked, and all the landlords were happy with rent at around the $150/ha. Tom was happy because he still had a job within the business for a significant part of that period. It was travelling well until Tom sold his share in the business to Mick and Sue. The viability of the business was ok at that level of rent, but buying the shares put stress on Mick and Sue because they had to borrow the money. '*That's where it started to* *get a bit trickier for them, even though they were both employed in the business on what we all thought was a fair and reasonable wage of the day.'*

The millennium drought occurred during that period and affected the business, which had ups and downs, but they managed their way through that. They were farming 2,000ha at that stage and had 900ha under crop. There was certainly an affect from the dry and it's continued to this current day. But the drought wasn't the problem. Buying land wasn't the problem because Mick and Sue had been given 162ha. The problem was funding the extra stock. '*The cash requirement of them was to buy extra livestock, or to buy out our share, that's where it started to get tricky.'*

New Farm had some pressure because of the lease it was paying, but it was still profitable. When asked whether New Farm had delivered the economies of scale which had been anticipated, Tom replied "*it certainly wasn't making the money that was planned.*' When asked why not, Tom responded*, 'it's a good question and I don't know whether we ever really got the full answer to it*'.

But the promised returns did not eventuate. Mick and Sue were not feeling comfortable with the degree of pressure they were under and decided to withdraw from New Farm, and from farming altogether, deciding to sell the land which had been given to them. There was an element of *'we're getting out of our depth as far as debt was concerned.'* In Tom's view, the debt was manageable, they weren't paying off land. But they wanted to purchase land and didn't have the collateral. Tom suspects that they were looking at others of their cohort who have an easier ride in other businesses. '*Perhaps it's a case of grass is greener over the fence. That may not be a fair comment. I just don't know.'*

Mick and Sue's decision to depart was a shock to Mick's parents. There were certainly concerns raised by the younger couple, but there was plenty of opportunity for everyone to express their opinion - *'Whether they did or not is another point'.* Tom concedes that the whole business of pulling family and friends together is a very tricky business. Whether it is fathers and sons, daughters and mothers, or just friends. In their case it was a combination of all of those parties, it is '*probably fraught with a lot of dangers', e*ven though they all had the best of intentions to achieve goals that were good for them all. Toms notes that *'when you're all together, sometimes you don't necessarily say what you think.''*

The whole concept worked for nine years and then it stopped because Tom thought that it was appropriate to sell their share out Mick and Sue. That allowed them to grow their personal business and it gave Mick a controlling interest in a business which they all thought would go ahead. Tom notes that '*at the end of that nine year period we were all rocked a little bit when Mick & Sue decided- well we don't want to do this anymore*.'

But in any event, family relationships have been maintained on an even keel. Although Tom and his wife were extremely disappointed to see the plan fail, they still have a lot to do with Mick & Sue and enjoy spending time with them and their grandchildren.

Tom's eldest son will now take on the farm, but it's smaller because Mick and Sue sold off 80ha to finance the house they now live in. Mick still owns 80ha, including the homestead and woolshed. This is complicating issues for the rest of the farm viability, in that the sheds and yards and are still part of Mick's property. The family has reached agreement and their eldest son, who has decided to come back to live on the property, will live in the homestead**.** Tom outlines that his eldest son *'will* *buy that 80ha which includes the homestead, sheds and yards, from Mick if and when it's possible to do so."*

This poses the question, '*What if Mick needs the money in the mean time?*' A vital part of the farm, including important infrastructure could be sold to an outside party.

> **Tom:** "It will get tricky won't it? He may be able to mortgage it. Maybe our eldest son will buy it. It just depends on his ability to put up the money to buy it in the future, but there seems to be agreement that that should happen to maintain the operational viability of the farm as it is now."

There are inherent dangers in leaving the situation as it is, but at the moment no-one has the resources to do anything about it.

The Tau story is a cautionary tale. On the face of it at the time the family followed copy book process. The deficiency was to ensure that in the event that Mick changed his mind and decided not to continue farming, that there was a mechanism in place to ensure that the land could not be sold outside the family for a predetermined period. It is commonly known as handcuffing.

There is a postscript to this study.

Following the interview process and reading this study Tom discussed the situation with his lawyer and accountant. As a result of that discussion Tom's eldest son, who now lives in the homestead, has found the money to buy the land containing the homestead and sheds from Mick.

The important lessons from this study are:

- Building scale doesn't automatically mean increasing profitability.
- There is always the possibility that the person who returns to manage and take ownership of the farm will change their mind. The implication of that possibility should be considered.
- Gifting land without some guarantee, handcuff, or undertaking from the person who receives the gift is a dangerous move.
- Allowing a situation where a key parcel of land, including all the important infrastructure, can be sold to an outside party is also dangerous.
- Relying on goodwill could have created a dangerous situation.
- That in a business which was expanded in cooperation with family members and neighbours that it was the decisions of the family members, not the neighbours, which caused the venture to fail.

9.4 Business Edge Case Studies

9.4.1 Bill Bristle Case Study (1)

Bill Bristle is a fifty something year old farmer farming a 1900 ha grazing property in hill country in the 725 mm rainfall belt. About 300 ha is arable and Bill normally crops about 80 ha per year in fodder crop and up to 200 ha in serials on a share basis. Bill’s wife, Faye, nurses at the local hospital.

Bill runs about 17,000 DSE. The livestock include 550 British breed, self-replacing, spring calving cows, running calves through to the mid-autumn to early winter, depending on the season. The remaining stock include 4,000 spring lambing ewes, joined to wool rams, and depending on the season, up to 1,200 wethers. Dry cows and wethers do a great job in some of the rough hill country.

Shearing and crutching are done on contract. Bill employs one full time person and gets a handy man/contractor/fencer to help with R and M.

Bill and Faye have three children, the middle child (Ron) now in his 30’s is managing a farm in a nearby district and would love to come home to take over the farm. Bill and Faye would like to see that happen but their eldest, Andrew, a slick city lawyer reckons that anything other than equal eventual distribution of the family assets would be unfair.

The business has a strong EBIT and a strong Gross Margin /DSE. When Ron comes home, Bill will assist his employee to find another job. Under the provisions of the Fair Work Act, Bill cannot simply dismiss the worker and replace him with Ron.

There is sufficient equity within the business for Bill to hand over some of the land to Ron. This will allow Ron to start to buy out his siblings. It is likely that they will agree to a discount on the understanding that they are paid out now, rather than later after Bill & Faye die.

Table 1: Bill Bristle Business Income Statement

	Year 1 ($)	Year 2 ($)	Year 3 ($)	Year 4 ($)	Year 5 ($)	Average
SALES	**926,105**	**1,017,569**	**848,901**	**1,214,579**	**1,233,513**	**1,048,133**
Cattle	376,410	443,904	379,778	580,608	641,232	484,386
Sheep	471,839	458,058	420,459	569,110	525,157	488,924
Crops	77,856	115,607	48,665	64,861	67,124	74,823
Other	0	0	0	0	0	0
PURCHASES	**-27,460**	**-44,020**	**-50,308**	**-57,337**	**-65,345**	**-48,894**
Cattle	-16,900	-27,360	-28,548	-30,984	-41,265	-29,011
Sheep	-10,560	-16,660	-21,760	-26,353	-24,080	-19,883
INVENTORY CHANGE	**178,000**	**30,210**	**35,830**	**11,890**	**-8,540**	**49,478**
Cattle	59,200	39,300	70,000	34,800	-29,500	34,760
Sheep	118,800	-9,090	-34,170	-22,910	20,960	14,718
GROSS PROFIT	**968,405**	**1,029,509**	**890,353**	**1,218,395**	**1,162,748**	**1,053,882**
Cattle	418,710	455,844	421,230	584,424	570,467	490,135
Sheep	471,839	458,058	420,459	569,110	525,157	488,924
Crops	77,856	115,607	48,665	64,861	67,124	74,823
Other	0	0	0	0	0	0
ENTERPRISE EXPENSES	**172,465**	**184,555**	**282,094**	**204,470**	**218,172**	**212,351**
Cattle	64,004	78,928	103,372	78,169	85,856	82,066
Sheep	108,461	105,627	178,722	126,301	132,316	130,285
Crops	16,376	16,218	19,397	16,984	18,430	17,481
GROSS MARGIN	**779,564**	**828,736**	**588,863**	**996,941**	**926,146**	**824,050**
Cattle	354,706	376,916	317,858	506,255	484,611	408,069
Sheep	363,378	352,431	241,737	442,809	392,841	358,639
Crops	61,480	99,389	29,268	47,877	48,694	57,342
Other						
OVERHEAD EXPENSES						
Administration	1,540	1,710	1,412	1,892	1,910	1,693
Depreciation	12,150	13,250	12,347	13,401	13,748	12,979
Electricity & Gas	2,463	2,514	2,571	2,682	2,790	2,604
Fuel & Lubricants	14,875	16,235	15,821	17,890	18,102	16,585
Insurance	12,540	13,100	13,064	13,875	15,786	13,673
Landcare	400	1,128	0	1,550	1,001	816
Motor Vehicle Expenses	6,020	6,542	5,148	7,856	8,926	6,898
Pasture	42,805	52,309	34,020	71,682	69,708	54,105
Rates & Rents	14,400	14,682	14,400	15,620	16,024	15,025
R & M General	25,230	27,356	21,895	27,836	29,305	26,324
Wages	89,400	89,890	91,423	93,455	94,533	91,740
Wages (Owner)	80,000	80,000	80,000	80,000	80,000	80,000
Land Lease	0	0	0	0	0	0
	301,823	**318,716**	**292,101**	**347,739**	**351,833**	**322,442**
TOTAL OP. EXPENSES	**474,288**	**503,271**	**574,195**	**552,209**	**570,005**	**534,794**

EBIT	**494,117**	**526,238**	**316,158**	**666,186**	**592,743**	**519,088**

Table 2: Bill Bristle Business Cashflow Statements

	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $	Average $
Cash flows from operating activities						
Sales - Cattle	376,410	443,904	379,778	580,608	641,232	484,386
Sales - Sheep	363,599	483,808	476,389	618,373	528,277	494,089
Sales - Crops	62,856	94,407	-13,793	42,361	47,124	46,591
Sales - Other	0	0	0	0	0	0
Total Operating Income	**802,865**	**1,022,119**	**842,373**	**1,241,342**	**1,216,633**	**1,025,066**
Livestock Purchases	**-27,460**	**-44,020**	**-50,308**	**-57,337**	**-65,345**	**-48,894**
Enterprise Expenses	**-172,465**	**-184,555**	**-282,094**	**-204,470**	**-218,172**	**-212,351**
Overhead Operating Expenses						
Administration	-1,540	-1,710	-1,412	-1,892	-1,910	-1,693
Electricity & Gas	-2,463	-2,514	-2,571	-2,682	-2,790	-2,604
Fuel & Lubricants	-14,875	-16,235	-15,821	-17,890	-18,102	-16,585
Insurance	-12,540	-13,100	-13,064	-13,875	-15,786	-13,673
Landcare	-400	-1,128	0	-1,550	-1,001	-816
Motor Vehicle Expenses	-6,020	-6,542	-5,148	-7,856	-8,926	-6,898
Pasture	-42,805	-52,309	-34,020	-71,682	-69,708	-54,105
Rates & Rents	-14,400	-14,682	-14,400	-15,620	-16,024	-15,025
R & M General	-25,230	-27,356	-21,895	-27,836	-29,305	-26,324
Wages	-89,400	-89,890	-91,423	-93,455	-94,533	-91,740
Plant & Equipment Lease Costs	0	0	0	0	0	0
Total overhead operating costs	**-209,673**	**-225,466**	**-199,754**	**-254,338**	**-258,085**	**-229,463**
Net cash flow from operating activities	**393,267**	**568,078**	**310,217**	**725,197**	**675,031**	**534,358**

Cash flows from investing activities						
Disposal of capital items			9,546		2,410	
Capex - farm & private vehicles		-27,580			-45,200	
Capex - plant & equipment	-27,458	-16,892	-12,583	-38,721	-58,674	
Capex - infrastructure, improvements	-112,542	-87,920	-57,823	-142,896	-189,547	
Capex - land						
Financial Provisioning				-150,000	-100,000	
Net cash flow from investing activities	**-140,000**	**-132,392**	**-60,860**	**-331,617**	**-391,011**	**-211,176**
Cash flows from financing activities						
Interest on loans	-75,221	-70,596	-77,506	-74,422	-70,511	-73,651
Land lease payments	0	0	0	0	0	0
Net cash flows from financing activities	**-75,221**	**-70,596**	**-77,506**	**-74,422**	**-70,511**	**-73,651**
Net cash flow before tax*	**178,046**	**365,090**	**171,852**	**319,157**	**213,509**	**249,531**
***excludes owners wages and drawings**						

Reconciliation of income and cashflow statements

EARNINGS BEFORE INTEREST AND TAX	**494,117**	**526,238**	**316,158**	**666,186**	**592,743**	**519,088**
Finance Costs	-75,221	-70,596	-77,506	-74,422	-70,511	-73,651
Interest Component of Lease Payments	0	0	0	0	0	0
Inventory Change	-178,000	-30,210	-35,830	-11,890	8,540	-49,478
Depreciation	12,150	13,250	12,347	13,401	13,748	12,979
Owner Wages	80,000	80,000	80,000	80,000	80,000	80,000
Fodder & Supplement Adjustment	-15,000	-21,200	-62,458	-22,500	-20,000	-28,232
Plant & Equipment Lease Payments	0	0	0	0	0	0
Capital Expenditure	-140,000	-132,392	-60,860	-181,617	-291,011	-161,176
Financial Provisioning	0	0	0	-150,000	-100,000	-50,000
NET CASH FLOW BEFORE TAX	**178,046**	**365,090**	**171,852**	**319,157**	**213,509**	**249,531**

Table 3: Bill Bristle Business Balance Sheet & KPI's

	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $	Average $
ASSETS						
Cash	60,000	66,000	70,000	72,000	273,000	108,200
Plant & Equipment	395,000	378,500	362,000	407,000	387,000	385,900
Livestock	2,122,200	2,300,200	2,330,410	2,366,240	2,378,130	2,299,436
Land & Infrastructure	9,620,650	9,750,000	9,900,000	9,950,000	10,010,000	9,846,130
TOTAL ASSETS	12,197,850	12,494,700	12,662,410	12,795,240	13,048,130	12,639,666
LIABILITIES						
Overdraft	32,000	15,100	118,000	52,389	0	43,498
Term Loans	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Other Loans	82,564	76,285	74,258	98,562	95,125	85,359
TOTAL LIABILITIES	1,364,564	1,341,385	1,442,258	1,400,951	1,345,125	1,378,857
NET ASSETS (EQUITY)	10,833,286	11,153,315	11,220,152	11,394,289	11,703,005	11,260,809

Key Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Operating Return	4%	4%	2%	5%	5%	4%
Capital Return	2%	1%	1%	2%	2%	2%
Total Business Return	6%	6%	4%	7%	7%	6%
Cost of Capital	5.5%	5.3%	5.4%	5.3%	5.2%	5%
Equity %	89%	89%	89%	89%	90%	89%
Finance Coverage (EBIT/ Finance Costs)	6.6	7.5	4.1	9.0	8.4	7.1

Land & Livestock Data

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Total Area (Ha)	1,980	1,980	1,980	1,980	1,980	1,980
Effective Area (Ha)	1,820	1,820	1,820	1,820	1,820	1,820
Total Cattle DSE	11,579	12,485	13,020	13,523	13,533	12,828
Total Sheep DSE	10,414	11,046	10,834	10,519	10,480	10,659
Total Livestock DSE	21,993	23,531	23,854	24,042	24,013	23,486

*note these are opening values

Table 4: Bill Bristle Business Cattle Income Statement

	Year 1 $/DSE	Year 2 $/DSE	Year 3 $/DSE	Year 4 $/DSE	Year 5 $/DSE	Average $/DSE
SALES	**32.51**	**35.55**	**29.17**	**42.94**	**47.38**	**37.51**
Cattle Purhases	**-1.46**	**-2.19**	**-2.19**	**-2.29**	**-3.05**	**-2.24**
Cattle Inventory Change	**5.11**	**3.15**	**5.38**	**2.57**	**-2.18**	**2.81**
GROSS PROFIT	**36.16**	**36.51**	**32.35**	**43.22**	**42.16**	**38.08**
ENTERPRISE EXPENSES						
Animal Health	0.33	0.42	0.38	0.44	0.45	**0.40**
Contracting & Mustering	0.00	0.00	0.00	0.00	0.00	**0.00**
Fodder	2.50	2.95	4.55	1.97	1.82	**2.76**
Insurance & Materials	0.04	0.07	0.06	0.03	0.04	**0.05**
Internal Enterprise Freight	0.02	0.00	0.02	0.05	0.01	**0.02**
Marketing & Promotion	0.00	0.00	0.00	0.00	0.00	**0.00**
Selling Costs	2.52	2.84	2.86	3.22	3.93	**3.07**
Supplementation	0.12	0.04	0.07	0.06	0.08	**0.07**
	5.53	**6.32**	**7.94**	**5.78**	**6.34**	**6.38**
GROSS MARGIN	**30.63**	**30.19**	**24.41**	**37.44**	**35.81**	**31.70**
OVERHEAD EXPENSES						
Administration	0.04	0.05	0.04	0.05	0.05	**0.04**
Depreciation	0.35	0.35	0.32	0.33	0.34	**0.34**
Electricity & Gas	0.07	0.07	0.07	0.07	0.07	**0.07**
Fuel & Lubricants	0.51	0.52	0.49	0.53	0.54	**0.52**
Insurance	0.36	0.35	0.33	0.34	0.39	**0.36**
Landcare	0.01	0.03	0.00	0.04	0.02	**0.02**
Motor Vehicle Expenses	0.17	0.17	0.13	0.19	0.22	**0.18**
Pasture	2.03	2.30	1.44	2.92	2.83	**2.30**
Rates & Rents	0.41	0.39	0.37	0.39	0.39	**0.39**
R & M General	0.76	0.77	0.59	0.72	0.76	**0.72**
Wages	2.70	2.52	2.46	2.42	2.44	**2.51**
Wages (Owner)	2.42	2.24	2.15	2.07	2.07	**2.19**
	9.86	**9.77**	**8.37**	**10.06**	**10.12**	**9.64**
TOTAL OPERATING EXPENSES	**15.38**	**16.09**	**16.31**	**15.84**	**16.47**	**16.02**
EARNINGS BEFORE INTEREST & TAX	**20.78**	**20.42**	**16.04**	**27.38**	**25.69**	**22.06**

Beef Enterprise Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
PRIMARY PERFORMANCE INDICATORS						
Average Price Received ($/kg LW sold)	2.50	2.78	2.40	3.17	3.21	**2.81**
Gross Profit ($/kg LW produced)	2.78	2.85	2.66	3.19	2.86	**2.87**
Cost of Production ($/kg LW)	1.18	1.26	1.34	1.17	1.12	**1.21**
Operating Margin ($/kg LW)	1.60	1.60	1.32	2.02	1.74	**1.66**
Kg Beef/DSE	13.00	12.80	12.16	13.53	14.74	**13.25**
Labour Efficiency (DSE/FTE)	12,736	13,734	14,322	14,875	14,886	**14,110**
SECONDARY PERFORMANCE INDICATORS						
Kg Beef/Head Sold (Male)	335	310	285	325	325	**316**
Kg Beef/Head Sold (Female)	320	300	270	300	300	**298**
Annual Average Stocking Rate (DSE/Ha)	13.4	14.6	14.7	14.6	14.8	**14.4**
Enterprise Size (Annual Avg DSE)	11,579	12,485	13,020	13,523	13,533	**12,828**
Reproductive Rate	0.92	0.93	0.95	0.92	0.83	**0.91**
Mortality Rate	1.0%	0.8%	0.5%	0.8%	0.8%	**0.8%**

Table 4: Bill Bristle Business Sheep Income Statement

	Year 1 $/DSE	Year 2 $/DSE	Year 3 $/DSE	Year 4 $/DSE	Year 5 $/DSE	Average $/DSE
SALES	**12.26**	**17.44**	**14.58**	**20.82**	**18.52**	**16.72**
Sheep Purhases	**-1.01**	**-1.51**	**-2.01**	**-2.51**	**-2.30**	**-1.87**
Sheep Inventory Change	**11.41**	**-0.82**	**-3.15**	**-2.18**	**2.00**	**1.45**
Wool Sales	**22.65**	**26.36**	**29.40**	**37.97**	**31.89**	**29.65**
Value of Hedged Position	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GROSS PROFIT	**45.31**	**41.47**	**38.81**	**54.10**	**50.11**	**45.96**
ENTERPRISE EXPENSES						
Animal Health	1.27	1.15	1.35	1.45	1.53	**1.35**
Contracting & Mustering	0.00	0.00	0.00	0.00	0.00	**0.00**
Fodder	0.52	0.75	6.69	1.66	2.11	**2.35**
Insurance & Materials	0.29	0.14	0.15	0.14	0.15	**0.17**
Internal Enterprise Freight	0.05	0.02	0.04	0.01	0.07	**0.04**
Marketing & Promotion	0.00	0.00	0.00	0.00	0.00	**0.00**
Selling Costs: Livestock	0.98	1.39	1.62	1.64	1.43	**1.41**
Selling Costs: Wool	0.75	0.74	0.81	0.99	1.11	**0.88**
Shearing & Crutching	5.14	4.99	5.21	5.50	5.71	**5.31**
Supplementation	1.21	0.19	0.43	0.37	0.26	**0.49**
Wool Freight	0.21	0.19	0.20	0.25	0.25	**0.22**
	10.41	**9.56**	**16.50**	**12.01**	**12.63**	**12.22**
GROSS MARGIN	**34.89**	**31.91**	**22.31**	**42.10**	**37.48**	**33.74**
OVERHEAD EXPENSES						
Administration	0.05	0.05	0.04	0.06	0.06	**0.05**
Depreciation	0.39	0.40	0.38	0.42	0.44	**0.41**
Electricity & Gas	0.08	0.08	0.08	0.08	0.09	**0.08**
Fuel & Lubricants	0.64	0.66	0.62	0.64	0.64	**0.64**
Insurance	0.40	0.40	0.40	0.44	0.50	**0.43**
Landcare	0.01	0.03	0.00	0.05	0.03	**0.03**
Motor Vehicle Expenses	0.19	0.20	0.16	0.25	0.28	**0.22**
Pasture	1.85	2.13	1.78	1.83	1.84	**1.89**
Rates & Rents	0.46	0.44	0.44	0.49	0.51	**0.47**
R & M General	0.85	0.87	0.82	0.84	0.84	**0.84**
Wages	4.72	4.48	4.54	4.67	4.69	**4.62**
Wages (Owner)	4.22	3.98	4.06	4.18	4.20	**4.13**
	13.87	**13.72**	**13.32**	**13.97**	**14.12**	**13.80**
TOTAL OPERATING EXPENSES	**24.29**	**23.28**	**29.81**	**25.97**	**26.75**	**26.02**
EARNINGS BEFORE INTEREST & TAX	**21.02**	**18.19**	**9.00**	**28.13**	**23.36**	**19.94**

Flock Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
PRIMARY PERFORMANCE INDICATORS						
Price Received/Kg Clean Wool Sold	10.77	12.13	10.99	14.32	12.28	**12.10**
Cost Production/Kg Clean Wool Produced	11.55	10.71	11.15	9.80	10.30	**10.70**
Kg Clean/Adult Shorn	3.71	3.71	3.74	3.74	3.74	**3.73**
Average Adult Fibre Diameter (micron)	19.1	19.4	18.5	19.2	19.3	**19.1**
Shearing Cost/Head	7.39	6.70	6.74	7.18	7.63	**7.13**
Mortality Rate	3.0%	3.3%	3.9%	3.7%	4.1%	**3.6%**
SECONDARY PERFORMANCE INDICATORS						
Enterprise Size (Annual Avg DSE)	10,414	11,046	10,834	10,519	10,480	**10,659**
Labour Efficiency (DSE/FTE)	9,468	10,042	9,849	9,563	9,527	**9,690**
Annual Average Stocking Rate (DSE/Ha)	13.4	14.6	14.7	14.6	14.8	**14.4**

Table 6: Bill Bristle Business Cropping Income Statement

	Year 1 $/Ha	Year 2 $/Ha	Year 3 $/Ha	Year 4 $/Ha	Year 5 $/Ha	Average $/Ha
SALES						
Crop gross value produced	**423**	**567**	**242**	**369**	**346**	**389**
GROSS PROFIT	**423**	**567**	**242**	**369**	**346**	**389**
ENTERPRISE EXPENSES						
Seed	28	28	29	30	32	**29.10**
Sowing	0	0	0	0	0	**0.00**
Fertiliser	21	19	18	22	21	**20.10**
Chemical	5	3	8	6	9	**5.90**
Contracting	0	0	0	0	0	**0.00**
Harvesting	22	23	24	25	26	**23.80**
Freight	8	8	8	7	9	**7.70**
Storage	0	0	3	0	0	**0.60**
Insurance	6	0	7	8	0	**4.10**
	89	**80**	**97**	**97**	**95**	**91**
GROSS MARGIN	**334**	**487**	**146**	**272**	**251**	**298**
OVERHEAD EXPENSES						
Administration	2.79	2.79	2.34	3.58	3.28	**2.96**
Depreciation	22.01	21.65	20.48	25.38	23.62	**22.63**
Electricity & Gas	4.46	4.11	4.26	5.08	4.79	**4.54**
Fuel & Lubricants	12.13	11.94	11.81	15.25	14.00	**13.02**
Insurance	22.72	21.41	21.67	26.28	27.12	**23.84**
Landcare	0.72	1.84	0.00	2.94	1.72	**1.44**
Motor Vehicle Expenses	10.91	10.69	8.54	14.88	15.34	**12.07**
Pasture	0.00	0.00	0.00	0.00	0.00	**0.00**
Rates & Rents	26.09	23.99	23.88	29.58	27.53	**26.21**
R & M General	41.14	40.23	32.68	47.45	45.32	**41.36**
Wages	48.59	44.06	45.48	53.10	48.73	**47.99**
Wages (Owner)	43.48	39.22	39.80	45.45	41.24	**41.84**
	235	**222**	**211**	**269**	**253**	**238**
TOTAL OPERATING EXPENSES	**324**	**301**	**307**	**365**	**348**	**329**
EARNINGS BEFORE INTEREST & TAX	**99**	**265**	**-65**	**3**	**-2**	**60**

9.4.2 The Bullock Business Edge Case Study (2)

The Bullock family (Marg and Jim) is a third generation farming family farming 780 ha of dual purpose country in the 550 mm rainfall belt. 90% of the farm is arable and about 300 ha is cropped each year on a canola, wheat, barley, pasture rotation. Pasture is established under the barley.

The original farm was a 640 ac soldier settler's block and the son of the original settler married the daughter of a neighbouring settler. They bought out their siblings and purchased a third block. Their middle son, Rob, became a partner in the business then the Manager and now owns the business. Rob pays rental, annually in arrears, to his parents at the 'favourable rate' of $150 /ha/year.

Rob runs about 3,500 DSE's, all prime lamb ewes in a self-replacing composite flock, shearing in June lambing late July/ August, all lambs off before Christmas. He does all the farm work with the exception of shearing, lamb marking and grain harvest, which are all by contract, himself. Rob owns all his farming plant, a motor bike and a ute.

There is an ex solder settlement farm for sale next door and Rob and the neighbour on the other side want to buy it and split it. He expects it will bring $5,400 /ha and he would buy 130 ha. His parents are prepared to act as guarantors but don't want to provide any cash. Rob is aware that at some stage he will have to come to some arrangement with his sister about her share in the farm. Marg and Jim, who currently own all the land are imprecise about what % they will leave to the two children.

Marg and Jim have about $150,000 still to pay off the mortgage on the house in town where they live. Other than that there is an overdraft facility which bounces around up to $120,000 od.

Capital invested is a major issue in this business. The land is owned by Jim and Marg and as a consequence, doesn't appear on the business Balance Sheet. Before Rob commits to buying half the land next door, it would be prudent for him to find out what his parents intentions are in relation to the land which he now farms. He may be better off to start buying out his sister.

Table 1: Bullock Family Whole Business Income

	Year 1 ($)	Year 2 ($)	Year 3 ($)	Year 4 ($)	Year 5 ($)	Average ($)
SALES	**570,280**	**528,150**	**372,238**	**558,046**	**519,557**	**509,654**
Cattle	0	0	0	0	0	0
Sheep	227,984	234,173	158,923	282,926	218,844	224,570
Crops	342,296	293,977	213,315	275,120	300,713	285,084
Other	0	0	0	0	0	0
PURCHASES	**-11,640**	**-15,106**	**-8,820**	**0**	**-15,680**	**-10,249**
Cattle	0	0	0	0	0	0
Sheep	-11,640	-15,106	-8,820	0	-15,680	-10,249
INVENTORY CHANGE	**5,880**	**-1,140**	**-240**	**28,860**	**-17,040**	**3,264**
Cattle	0	0	0	0	0	0
Sheep	5,880	-1,140	-240	28,860	-17,040	3,264
GROSS PROFIT	**570,280**	**528,150**	**372,238**	**558,046**	**519,557**	**509,654**
Cattle	0	0	0	0	0	0
Sheep	227,984	234,173	158,923	282,926	218,844	224,570
Crops	342,296	293,977	213,315	275,120	300,713	285,084
Other	0	0	0	0	0	0
ENTERPTRISE EXPENSES	**50,774**	**58,848**	**75,417**	**65,321**	**62,428**	**62,558**
Cattle	0	0	0	0	0	0
Sheep	50,774	58,848	75,417	65,321	62,428	62,558
Crops	84,656	93,611	91,732	96,255	123,728	97,996
GROSS MARGIN	**434,850**	**375,691**	**205,089**	**396,470**	**333,401**	**349,100**
Cattle	0	0	0	0	0	0
Sheep	177,210	175,325	83,506	217,605	156,416	162,012
Crops	257,640	200,366	121,583	178,865	176,985	187,088
Other						
OVERHEAD EXPENSES						
Administration	1,150	945	1,478	816	1,413	1,160
Depreciation	26,248	27,412	27,756	26,941	17,529	25,177
Electricity & Gas	1,879	2,136	2,190	2,287	2,335	2,165
Fuel & Lubricants	17,859	16,898	15,432	18,933	18,262	17,477
Insurance	12,480	12,701	12,899	13,850	14,142	13,214
Landcare	0	566	0	455	956	395
Motor Vehicle Expenses	5,590	6,129	5,421	7,994	6,445	6,316
Pasture	28,740	30,025	24,232	35,236	33,963	30,439
Rates & Rents	11,582	12,102	12,855	13,447	13,881	12,773
R & M General	16,497	16,254	14,930	18,221	16,254	16,431
Wages	0	0	0	0	0	0
Wages (Owner)	70,000	70,000	70,000	70,000	70,000	70,000
Land Lease	117,000	117,000	117,000	117,000	117,000	117,000
	309,025	**312,168**	**304,193**	**325,180**	**312,180**	**312,549**
TOTAL OP. EXPENSES	**359,799**	**371,016**	**379,610**	**390,501**	**374,608**	**375,107**
EBIT	**210,481**	**157,134**	**-7,372**	**167,545**	**144,949**	**134,547**

Table 2: Bullock Whole Business Cashflow Statement

	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $	Average $
Cash flows from operating activities						
Sales - Cattle	0	0	0	0	0	0
Sales - Sheep	233,744	250,419	167,983	254,066	251,564	231,555
Sales - Crops	314,280	258,187	148,493	250,931	289,862	252,351
Sales - Other	0	0	0	0	0	0
Total Operating Income	**548,024**	**508,606**	**316,476**	**504,997**	**541,426**	**483,906**
Livestock Purchases	**-11,640**	**-15,106**	**-8,820**	**0**	**-15,680**	**-10,249**
Enterprise Expenses	**-50,774**	**-58,848**	**-75,417**	**-65,321**	**-62,428**	**-62,558**
Overhead Operating Expenses						
Administration	-1,150	-945	-1,478	-816	-1,413	-1,160
Electricity & Gas	-1,879	-2,136	-2,190	-2,287	-2,335	-2,165
Fuel & Lubricants	-17,859	-16,898	-15,432	-18,933	-18,262	-17,477
Insurance	-12,480	-12,701	-12,899	-13,850	-14,142	-13,214
Landcare	0	-566	0	-455	-956	-395
Motor Vehicle Expenses	-5,590	-6,129	-5,421	-7,994	-6,445	-6,316
Pasture	-28,740	-30,025	-24,232	-35,236	-33,963	-30,439
Rates & Rents	-11,582	-12,102	-12,855	-13,447	-13,881	-12,773
R & M General	-16,497	-16,254	-14,930	-18,221	-16,254	-16,431
Wages	0	0	0	0	0	0
Plant & Equipment Lease Costs	0	0	0	0	0	0
Total overhead operating costs	**-95,777**	**-97,756**	**-89,437**	**-111,239**	**-107,651**	**-100,372**
Net cash flow from operating activities	**389,833**	**336,896**	**142,802**	**328,437**	**355,667**	**310,727**
Cash flows from investing activities						
Disposal of capital items		2,890	541	3,756		
Capex - farm & private vehicles				-10,000		
Capex - plant & equipment	-15,000			-37,500	-25,000	
Capex - infrastructure, improvements						
Capex - land	-2,458	-6,107	-2,214	-3,708	-5,589	
Financial Provisioning						
Net cash flow from investing activities	**-17,458**	**-3,217**	**-1,673**	**-47,452**	**-30,589**	**-20,078**
Cash flows from financing activities						
Interest on loans	-2,558	-2,283	-2,040	-6,021	-5,174	-3,615
Land lease payments	-117,000	-117,000	-117,000	-117,000	-117,000	-117,000
Net cash flows from financing activities	**-119,558**	**-119,283**	**-119,040**	**-123,021**	**-122,174**	**-120,615**
Net cash flow before tax*	**252,817**	**214,396**	**22,089**	**157,964**	**202,904**	**170,034**

***excludes owners wages and drawings**

Reconciliation of income and cashflow statements

EARNINGS BEFORE INTEREST AND TAX	**210,481**	**157,134**	**-7,372**	**167,545**	**144,949**	**134,547**
Finance Costs	-2,558	-2,283	-2,040	-6,021	-5,174	-3,615
Interest Component of Lease Payments	0	0	0	0	0	0
Inventory Change	-5,880	1,140	240	-28,860	17,040	-3,264
Depreciation	26,248	27,412	27,756	26,941	17,529	25,177
Owner Wages	70,000	70,000	70,000	70,000	70,000	70,000
Fodder & Supplement Adjustment	-28,016	-35,790	-64,822	-24,189	-10,851	-32,734
Plant & Equipment Lease Payments	0	0	0	0	0	0
Capital Expenditure	-17,458	-3,217	-1,673	-47,452	-30,589	-20,078
Financial Provisioning	0	0	0	0	0	0
NET CASH FLOW BEFORE TAX	**252,817**	**214,396**	**22,089**	**157,964**	**202,904**	**170,034**

Table 3: Bullock Family Balance Sheet

	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $	Average $
ASSETS						
Cash	22,851	56,799	87,223	17,240	44,820	45,787
Plant & Equipment	213,000	200,500	190,000	253,000	367,500	244,800
Livestock	351,900	357,780	356,640	356,400	385,260	361,596
Land & Infrastructure	0	0	0	0	0	0
TOTAL ASSETS	587,751	615,079	633,863	626,640	797,580	652,183
LIABILITIES						
Overdraft	0	0	0	0	0	0
Term Loans	0	0	0	0	0	0
Other Loans	34,562	30,847	27,565	98,707	83,448	55,026
TOTAL LIABILITIES	34,562	30,847	27,565	98,707	83,448	55,026
NET ASSETS (EQUITY)	553,189	584,232	606,298	527,933	714,132	597,157

Key Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Operating Return	36%	26%	-1%	27%	18%	21%
Capital Return	5%	3%	-1%	27%	0%	7%
Total Business Return	40%	29%	-2%	54%	18%	28%
Cost of Capital	7.4%	7.4%	7.4%	6.1%	6.2%	7%
Equity %	94%	95%	96%	84%	90%	92%
Finance Coverage (EBIT/ Finance Costs)	82.3	68.8	-3.6	27.8	28.0	40.7

Land & Livestock Data

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Total Area (Ha)	802	802	802	802	802	802
Effective Area (Ha)	758	758	758	758	758	758
Total Cattle DSE	0	0	0	0	0	0
Total Sheep DSE	4,110	4,134	4,119	4,259	4,340	4,192
Total Livestock DSE	4,110	4,134	4,119	4,259	4,340	4,192

*note these are opening values

Table 4: Bullock Family Sheep Income Statement

	Year 1 $/DSE	Year 2 $/DSE	Year 3 $/DSE	Year 4 $/DSE	Year 5 $/DSE	Average $/DSE
SALES	**53.05**	**56.29**	**36.30**	**55.01**	**53.91**	**50.91**
Sheep Purhases	**-2.83**	**-3.65**	**-2.14**	**0.00**	**-3.61**	**-2.45**
Sheep Inventory Change	**1.43**	**-0.28**	**-0.06**	**6.78**	**-3.93**	**0.79**
Wool Sales	**3.81**	**4.29**	**4.49**	**4.64**	**4.05**	**4.26**
Value of Hedged Position	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GROSS PROFIT	**55.47**	**56.65**	**38.58**	**66.43**	**50.42**	**53.51**
ENTERPRISE EXPENSES						
Animal Health	1.56	1.63	1.27	1.67	1.88	**1.60**
Contracting & Mustering	0.61	0.76	0.70	0.80	0.82	**0.74**
Fodder	1.92	2.23	7.66	2.95	2.27	**3.41**
Insurance & Materials	0.13	0.19	0.28	0.50	0.19	**0.26**
Internal Enterprise Freight	0.00	0.00	0.00	0.00	0.00	**0.00**
Marketing & Promotion	0.00	0.00	0.00	0.00	0.00	**0.00**
Selling Costs: Livestock	3.98	4.39	3.12	4.20	4.29	**4.00**
Selling Costs: Wool	0.42	0.56	0.70	0.62	0.63	**0.59**
Shearing & Crutching	3.33	4.12	4.13	4.11	3.93	**3.92**
Supplementation	0.29	0.22	0.30	0.33	0.23	**0.28**
Wool Freight	0.11	0.14	0.14	0.14	0.14	**0.13**
	12.35	**14.24**	**18.31**	**15.34**	**14.38**	**14.92**
GROSS MARGIN	**43.11**	**42.41**	**20.27**	**51.09**	**36.04**	**38.59**
OVERHEAD EXPENSES						
Administration	0.20	0.16	0.25	0.13	0.23	**0.19**
Depreciation	1.92	1.99	2.02	1.90	1.21	**1.81**
Electricity & Gas	0.37	0.41	0.43	0.43	0.43	**0.41**
Fuel & Lubricants	2.17	2.04	1.87	2.22	2.10	**2.08**
Insurance	1.82	1.84	1.88	1.95	1.95	**1.89**
Landcare	0.00	0.08	0.00	0.06	0.13	**0.06**
Motor Vehicle Expenses	1.22	1.33	1.18	1.69	1.34	**1.35**
Pasture	6.99	7.26	5.88	8.27	7.82	**7.25**
Rates & Rents	1.69	1.76	1.87	1.89	1.92	**1.83**
R & M General	1.40	1.38	1.27	1.50	1.31	**1.37**
Wages	0.00	0.00	0.00	0.00	0.00	**0.00**
Wages (Owner)	11.92	11.85	11.90	11.51	11.29	**11.69**
	29.70	**30.12**	**28.56**	**31.56**	**29.74**	**29.94**

TOTAL OPERATING EXPENSES	**42.06**	**44.35**	**46.87**	**46.90**	**44.12**	**44.86**
EARNINGS BEFORE INTEREST & TAX	**13.41**	**12.30**	**-8.28**	**19.53**	**6.30**	**8.65**

Flock Performance Indicators

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Average**
PRIMARY PERFORMANCE INDICATORS						
Price Received/Kg Clean Wool Sold	3.91	4.43	4.62	4.84	3.96	**4.35**
Cost Production/Kg Clean Wool Produced	43.16	45.78	48.20	48.88	43.20	**45.84**
Kg Clean/Adult Shorn	2.08	2.08	2.08	2.08	2.08	**2.08**
Average Adult Fibre Diameter (micron)	19.1	19.4	18.5	19.2	19.3	**19.1**
Shearing Cost/Head	6.72	8.36	8.33	8.36	7.42	**7.84**
Mortality Rate	2.5%	2.1%	1.9%	2.4%	2.7%	**2.3%**
SECONDARY PERFORMANCE INDICATORS						
Enterprise Size (Annual Avg DSE)	4,110	4,134	4,119	4,259	4,340	**4,192**
Labour Efficiency (DSE/FTE)	2,653	2,668	2,658	2,749	2,802	**2,706**
Annual Average Stocking Rate (DSE/Ha)	8.9	9.2	9.5	8.9	9.4	**9.2**

Table 5: Bullock Family Crop Income

Crop Income Statement	Year 1 $/Ha	Year 2 $/Ha	Year 3 $/Ha	Year 4 $/Ha	Year 5 $/Ha	Average $/Ha
SALES						
Crop gross value produced	**1156**	**945**	**660**	**986**	**1016**	**953**
GROSS PROFIT	**1156**	**945**	**660**	**986**	**1016**	**953**
ENTERPRISE EXPENSES						
Seed	75	79	86	94	91	**85**
Sowing	0	0	0	0	0	**0**
Fertiliser	45	53	54	61	58	**54**
Chemical	44	39	22	52	96	**51**
Contracting	0	21	17	10	11	**12**
Harvesting	58	62	62	64	65	**62**
Freight	25	18	12	24	36	**23**
Storage	10	0	0	8	26	**9**
Insurance	29	29	31	32	35	**31**
	286	**301**	**284**	**345**	**418**	**327**
GROSS MARGIN	**870**	**644**	**376**	**641**	**598**	**626**
OVERHEAD EXPENSES						
Administration	1.17	1.11	0.88	1.59	0.83	**1.11**
Depreciation	62.07	59.08	59.41	69.64	63.71	**62.78**
Electricity & Gas	1.27	1.21	1.32	1.57	1.55	**1.38**
Fuel & Lubricants	30.17	28.71	26.16	27.66	31.98	**28.93**
Insurance	16.86	16.05	15.73	18.49	18.72	**17.17**
Landcare	0.00	0.00	0.70	0.00	0.61	**0.26**
Motor Vehicle Expenses	1.89	1.80	1.90	1.94	2.70	**2.05**
Pasture	0.00	0.00	0.00	0.00	0.00	**0.00**
Rates & Rents	15.65	14.90	14.99	18.43	18.17	**16.43**
R & M General	36.23	34.48	32.71	34.78	40.01	**35.64**
Wages	0.00	0.00	0.00	0.00	0.00	**0.00**
Wages (Owner)	70.95	67.52	65.02	75.27	70.95	**69.94**
	236	**225**	**219**	**249**	**249**	**236**
TOTAL OPERATING EXPENSES	**522**	**526**	**503**	**594**	**667**	**563**
EARNINGS BEFORE INTEREST & TAX	**634**	**419**	**158**	**392**	**349**	**390**

9.4.3 Carey's Business Edge Case Study (3.)

Trish and Dan are in their mid-forties and run a fine wool Merino enterprise in a 650mm rainfall area of South West Victoria. The business has been run under a partnership structure for over 15 years. Trish and Dan have three children. Their eldest is 16 years of age.

The couple are both passionate wool producers. Many grazing businesses in the area have switched to prime lambs in recent years due to disappointing fine wool prices and historically high lamb prices. The Carey's have strongly considered the switch themselves but at present are encouraged by stronger wool prices seen the past 18 months and are convinced their wool growing business stacks up well against other enterprise options at these current prices. They also consider current sheep prices are unlikely to be sustainable and for this reason believe a self-replacing fine wool enterprise may well be their most viable enterprise option over the longer term.

The sheep flock consists of 4,500 adult breeding ewes with an additional 2,000-2,500 adult wethers run for wool production. The Carey's breed their own flock rams by joining their elite ewes to industry leading sires with AI each year. DNA profiling has predicted the wool cut potential of the flock to be in the top 20% of flocks nationally.

The business has a strong equity position of 88%. Although their three children enjoy living on the farm, none seem particularly interested in the farm management aspects of the business. Of course this may change and Trish and Dan are keeping an open mind to the possibility that one of more of their children may be interested in becoming more involved in the business in the future. A next door neighbour has approached Dan about his desire to sell their farm and have offered Dan and Trish to make an offer. The farm is 320 Ha in size and has similar carrying capacity to their existing holding. Dan and Trish are very interested in the prospect of expanding but wonder whether an off-farm investment is a better option for the business.

Table 1: Carey's Business Income Statement

	Year 1 ($)	Year 2 ($)	Year 3 ($)	Year 4 ($)	Year 5 ($)	Average
SALES	**543,788**	**639,084**	**545,208**	**722,196**	**711,426**	**632,341**
Cattle	0	0	0	0	0	0
Sheep	543,788	639,084	545,208	722,196	711,426	632,341
Crops	0	0	0	0	0	0
Other	0	0	0	0	0	0
PURCHASES	**0**	**0**	**0**	**0**	**0**	**0**
Cattle	0	0	0	0	0	0
Sheep	0	0	0	0	0	0
INVENTORY CHANGE	**53,130**	**-16,830**	**30,180**	**-21,420**	**19,410**	**12,894**
Cattle	0	0	0	0	0	0
Sheep	53,130	-16,830	30,180	-21,420	19,410	12,894
GROSS PROFIT	**543,788**	**639,084**	**545,208**	**722,196**	**711,426**	**632,341**
Cattle	0	0	0	0	0	0
Sheep	543,788	639,084	545,208	722,196	711,426	632,341
Crops	0	0	0	0	0	0
Other	0	0	0	0	0	0
ENTERPRISE EXPENSES	**134,292**	**149,016**	**190,509**	**161,185**	**158,272**	**158,655**
Cattle	0	0	0	0	0	0
Sheep	134,292	149,016	190,509	161,185	158,272	158,655
Crops	0	0	0	0	0	0
GROSS MARGIN	**409,496**	**490,068**	**354,699**	**561,011**	**553,154**	**473,686**
Cattle	0	0	0	0	0	0
Sheep	409,496	490,068	354,699	561,011	553,154	473,686
Crops	0	0	0	0	0	0
Other	0	0	0	0	0	0
OVERHEAD EXPENSES						
Administration	9,424	12,406	11,563	13,779	14,425	12,319
Depreciation	5,082	5,562	6,007	6,202	6,518	5,874
Electricity & Gas	1,966	2,137	2,283	2,346	2,291	2,205
Fuel & Lubricants	9,004	8,994	9,971	10,506	9,756	9,646
Insurance	12,656	13,006	12,966	13,692	14,257	13,315
Landcare	781	1,203	435	1,163	726	862
Motor Vehicle Expenses	6,018	7,105	7,022	8,461	8,871	7,495
Pasture	59,303	62,594	57,901	65,202	67,854	62,571
Rates & Rents	10,521	11,682	12,588	14,915	15,338	13,009
R & M General	8,806	9,625	9,132	10,562	9,415	9,508
Wages	49,107	50,421	51,870	53,260	53,884	51,708
Wages (Owner)	80,000	80,000	80,000	80,000	80,000	80,000
Land Lease	0	0	0	0	0	0
	252,668	**264,735**	**261,738**	**280,088**	**283,335**	**268,513**
TOTAL OP. EXPENSES	**386,960**	**413,751**	**452,247**	**441,273**	**441,607**	**427,168**
EBIT	**156,828**	**225,333**	**92,961**	**280,923**	**269,819**	**205,173**

Table 2: Carey's Business Cashflow Statement

	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $	Average $
Cash flows from operating activities						
Sales - Cattle	0	0	0	0	0	0
Sales - Sheep	490,658	655,914	515,028	743,616	692,016	619,447
Sales - Crops	0	0	0	0	0	0
Sales - Other	0	0	0	0	0	0
Total Operating Income	**490,658**	**655,914**	**515,028**	**743,616**	**692,016**	**619,447**
Livestock Purchases	**0**	**0**	**0**	**0**	**0**	**0**
Enterprise Expenses	**-134,292**	**-149,016**	**-190,509**	**-161,185**	**-158,272**	**-158,655**
Overhead Operating Expenses						
Administration	-9,424	-12,406	-11,563	-13,779	-14,425	-12,319
Electricity & Gas	-1,966	-2,137	-2,283	-2,346	-2,291	-2,205
Fuel & Lubricants	-9,004	-8,994	-9,971	-10,506	-9,756	-9,646
Insurance	-12,656	-13,006	-12,966	-13,692	-14,257	-13,315
Landcare	-781	-1,203	-435	-1,163	-726	-862
Motor Vehicle Expenses	-6,018	-7,105	-7,022	-8,461	-8,871	-7,495
Pasture	-59,303	-62,594	-57,901	-65,202	-67,854	-62,571
Rates & Rents	-10,521	-11,682	-12,588	-14,915	-15,338	-13,009
R & M General	-8,806	-9,625	-9,132	-10,562	-9,415	-9,508
Wages	-49,107	-50,421	-51,870	-53,260	-53,884	-51,708
Plant & Equipment Lease Costs	0	0	0	0	0	0
Total overhead operating costs	**-167,586**	**-179,173**	**-175,731**	**-193,886**	**-196,817**	**-182,639**
Net cash flow from operating activities	**188,780**	**327,725**	**148,788**	**388,545**	**336,927**	**278,153**

Cash flows from investing activities						
Disposal of capital items	7,200	400		6,500		
Capex - farm & private vehicles	-12,236	-8,460	-43,619	-78,262	-45,710	
Capex - plant & equipment	-5,535	-26,402	-18,489	-26,891	-33,119	
Capex - infrastructure, improvements	-19,506	-33,572	-59,818	-35,181	-42,616	
Capex - land						
Financial Provisioning		-100,000	100,000	-100,000	-65,000	
Net cash flow from investing activities	**-30,077**	**-168,034**	**-21,926**	**-233,834**	**-186,445**	**-128,063**
Cash flows from financing activities						
Interest on loans	-46,983	-43,682	-43,886	-43,172	-42,662	-44,077
Land lease payments	0	0	0	0	0	0
Net cash flows from financing activities	**-46,983**	**-43,682**	**-43,886**	**-43,172**	**-42,662**	**-44,077**
Net cash flow before tax*	**111,720**	**116,009**	**82,976**	**111,539**	**107,820**	**106,013**

***excludes owners wages and drawings**

Reconciliation of income and cashflow statements

EARNINGS BEFORE INTEREST AND TAX	**156,828**	**225,333**	**92,961**	**280,923**	**269,819**	**205,173**
Finance Costs	-46,983	-43,682	-43,886	-43,172	-42,662	-44,077
Interest Component of Lease Payments	0	0	0	0	0	0
Inventory Change	-53,130	16,830	-30,180	21,420	-19,410	-12,894
Depreciation	5,082	5,562	6,007	6,202	6,518	5,874
Owner Wages	80,000	80,000	80,000	80,000	80,000	80,000
Fodder & Supplement Adjustment	0	0	0	0	0	0
Plant & Equipment Lease Payments	0	0	0	0	0	0
Capital Expenditure	-30,077	-68,034	-121,926	-133,834	-121,445	-95,063
Financial Provisioning	0	-100,000	100,000	-100,000	-65,000	-33,000

NET CASH FLOW BEFORE TAX	**111,720**	**116,009**	**82,976**	**111,539**	**107,820**	**106,013**

Table 3: Carey's Business Balance Sheet

	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $	Average $
ASSETS						
Cash	0	0	100,000	0	100,000	40,000
Plant & Equipment	139,625	130,498	140,636	139,704	130,816	136,256
Livestock	1,065,720	1,118,850	1,102,020	1,132,200	1,110,780	1,105,914
Land & Infrastructure	4,300,000	4,300,000	4,500,000	4,850,000	5,400,000	4,670,000
TOTAL ASSETS	5,505,345	5,549,348	5,842,656	6,121,904	6,741,596	5,952,170
LIABILITIES						
Overdraft	32,000	15,100	44,505	52,389	26,201	34,039
Term Loans	790,000	790,000	790,000	790,000	790,000	790,000
Other Loans	0	0	0	0	0	0
TOTAL LIABILITIES	822,000	805,100	834,505	842,389	816,201	824,039
NET ASSETS (EQUITY)	4,683,345	4,744,248	5,008,151	5,279,515	5,925,395	5,128,131

Key Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Operating Return	3%	4%	2%	5%	4%	3%
Capital Return	0%	5%	8%	11%	2%	5%
Total Business Return	3%	9%	9%	16%	6%	9%
Cost of Capital	5.7%	5.4%	5.3%	5.1%	5.2%	5.4%
Equity %	85%	85%	86%	86%	88%	86%
Finance Coverage (EBIT/ Finance Costs)	3.3	5.2	2.1	6.5	6.3	4.7

Land & Livestock Data

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Total Area (Ha)	818	818	818	818	818	818
Effective Area (Ha)	762	762	762	762	762	762
Total Cattle DSE	0	0	0	0	0	0
Total Sheep DSE	12,353	12,584	12,678	12,739	12,729	12,617
Total Livestock DSE	12,353	12,584	12,678	12,739	12,729	12,617

Table 4:

	Year 1 $/DSE	Year 2 $/DSE	Year 3 $/DSE	Year 4 $/DSE	Year 5 $/DSE	Average $/DSE
SALES	**13.81**	**22.64**	**15.60**	**21.84**	**21.83**	**19.14**
Sheep Purhases	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Sheep Inventory Change	**4.30**	**-1.34**	**2.38**	**-1.68**	**1.52**	**1.04**
Wool Sales	**25.91**	**29.48**	**25.02**	**36.54**	**32.54**	**29.90**
Value of Hedged Position	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GROSS PROFIT	**44.02**	**50.78**	**43.00**	**56.69**	**55.89**	**50.08**
ENTERPRISE EXPENSES						
Animal Health	1.54	1.70	1.86	1.80	1.81	**1.74**
Contracting & Mustering	0.20	0.20	0.20	0.21	0.23	**0.21**
Fodder	2.18	2.67	5.46	3.16	2.67	**3.23**
Insurance & Materials	0.24	0.21	0.25	0.24	0.20	**0.23**
Internal Enterprise Freight	0.31	0.31	0.34	0.28	0.33	**0.32**
Marketing & Promotion	0.00	0.00	0.00	0.00	0.00	**0.00**
Selling Costs: Livestock	0.76	0.91	0.90	0.85	1.08	**0.90**
Selling Costs: Wool	0.68	0.77	0.86	0.89	0.87	**0.81**
Shearing & Crutching	4.81	4.93	5.00	5.06	5.07	**4.98**
Supplementation	0.03	0.00	0.00	0.00	0.00	**0.01**
Wool Freight	0.13	0.14	0.16	0.15	0.18	**0.15**
	10.87	**11.84**	**15.03**	**12.65**	**12.43**	**12.57**
GROSS MARGIN	**33.15**	**38.94**	**27.98**	**44.04**	**43.46**	**37.51**
OVERHEAD EXPENSES						
Administration	0.76	0.99	0.74	0.74	0.74	**0.79**
Depreciation	0.41	0.44	0.40	0.40	0.40	**0.41**
Electricity & Gas	0.16	0.17	0.16	0.15	0.15	**0.16**
Fuel & Lubricants	0.73	0.71	0.71	0.71	0.71	**0.71**
Insurance	1.02	1.03	1.00	0.99	0.99	**1.01**
Landcare	0.06	0.10	0.06	0.06	0.06	**0.07**
Motor Vehicle Expenses	0.49	0.56	0.47	0.47	0.47	**0.49**
Pasture	4.80	4.97	4.68	4.66	4.66	**4.75**
Rates & Rents	0.85	0.93	0.83	0.83	0.83	**0.85**
R & M General	0.71	0.76	0.69	0.69	0.69	**0.71**
Wages	3.98	4.01	3.87	3.85	3.86	**3.91**
Wages (Owner)	6.48	6.36	6.31	6.28	6.28	**6.34**
	20.45	**21.04**	**19.93**	**19.83**	**19.85**	**20.22**
TOTAL OPERATING EXPENSES	**31.33**	**32.88**	**34.96**	**32.49**	**32.28**	**32.79**

EARNINGS BEFORE INTEREST & TAX	**12.70**	**17.91**	**8.05**	**24.21**	**23.61**	**17.29**

Flock Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
PRIMARY PERFORMANCE INDICATORS						
Price Received/Kg Clean Wool Sold	11.39	12.01	11.82	14.10	13.16	**12.50**
Cost Production/Kg Clean Wool Produced	8.10	7.78	9.61	8.08	7.60	**8.23**
Kg Clean/Adult Shorn	3.66	3.95	3.40	4.14	3.97	**3.82**
Average Adult Fibre Diameter (micron)	18.7	18.9	18.5	19.2	19.1	**18.9**
Shearing Cost/Head	6.49	6.42	6.57	6.46	6.62	**6.51**
Mortality Rate	2.7%	2.9%	2.3%	2.2%	3.2%	**2.7%**
SECONDARY PERFORMANCE INDICATORS						
Enterprise Size (Annual Avg DSE)	12,353	12,584	12,678	12,739	12,729	**12,617**
Labour Efficiency (DSE/FTE)	5,662	5,768	5,811	5,839	5,834	**5,783**
Annual Average Stocking Rate (DSE/Ha)	16.2	16.5	16.6	16.7	16.7	**16.6**

9.4.4 Harris Family Business Edge Case Study (4.)

The Harris family (Rob and Jo) run a prime lamb enterprise in a 700mm rainfall district of South West Victoria. Their property is 1,150 ha in size with a grazing area of 1,060 ha after adjusting for shelter belts and creeks which are not grazed. Robert and Jo have three children all under the age of 10. Rob's parents exited the farming business three years ago with all farming assets now owned and operated by Rob and Jo.

The business currently runs 15,000 DSE. A flock of self-replacing composite ewes are joined to both composite maternal rams and terminal rams. Adult ewes lamb mid-July through to end of August. In good years ewe lamb replacements are also joined to lamb in September at 14 months. The majority of lambs are sold direct to Coles at 21-24 kg carcase weight. In most years 50% of lambs are sold prior to Christmas with remaining lambs finished on summer fodder crops.

Pastures on the property are predominately perennial ryegrass and clovers. In recent years some phalaris has been sown in sandier paddocks which struggled to maintain modern ryegrass cultivars for more than two or three years. Paddocks typically require pasture renovation every six to seven years which works in well with the summer fodder crop program of between 100 and 150 ha sown each year.

Rob and Jo employ a Stockman/Farm Hand on a casual basis. In busy periods such as summer feeding, lamb marking and sowing summer fodder crops the employee is available five days a week. In most years the annual cost of employing this labour is around $55,000 including super. Additional casual work and contract labour (excluding shearing and crutching) often totals $12,000-$15,000 per annum.

To acquire the assets of the business three years ago, the finance facility was increased to $2.4M on interest only terms, with an additional overdraft facility of $200,000.

Five year average business performance was significantly impacted by poor seasonal conditions and low lamb prices in year two. Business EBIT and Gross Margin/DSE was strong in the three years following, however business cash flow was weak. Rob and Jo feel there has been enough cash to meet their living needs at this time but expect family drawings to go up significantly once their children hit high school. Is there a capital expenditure problem in this business? Is it overburdened by debt obligations? And/or are there other factors to consider with how surpluses are being used after interest and tax.

Table 1: Harris Family Business Income Statement

	Year 1 ($)	Year 2 ($)	Year 3 ($)	Year 4 ($)	Year 5 ($)	Average
SALES	**919,061**	**562,705**	**827,829**	**846,198**	**714,703**	**774,099**
Sheep	919,061	562,705	827,829	846,198	714,703	774,099
Other	0	0	0	0	0	0
PURCHASES	**-12,700**	**-16,200**	**-14,175**	**-14,410**	**-15,150**	**-14,527**
Sheep	-12,700	-16,200	-14,175	-14,410	-15,150	-14,527
INVENTORY CHANGE	**6,970**	**-30,740**	**-1,140**	**-6,040**	**-7,510**	**-7,692**
Sheep	6,970	-30,740	-1,140	-6,040	-7,510	-7,692
GROSS PROFIT	**919,061**	**562,705**	**827,829**	**846,198**	**714,703**	**774,099**
Sheep	919,061	562,705	827,829	846,198	714,703	774,099
Other	0	0	0	0	0	0
ENTERPRISE EXPENSES	**129,535**	**234,545**	**136,730**	**129,624**	**142,272**	**154,541**
Sheep	129,535	234,545	136,730	129,624	142,272	154,541
Crops	0	0	0	0	0	0
GROSS MARGIN	**789,526**	**328,160**	**691,099**	**716,574**	**572,431**	**619,558**
Sheep	789,526	328,160	691,099	716,574	572,431	619,558
Other						
OVERHEAD EXPENSES						
Administration	8,791	9,420	7,663	13,874	10,009	9,951
Depreciation	16,624	17,045	17,556	17,811	18,905	17,588
Electricity & Gas	2,160	2,248	2,344	2,498	2,965	2,443
Fuel & Lubricants	18,405	19,652	18,629	19,127	18,230	18,809
Insurance	15,808	16,201	16,448	16,881	17,855	16,639
Landcare	1,025	405	1,123	1,572	1,369	1,099
Motor Vehicle Expenses	8,094	9,156	8,646	11,457	10,981	9,667
Pasture	71,488	52,445	72,440	93,603	87,954	75,586
Rates & Rents	19,921	20,091	20,599	22,486	22,590	21,137
R & M General	16,522	15,740	15,008	14,805	13,699	15,155
Wages	79,255	88,105	69,114	72,983	75,806	77,053
Wages (Owner)	85,000	85,000	85,000	85,000	85,000	85,000
Land Lease	0	0	0	0	0	0
	343,093	**335,508**	**334,570**	**372,097**	**365,363**	**350,126**
TOTAL OP. EXPENSES	**472,628**	**570,053**	**471,300**	**501,721**	**507,635**	**504,667**
EBIT	**446,433**	**-7,348**	**356,529**	**344,477**	**207,068**	**269,432**

Table 2: Harris Family Business Cashflow Statement

	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $	Average $
Cash flows from operating activities						
Sales - Cattle	0	0	0	0	0	0
Sales - Sheep	924,791	609,645	843,144	866,648	737,363	796,318
Sales - Crops	0	0	0	0	0	0
Sales - Other	0	0	0	0	0	0
Total Operating Income	**924,791**	**609,645**	**843,144**	**866,648**	**737,363**	**796,318**
Livestock Purchases	**-12,700**	**-16,200**	**-14,175**	**-14,410**	**-15,150**	**-14,527**
Enterprise Expenses	**-129,535**	**-234,545**	**-136,730**	**-129,624**	**-142,272**	**-154,541**
Overhead Operating Expenses						
Administration	-8,791	-9,420	-7,663	-13,874	-10,009	-9,951
Electricity & Gas	-2,160	-2,248	-2,344	-2,498	-2,965	-2,443
Fuel & Lubricants	-18,405	-19,652	-18,629	-19,127	-18,230	-18,809
Insurance	-15,808	-16,201	-16,448	-16,881	-17,855	-16,639
Landcare	-1,025	-405	-1,123	-1,572	-1,369	-1,099
Motor Vehicle Expenses	-8,094	-9,156	-8,646	-11,457	-10,981	-9,667
Pasture	-71,488	-52,445	-72,440	-93,603	-87,954	-75,586
Rates & Rents	-19,921	-20,091	-20,599	-22,486	-22,590	-21,137
R & M General	-16,522	-15,740	-15,008	-14,805	-13,699	-15,155
Wages	-79,255	-88,105	-69,114	-72,983	-75,806	-77,053
Plant & Equipment Lease Costs	0	0	0	0	0	0
Total overhead operating costs	**-241,469**	**-233,463**	**-232,014**	**-269,286**	**-261,458**	**-247,538**
Net cash flow from operating activities	**541,087**	**125,437**	**460,225**	**453,328**	**318,483**	**379,712**
Cash flows from investing activities						

Disposal of capital items	900	8,400	14,000	2,100	7,000	
Capex - farm & private vehicles	-58,966	-12,200	-36,801	-49,725	-8,490	
Capex - plant & equipment	-21,804	-17,862	-67,450	-10,718	-22,861	
Capex - infrastructure, improvements	-117,809	-25,633	-55,212	-96,452	-25,480	
Capex - land						
Financial Provisioning	-150,000	130,000	-125,000	-100,000	-65,000	
Net cash flow from investing activities	**-347,679**	**82,705**	**-270,463**	**-254,795**	**-114,831**	**-181,013**
Cash flows from financing activities						
Interest on loans	-32,932	-41,584	-127,982	-122,503	-120,484	-89,097
Land lease payments	0	0	0	0	0	0
Net cash flows from financing activities	**-32,932**	**-41,584**	**-127,982**	**-122,503**	**-120,484**	**-89,097**
Net cash flow before tax*	**160,477**	**166,559**	**61,780**	**76,031**	**83,168**	**109,603**

***excludes owners wages and drawings**

Reconciliation of income and cashflow statements

EARNINGS BEFORE INTEREST AND TAX	**446,433**	**-7,348**	**356,529**	**344,477**	**207,068**	**269,432**
Finance Costs	-32,932	-41,584	-127,982	-122,503	-120,484	-89,097
Interest Component of Lease Payments	0	0	0	0	0	0
Inventory Change	-6,970	30,740	1,140	6,040	7,510	7,692
Depreciation	16,624	17,045	17,556	17,811	18,905	17,588
Owner Wages	85,000	85,000	85,000	85,000	85,000	85,000
Fodder & Supplement Adjustment	0	0	0	0	0	0
Plant & Equipment Lease Payments	0	0	0	0	0	0
Capital Expenditure	-197,679	-47,295	-145,463	-154,795	-49,831	-119,013
Financial Provisioning	-150,000	130,000	-125,000	-100,000	-65,000	-62,000
NET CASH FLOW BEFORE TAX	**160,477**	**166,559**	**61,780**	**76,031**	**83,168**	**109,603**

Table 3: Harris Family Business Balance Sheet

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
	$	$	$	$	$	$
ASSETS						
Cash	15,000	165,500	29,000	168,000	262,500	128,000
Plant & Equipment	335,000	332,000	320,000	323,500	305,500	323,200
Livestock	1,197,540	1,204,510	1,173,770	1,172,630	1,166,590	1,183,008
Land & Infrastructure	7,101,250	7,101,250	7,350,000	7,400,000	7,800,000	7,350,500
TOTAL ASSETS	8,648,790	8,803,260	8,872,770	9,064,130	9,534,590	8,984,708
LIABILITIES						
Overdraft	22,543	46,281	150,000	52,389	10,480	56,339
Term Loans	650,000	650,000	2,400,000	2,400,000	2,400,000	1,700,000
Other Loans	0	0	0	0	0	0
TOTAL LIABILITIES	672,543	696,281	2,550,000	2,452,389	2,410,480	1,756,339
NET ASSETS (EQUITY)	7,976,247	8,106,979	6,322,770	6,611,741	7,124,110	7,228,369

Key Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Operating Return	5.2%	-0.1%	4.0%	3.8%	2.2%	3.0%
Capital Return	1.8%	0.8%	2.2%	5.2%	12.3%	4.5%
Total Business Return	6.9%	0.7%	6.2%	9.0%	14.5%	7.5%
Cost of Capital	4.9%	6.0%	5.0%	5.0%	5.0%	5%
Equity %	92%	92%	71%	73%	75%	81%
Finance Coverage (EBIT/ Finance Costs)	13.6	-0.2	2.8	2.8	1.7	4.1

Land & Livestock Data

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Total Area (Ha)	1,240	1,240	1,240	1,240	1,240	1,240
Effective Area (Ha)	1,060	1,060	1,060	1,060	1,060	1,060
Total Cattle DSE	0	0	0	0	0	0
Total Sheep DSE	15,325	15,179	14,970	14,913	14,838	15,045
Total Livestock DSE	15,325	15,179	14,970	14,913	14,838	15,045

Table 4: Harris Family Sheep Income Statement

	Year 1 $/DSE	Year 2 $/DSE	Year 3 $/DSE	Year 4 $/DSE	Year 5 $/DSE	Average $/DSE
SALES	**55.74**	**35.73**	**51.28**	**53.24**	**43.71**	**47.94**
Sheep Purhases	**-0.83**	**-1.07**	**-0.95**	**-0.97**	**-1.02**	**-0.97**
Sheep Inventory Change	**0.45**	**-2.03**	**-0.08**	**-0.41**	**-0.51**	**-0.51**
Wool Sales	**4.61**	**4.44**	**5.04**	**4.87**	**5.98**	**4.99**
Value of Hedged Position	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GROSS PROFIT	**59.97**	**37.07**	**55.30**	**56.74**	**48.17**	**51.45**
ENTERPRISE EXPENSES						
Animal Health	1.10	1.05	1.14	1.13	1.20	**1.12**
Contracting & Mustering	0.21	0.16	0.20	0.28	0.23	**0.22**
Fodder	2.05	8.80	2.31	1.67	2.35	**3.44**
Insurance & Materials	0.21	0.21	0.23	0.22	0.23	**0.22**
Internal Enterprise Freight	0.05	0.03	0.02	0.04	0.07	**0.04**
Marketing & Promotion	0.00	0.00	0.00	0.00	0.00	**0.00**
Selling Costs: Livestock	0.48	0.74	0.55	0.61	0.70	**0.62**
Selling Costs: Wool	0.19	0.20	0.22	0.23	0.26	**0.22**
Shearing & Crutching	3.90	4.04	4.26	4.31	4.33	**4.17**
Supplementation	0.14	0.12	0.10	0.11	0.12	**0.12**
Wool Freight	0.13	0.10	0.10	0.10	0.11	**0.11**
	8.45	**15.45**	**9.13**	**8.69**	**9.59**	**10.26**
GROSS MARGIN	**51.52**	**21.62**	**46.17**	**48.05**	**38.58**	**41.19**
OVERHEAD EXPENSES						
Administration	0.57	0.58	0.59	0.59	0.59	**0.58**
Depreciation	1.08	1.10	1.11	1.11	1.12	**1.11**
Electricity & Gas	0.14	0.14	0.14	0.14	0.15	**0.14**
Fuel & Lubricants	1.20	1.21	1.23	1.23	1.24	**1.22**
Insurance	1.03	1.04	1.06	1.06	1.07	**1.05**
Landcare	0.07	0.07	0.07	0.07	0.07	**0.07**
Motor Vehicle Expenses	0.53	0.53	0.54	0.54	0.55	**0.54**
Pasture	4.66	4.71	4.78	4.79	4.82	**4.75**
Rates & Rents	1.30	1.31	1.33	1.34	1.34	**1.32**
R & M General	1.08	1.09	1.10	1.11	1.11	**1.10**
Wages	5.17	5.22	5.29	5.31	5.34	**5.27**
Wages (Owner)	5.55	5.60	5.68	5.70	5.73	**5.65**
	22.39	**22.60**	**22.92**	**23.01**	**23.12**	**22.81**
TOTAL OPERATING EXPENSES	**30.84**	**38.05**	**32.05**	**31.70**	**32.71**	**33.07**
EARNINGS BEFORE INTEREST & TAX	**29.13**	**-0.98**	**23.25**	**25.04**	**15.46**	**18.38**

Flock Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
PRIMARY PERFORMANCE INDICATORS						
Average Price Received ($/kg DW sold)	5.68	4.90	5.14	5.40	5.30	**5.28**
Gross Profit ($/kg DW produced)	6.85	5.66	6.02	6.25	6.64	**6.28**
Cost of Production ($/kg DW)	3.52	5.81	3.49	3.49	4.51	**4.16**
Operating Margin ($/kg DW)	3.33	-0.15	2.53	2.76	2.13	**2.1**
Kg Lamb/DSE	8.76	6.55	9.19	9.09	7.26	**8.17**
Mortality Rate	1.9%	1.9%	2.0%	1.8%	2.1%	**1.9%**
SECONDARY PERFORMANCE INDICATORS						
Enterprise Size (Annual Avg DSE)	15,325	15,179	14,970	14,913	14,838	**15,045**
Labour Efficiency (DSE/FTE)	6,130	6,072	5,988	5,965	5,935	**6,018**
Annual Average Stocking Rate (DSE/Ha)	14.5	14.3	14.1	14.1	14.0	**14.2**

9.4.5 Porepunkah Pastoral Business Edge Case Study (5.)

Porepunkah Pastoral is a family owned and managed beef cattle business operating in an 800mm rainfall zone of South West Victoria. Roger and his wife Anne in their early forties own the cattle business after buying out Roger's parents and brothers five years ago. Roger's parents are still active on the property contributing the equivalent of a full time labour unit to the business between the two of them. Roger manages the business and Anne has a successful off-farm career working four days per week in a large regional centre.

Roger and Anne borrowed a substantial sum to finance succession arrangements five years ago. This coincided with the sale of a significant portion of the beef herd to fund arrangements. To plug the shortfall in DSE, Roger and Anne entered into a dairy heifer agistment contract with a corporate dairy farm. This enterprise has since made up between 20 and 25% of annual stocking rates run. Despite the additional workload the enterprise brings, Roger feels the enterprise adds some stability to the business with the cashflow it provides and certainty of annual income.

The cattle herd are spring calving Angus cows. For many years the business has run an AI program over the best females to breed their own bulls. Excess bulls are sold to commercial producers locally. Calves are weaned at 6-7 months and are typically grown out to target a feedlot entry weight of 400kg. At times weaner steers are agisted to Southern NSW for backgrounding. In the past five years this has happened once due to a failed spring and on two other occasions due to 15-20% of the property being flooded in wet winters.

Pastures on the property are predominately perennial ryegrass and clover based. Around 30% of the property has been sown to phalaris pastures over the past ten years. Winter performance of these pastures have been exceptional. Dryland summer Sorghum has been used as a crop for weaner cattle and young dairy heifers prior to renovating ryegrass pastures, usually 70-150 Ha each year.

The business has paid off $550,000 in principal over the past five years and currently has $650,000 in Farm Management Deposits. Roger thinks a lot about opportunities to expand the existing operation but is reluctant due to concerns about the additional labour and management of that labour that might be necessary to do this.

The productive, and as a consequence, the financial performance of this business is strong but it needs to remain strong to enable Roger and Anne to meet their financial requirements. Continual monitoring of productive and financial importance will be important.

Table 1: Porepunkah Pastoral Business Income Statement

	Year 1 ($)	Year 2 ($)	Year 3 ($)	Year 4 ($)	Year 5 ($)	Average
SALES	**619,371**	**1,027,299**	**1,112,687**	**1,237,900**	**1,282,445**	**1,055,940**
Cattle	411,086	703,029	810,172	922,420	944,985	758,338
Agistment	208,285	324,270	302,515	315,480	337,460	297,602
Other	0	0	0	0	0	0
PURCHASES	**0**	**0**	**0**	**0**	**0**	**0**
Cattle	0	0	0	0	0	0
Agistment	0	0	0	0	0	0
INVENTORY CHANGE	**317,300**	**34,800**	**3,300**	**-42,200**	**-38,700**	**54,900**
Cattle	317,300	34,800	3,300	-42,200	-38,700	54,900
Agistment	0	0	0	0	0	0
GROSS PROFIT	**936,671**	**1,062,099**	**1,115,987**	**1,195,700**	**1,243,745**	**1,110,840**
Cattle	728,386	737,829	813,472	880,220	906,285	813,238
Agistment	208,285	324,270	302,515	315,480	337,460	297,602
Other	0	0	0	0	0	0
ENTERPRISE EXPENSES	**208,273**	**234,966**	**309,627**	**243,309**	**284,369**	**256,109**
Cattle	155,482	157,993	181,143	170,445	216,135	176,240
Agistment	52,791	76,973	128,484	72,864	68,234	79,869
GROSS MARGIN	**728,398**	**827,133**	**806,360**	**952,391**	**959,376**	**854,732**
Cattle	572,904	579,836	632,329	709,775	690,150	636,999
Agistment	155,494	247,297	174,031	242,616	269,226	217,733
Other						
OVERHEAD EXPENSES						
Administration	96,804	56,280	59,463	48,781	53,774	63,020
Depreciation	19,820	20,128	21,889	23,664	22,338	21,568
Electricity & Gas	8,391	9,142	10,207	11,720	12,284	10,349
Fuel & Lubricants	15,068	16,382	14,990	16,590	17,890	16,184
Insurance	9,918	10,719	11,216	12,305	12,944	11,420
Landcare	381	502	1,186	815	505	678
Motor Vehicle Expenses	8,392	8,906	9,457	10,524	12,867	10,029
Pasture	97,081	76,820	104,623	99,016	105,202	96,548
Rates & Rents	44,000	45,627	47,966	51,303	56,602	49,100
R & M General	90,978	82,690	88,701	76,938	84,497	84,761
Wages	0	0	0	0	0	0
Wages (Owner)	148,224	154,821	149,616	159,652	163,377	155,138
Land Lease	0	0	0	0	0	0
	539,057	**482,017**	**519,314**	**511,308**	**542,280**	**518,795**
TOTAL OP. EXPENSES	**747,330**	**716,983**	**828,941**	**754,617**	**826,649**	**774,904**

EBIT	**189,341**	**345,116**	**287,046**	**441,083**	**417,096**	**335,937**

Table 2: Porepunkah Pastoral Business Cashflow Statement

	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $	Average $
Cash flows from operating activities						
Sales - Cattle	411,086	703,029	810,172	922,420	944,985	758,338
Income - Agistment	208,285	324,270	302,515	315,480	337,460	297,602
Sales - Crops	0	0	0	0	0	0
Sales - Other	0	0	0	0	0	0
Total Operating Income	**619,371**	**1,027,299**	**1,112,687**	**1,237,900**	**1,282,445**	**1,055,940**
Livestock Purchases	**0**	**0**	**0**	**0**	**0**	**0**
Enterprise Expenses	**-208,273**	**-234,966**	**-309,627**	**-243,309**	**-284,369**	**-256,109**
Overhead Operating Expenses						
Administration	-96,804	-56,280	-59,463	-48,781	-53,774	-63,020
Electricity & Gas	-8,391	-9,142	-10,207	-11,720	-12,284	-10,349
Fuel & Lubricants	-15,068	-16,382	-14,990	-16,590	-17,890	-16,184
Insurance	-9,918	-10,719	-11,216	-12,305	-12,944	-11,420
Landcare	-381	-502	-1,186	-815	-505	-678
Motor Vehicle Expenses	-8,392	-8,906	-9,457	-10,524	-12,867	-10,029
Pasture	-97,081	-76,820	-104,623	-99,016	-105,202	-96,548
Rates & Rents	-44,000	-45,627	-47,966	-51,303	-56,602	-49,100
R & M General	-90,978	-82,690	-88,701	-76,938	-84,497	-84,761
Wages	0	0	0	0	0	0
Plant & Equipment Lease Costs	0	0	0	0	0	0
Total overhead operating costs	**-371,013**	**-307,068**	**-347,809**	**-327,992**	**-356,565**	**-342,089**
Net cash flow from operating activities	**40,085**	**485,265**	**455,251**	**666,599**	**641,511**	**457,742**

Cash flows from investing activities						
Disposal of capital items	9,000		525	14,870	7,500	
Capex - farm & private vehicles	-22,990	-8,500	-64,255	-35,000	-12,600	
Capex - plant & equipment	-22,518	-17,890	-45,620	-32,809	-143,561	
Capex - infrastructure, improvements	-5,306	-28,454	-23,940	-45,639	-72,868	
Capex - land		-100,000	-50,000	-250,000	-150,000	
Financial Provisioning	250,000	-100,000				
Net cash flow from investing activities	**208,186**	**-254,844**	**-183,290**	**-348,578**	**-371,529**	**-190,011**
Cash flows from financing activities						
Interest on loans	-135,700	-133,900	-128,900	-126,400	-113,900	-127,760
Land lease payments	0	0	0	0	0	0
Net cash flows from financing activities	**-135,700**	**-133,900**	**-128,900**	**-126,400**	**-113,900**	**-127,760**
Net cash flow before tax*	**112,571**	**96,521**	**143,061**	**191,621**	**156,082**	**139,971**
***excludes owners wages and drawings**						

Reconciliation of income and cashflow statements

EARNINGS BEFORE INTEREST AND TAX	**189,341**	**345,116**	**287,046**	**441,083**	**417,096**	**335,937**
Finance Costs	-135,700	-133,900	-128,900	-126,400	-113,900	-127,760
Interest Component of Lease Payments	0	0	0	0	0	0
Inventory Change	-317,300	-34,800	-3,300	42,200	38,700	-54,900
Depreciation	19,820	20,128	21,889	23,664	22,338	21,568
Owner Wages	148,224	154,821	149,616	159,652	163,377	155,138
Fodder & Supplement Adjustment	0	0	0	0	0	0
Plant & Equipment Lease Payments	0	0	0	0	0	0
Capital Expenditure	-41,814	-154,844	-183,290	-348,578	-371,529	-220,011
Financial Provisioning	250,000	-100,000	0	0	0	30,000
NET CASH FLOW BEFORE TAX	**112,571**	**96,521**	**143,061**	**191,621**	**156,082**	**139,971**

Table 3: Porepunkah Pastoral Business Balance Sheet

	Year 1 $	Year 2 $	Year 3 $	Year 4 $	Year 5 $	Average $
ASSETS						
Cash	800,000	550,000	650,000	650,000	650,000	660,000
Plant & Equipment	339,624	330,856	367,226	331,502	315,493	336,940
Livestock	1,475,000	1,792,300	1,827,100	1,830,400	1,788,200	1,742,600
Land & Infrastructure	12,309,863	12,679,158	13,059,533	13,451,319	13,854,859	13,070,946
TOTAL ASSETS	14,924,487	15,352,314	15,903,859	16,263,221	16,608,552	15,810,487
LIABILITIES						
Overdraft	296,540	278,962	114,078	36,589	8,004	146,835
Term Loans	2,480,000	2,480,000	2,380,000	2,330,000	2,080,000	2,350,000
Other Loans	0	0	0	0	0	0
TOTAL LIABILITIES	2,776,540	2,758,962	2,494,078	2,366,589	2,088,004	2,496,835
NET ASSETS (EQUITY)	12,147,947	12,593,352	13,409,781	13,896,632	14,520,548	13,313,652

Key Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Operating Return	1.3%	2.2%	1.8%	2.7%	2.5%	2.1%
Capital Return	2.9%	3.6%	2.3%	2.1%	3.3%	2.8%
Total Business Return	4.1%	5.8%	4.1%	4.8%	5.8%	4.9%
Cost of Capital	4.9%	4.9%	5.2%	5.3%	5.5%	5%
Equity %	81%	82%	84%	85%	87%	84%
Finance Coverage (EBIT/ Finance Costs)	1.4	2.6	2.2	3.5	3.7	2.7

Land & Livestock Data

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
Total Area (Ha)	1,379	1,379	1,379	1,379	1,379	1,379
Effective Area (Ha)	1,279	1,279	1,279	1,279	1,279	1,279
Total Beef Herd DSE	14,831	16,487	16,629	16,442	16,095	16,097
Total Agistment DSE	3,483	5,413	5,820	5,585	6,103	5,281
Total Livestock DSE	18,314	21,899	22,449	22,027	22,198	21,377

*note these are opening values

Table 4: Porepunkah Pastoral Cattle Income Statement

	Year 1 $/DSE	Year 2 $/DSE	Year 3 $/DSE	Year 4 $/DSE	Year 5 $/DSE	Average $/DSE
SALES	**27.72**	**42.64**	**48.72**	**56.10**	**58.71**	**46.78**
Cattle Purhases	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Cattle Inventory Change	**21.40**	**2.11**	**0.20**	**-2.57**	**-2.40**	**3.75**
GROSS PROFIT	**49.11**	**44.75**	**48.92**	**53.54**	**56.31**	**50.53**
ENTERPRISE EXPENSES						
Animal Health	2.08	0.32	0.30	0.36	0.38	**0.69**
Contracting & Mustering	0.35	0.00	0.00	0.00	0.00	**0.07**
Fodder	5.96	7.03	8.24	7.24	9.63	**7.62**
Insurance & Materials	0.26	0.05	0.05	0.03	0.03	**0.08**
Internal Enterprise Freight	0.14	0.00	0.02	0.04	0.01	**0.04**
Marketing & Promotion	0.00	0.00	0.00	0.00	0.00	**0.00**
Selling Costs	1.69	2.15	2.24	2.65	3.30	**2.41**
Supplementation	0.00	0.03	0.05	0.05	0.07	**0.04**
	10.48	**9.58**	**10.89**	**10.37**	**13.43**	**10.95**
GROSS MARGIN	**38.63**	**35.17**	**38.03**	**43.17**	**42.88**	**39.58**
OVERHEAD EXPENSES						
Administration	5.29	2.57	2.65	2.21	2.42	**3.03**
Depreciation	1.08	0.92	0.98	1.07	1.01	**1.01**
Electricity & Gas	0.46	0.42	0.45	0.53	0.55	**0.48**
Fuel & Lubricants	0.82	0.75	0.67	0.75	0.81	**0.76**
Insurance	0.54	0.49	0.50	0.56	0.58	**0.53**
Landcare	0.02	0.02	0.05	0.04	0.02	**0.03**
Motor Vehicle Expenses	0.46	0.41	0.42	0.48	0.58	**0.47**
Pasture	5.30	3.51	4.66	4.50	4.74	**4.54**
Rates & Rents	2.40	2.08	2.14	2.33	2.55	**2.30**
R & M General	4.97	3.78	3.95	3.49	3.81	**4.00**
Wages	0.00	0.00	0.00	0.00	0.00	**0.00**
Wages (Owner)	8.09	7.07	6.66	7.25	7.36	**7.29**
	29.43	**22.01**	**23.13**	**23.21**	**24.43**	**24.44**
TOTAL OPERATING EXPENSES	**39.92**	**31.59**	**34.03**	**33.58**	**37.86**	**35.40**
EARNINGS BEFORE INTEREST & TAX	**9.20**	**13.16**	**14.89**	**19.96**	**18.45**	**15.13**

Beef Enterprise Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
PRIMARY PERFORMANCE INDICATORS						
Average Price Received ($/kg LW sold)	2.48	2.21	2.47	2.68	2.76	**2.52**
Gross Profit ($/kg LW produced)	4.40	2.32	2.48	2.56	2.65	**2.88**
Cost of Production ($/kg LW)	3.57	1.64	1.72	1.60	1.78	**2.06**
Operating Margin ($/kg LW)	0.82	0.68	0.75	0.95	0.87	**0.82**
Kg Beef/DSE	11.17	19.32	19.73	20.95	21.27	**18.49**
Labour Efficiency (DSE/FTE)	12,084	13,433	13,550	13,397	13,114	**13,116**
SECONDARY PERFORMANCE INDICATORS						
Kg Beef/Head Sold (Male)	430	440	410	434	442	**431**
Kg Beef/Head Sold (Female)	410	422	390	405	416	**409**
Annual Average Stocking Rate (DSE/Ha)	14.3	17.1	17.6	17.2	17.4	**16.7**
Enterprise Size (Annual Avg DSE)	14,831	16,487	16,629	16,442	16,095	**16,097**
Reproductive Rate	0.95	0.91	0.96	0.91	0.92	**0.93**
Mortality Rate	0.5%	0.9%	0.9%	0.6%	0.8%	**0.7%**

Table 5: Porepunkah Pastoral Dairy Heifer Income Statement

	Year 1 $/DSE	Year 2 $/DSE	Year 3 $/DSE	Year 4 $/DSE	Year 5 $/DSE	Average $/DSE
Income - agistment payments	**59.79**	**59.91**	**51.98**	**56.49**	**55.29**	**56.69**
GROSS PROFIT	**59.79**	**59.91**	**51.98**	**56.49**	**55.29**	**56.69**
ENTERPRISE EXPENSES						
Animal Health	1.27	1.23	1.13	1.31	1.36	**1.26**
Contracting & Mustering	0.00	0.00	0.00	0.00	0.00	**0.00**
Fodder	13.88	12.99	20.95	11.74	9.82	**13.87**
Insurance & Materials	0.00	0.00	0.00	0.00	0.00	**0.00**
Internal Enterprise Freight	0.00	0.00	0.00	0.00	0.00	**0.00**
Marketing & Promotion	0.00	0.00	0.00	0.00	0.00	**0.00**
Selling Costs	0.00	0.00	0.00	0.00	0.00	**0.00**
Supplementation	0.00	0.00	0.00	0.00	0.00	**0.00**
	15.16	**14.22**	**22.08**	**13.05**	**11.18**	**15.14**
GROSS MARGIN	**44.64**	**45.69**	**29.90**	**43.44**	**44.11**	**41.56**
OVERHEAD EXPENSES						
Administration	5.29	2.57	2.65	2.21	2.42	**3.03**
Depreciation	1.08	0.92	0.98	1.07	1.01	**1.01**
Electricity & Gas	0.46	0.42	0.45	0.53	0.55	**0.48**
Fuel & Lubricants	0.82	0.75	0.67	0.75	0.81	**0.76**
Insurance	0.54	0.49	0.50	0.56	0.58	**0.53**
Landcare	0.02	0.02	0.05	0.04	0.02	**0.03**
Motor Vehicle Expenses	0.46	0.41	0.42	0.48	0.58	**0.47**
Pasture	5.30	3.51	4.66	4.50	4.74	**4.54**
Rates & Rents	2.40	2.08	2.14	2.33	2.55	**2.30**
R & M General	4.97	3.78	3.95	3.49	3.81	**4.00**
Wages	0.00	0.00	0.00	0.00	0.00	**0.00**
Wages (Owner)	8.09	7.07	6.66	7.25	7.36	**7.29**
	29.43	**22.01**	**23.13**	**23.21**	**24.43**	**24.44**
TOTAL OPERATING EXPENSES	**44.59**	**36.23**	**45.21**	**36.26**	**35.61**	**39.58**
EARNINGS BEFORE INTEREST & TAX	**15.21**	**23.68**	**6.77**	**20.23**	**19.68**	**17.11**

Beef Enterprise Performance Indicators

	Year 1	Year 2	Year 3	Year 4	Year 5	Average
PRIMARY PERFORMANCE INDICATORS						
Average Price Received ($/kg LW sold)	N/A	N/A	N/A	N/A	N/A	**N/A**
Gross Profit ($/kg LW produced)	N/A	N/A	N/A	N/A	N/A	**N/A**
Cost of Production ($/kg LW)	N/A	N/A	N/A	N/A	N/A	**N/A**
Operating Margin ($/kg LW)	N/A	N/A	N/A	N/A	N/A	**N/A**
Kg Beef/DSE	N/A	N/A	N/A	N/A	N/A	**N/A**
Labour Efficiency (DSE/FTE)	2,838	4,410	4,742	4,551	4,973	**4,303**
SECONDARY PERFORMANCE INDICATORS						
Kg Beef/Head Sold (Male)	N/A	N/A	N/A	N/A	N/A	**N/A**
Kg Beef/Head Sold (Female)	N/A	N/A	N/A	N/A	N/A	**N/A**
Annual Average Stocking Rate (DSE/Ha)	14.3	17.1	17.6	17.2	17.4	**16.7**
Enterprise Size (Annual Avg DSE)	3,483	5,413	5,820	5,585	6,103	**5,281**
Reproductive Rate	N/A	N/A	N/A	N/A	N/A	**N/A**
Mortality Rate	N/A	N/A	N/A	N/A	N/A	**N/A**

9.5 MLA Feedback articles

9.5.1 Feedback article 1: June/July 2018 Feedback Magazine

ON FARM
NATIONAL

BUSINESS MANAGEMENT

Putting the success into succession

A new study has shed light on the tactics that can lead to business succession plans which satisfy all stakeholders in a new farm succession project.

The project, a partnership between MLA Donor Company (MDC) and Meridian Agriculture, developed a series of case studies on businesses which had survived successive generations. The factors examined were those which led to a range of outcomes, from continuing to operate in the same way through to selling up.

Sixteen family-owned Australian farming businesses were thoroughly analysed for the report, which is now available online. Eight of those businesses are continuing and the balance were sold, deemed non-viable or have had significant changes in direction.

"In most cases the aims of all the businesses were the same: to ensure sufficient funds to retire, to hand over a viable farm, and to ensure that all members of the family are happy," project manager Mike Stephens from Meridian Agriculture said.

The case studies helped debunk some long-held beliefs, which included:

- **Get big or get out.** This could be replaced with 'get efficient or get out'.
- **You cannot fund retirement, pass on a viable farm and treat your children equally.** These can be achieved by: starting at an early age to build the business, handing over to the next generation early, encouraging family members to earn off-farm income, and using the relevant skills and talents of all family members to achieve agreed goals.
- **Keep the family capital as a single unit.** Maintaining the capital in a block may result in growth if the number of family grows faster than the capital value grows (in real terms), but eventually the asset will have to be sold or some of the shareholders bought out.
- **Maintain 80% equity.** It was shown that 80% equity is an indication of 'lazy capital'. The equity carried by producers involved in successful farm succession has mostly been between 60% and 70%, and an average return on capital of 14%/year has been achieved over the last 20 years.

With these findings in mind, the report also highlighted important contrasts between continuing and non-continuing businesses within the case studies:

- **Teamwork and involving the next generation.** The case studies highlight the importance of working together as a family unit to grow the business, and involving the next generation early on to ensure smooth succession.
- **Agreement on the end game.** In succession, it's important that all family members agree on the end game, and are happy with the outcomes of succession. Compare the approach to succession of two sets of brothers, in case studies where both pairs farmed together from an early age. One set of brothers used their combined talents so the inevitable split would be orderly and advantageous to all. 'It took about an hour to agree', and each member of the family got what they wanted. In contrast, another family endured 20 years of arguments to eventually agree to appoint a liquidator to sell and distribute the assets. The family lost about 40% of its wealth in the split, and no one got what they wanted. ■

Contrasting attributes of farm succession outcomes

Business continuing	Business not continuing
Determination to provide choices	Belief that retirement funds, a viable farm and a happy family, together, are not achievable
Intelligent leadership	Autocratic, patriarchal behaviour
History of well thought-out succession	Poor history of succession
Progressive farm management	Doing things the way they've always been done
Focus on the customer	What customer?
Intelligent use of capital	Using capital to support lifestyle
Prepared to have debt, maintaining low equity	Debt-averse, maintaining 'lazy capital'
Deliberate strategy to encourage stakeholders	Strategy to keep stakeholders off-farm and disengaged
Managing with humility, quietly going about your business	Maintaining position in the family and society as somebody important
Determination not to 'live like peasants'	Determination not to 'look like peasants'
Common end-game goals	No agreement about end-game goals

RESEARCH IN REVIEW

PROJECT NAME
Farm success enabling

RESEARCH ORGANISATIONS
Meridian Agriculture

FUNDING ORGANISATIONS
MLA Donor Company and Meridian Agriculture

GOAL
To develop case studies on successful and unsuccessful farm succession situations as examples to industry.

BUDGET
$172,000

DURATION
2016–2018

KEY FINDINGS
- Successful farm business successions share key attributes.
- Unsuccessful farm business successions fail for varied reasons.
- Long-held beliefs were debunked.

Mike Stephens
E: mstephens@meridian-ag.com.au

Read the case studies at: meridian-ag.com.au

9.5.2 Article 2: June/July 2018 Feedback Magazine

ON FARM
SOUTHERN SHEEP AND CATTLE

BUSINESS MANAGEMENT

Starting with a blank canvas

The crucial point in planning for succession for producers Mark and Anna Gubbins has been to lift any weight of expectation from the shoulders of the next generation.

"When I first came home to the farm, my grandfather issued me a warning about the sheep stud. He said, 'that's your legacy, don't bugger it up!' And they're pretty heavily-weighted words in regard to his thinking," Mark said.

"Anna and I didn't want our two sons (Max and Ben, pictured below with Mark and Anna) to be constrained by history (which dates back to 1930). We decided to take the buckets off them, tip them out and allow them to fill them up again in their own way."

'Emptying the bucket' was an extraordinary act, considering it involved selling their cattle genetics business and dispersing their stud herd at the peak of cattle prices in 2017. Building up the stud and the herd had taken much of Mark and Anna's focus in their 30 years of farming, and was the income generator which funded business expansion.

The eventual decision was to disperse the stud, and the family agreed they would do whatever was required to bring a large number of cattle onto the market in a short time (less than six months). It was a lot of work.

"We were pretty busy, but it's organisation, it's planning, it's management. You spend the time with your staff and say 'look, in sale week this is what's going to happen: these cattle are going to walk through a process of paddocks to the sale ring, they're going to be available for everyone to look at on the way, but there's this step process that we've got to do and we've all got to know what we're doing and we've all got to know when it's going to happen," Mark said.

In the end, 1,500 lots went up for sale in four days last March, including live cattle, embryos and semen. Each lot was sold through the ring individually. In order to avoid flooding the market, younger bulls were held back until September.

Now a purely commercial enterprise, the sale allowed the family to put money into superannuation for Mark and Anna, reduce labour inputs and free up capital for the next generation to set up their businesses using the land base.

They have put some succession models in place, including a trustee management company, and a management company over the whole business with corporate trustees. This structure allows flexibility when required for the future of the business. ■

Mark Gubbins
E: mark@coolana.com

SNAPSHOT:

Mark and Anna Gubbins,
Chatsworth, Victoria, and Coorong, South Australia

Area:
2,600ha at Chatsworth and 4,000ha at Coorong

Enterprise:
Self-replacing prime lambs and commercial beef

Livestock:
Chatsworth – 4,800 sheep and 1,800 cattle
Coorong – 1,350 cattle

Pasture:
Chatsworth – cocksfoot, phalaris, ryegrass and sub-clover with 250ha of lucerne. Coorong – lucerne and veldt grass pasture mixes.

Soil:
Chatsworth – ironstone gravel and basalt loams
Coorong – sandy soils on limestone.

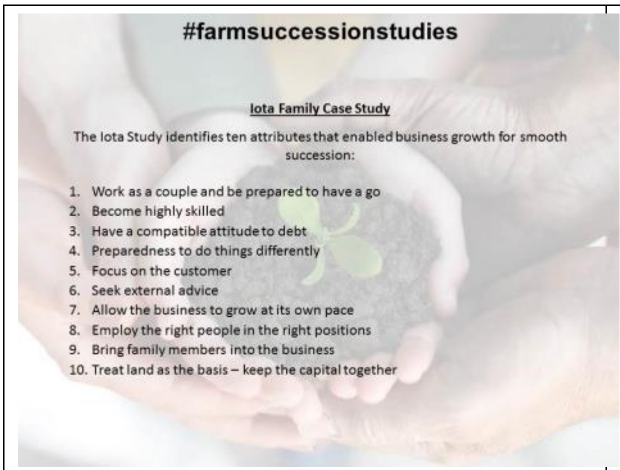
Rainfall:
Chatsworth – 550mm
Coorong – 480mm

LESSONS LEARNED

- Allow the next generation to create their own business.
- Freeing up capital provides more flexibility in the way assets can be handed over to non-farming offspring.
- If you take advantage of a market high, be prepared to wait for a low to restock. In the short term, renovate some pastures and either short-term lease or take on agistment.

9.6 Social Media Posts

Image & Key learnings	Social Media Results
General Post Mike Stephens 16 Farm Succession Case Studies examine the approaches to succession throughout successive generations and contrast the skill, attitudes, attributes and actions of Australian family owned farming businesses. More at info https://goo.gl/eVXRkY **#farmsuccession**	**Date:** 6 Feb 2018 **Facebook:** • Reach: 183 • Link clicks: 15 **Twitter:** • Impressions: 817 • Link Clicks: 23 • Likes & Retweets :4
General Post: Great coverage of Mike Stephens Succession Case Studies in Rennylea's Newsletter - for more information on the Case Studies visit http://www.meridian-ag.com.au/the-library/current-projects/farm-success-enabling-case-studies/ … **#farmsuccession**	**Date: 7 Feb 2018** **Facebook:** • Reach: 109 • Link clicks: 7 **Twitter:** • Impressions: 708
EVENT REMINDER - it's not too late to register for the succession planning webinar Mike Stephens is running next Tuesday titled Succession Planning - dos and don'ts from the people who have been there and done that. More info at http://www.meridian-ag.com.au/farm-succession-webinars/ …	**Date:** 6 Apr 2018 **Twitter:** • Impressions: 494 • Retweets: 2 • Likes: 2
IOTA: The following images were placed on Facebook & Twitter with the below phrase: The Iota family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY	
	Case Study: IOTA 1 Date: 6 Mar 2018 **Facebook:** • Reach: 119 • Link Clicks: 2 **Twitter:** • Impressions: 992 • Link Clicks: 23 • Retweets: 2



Case Study: IOTA 2

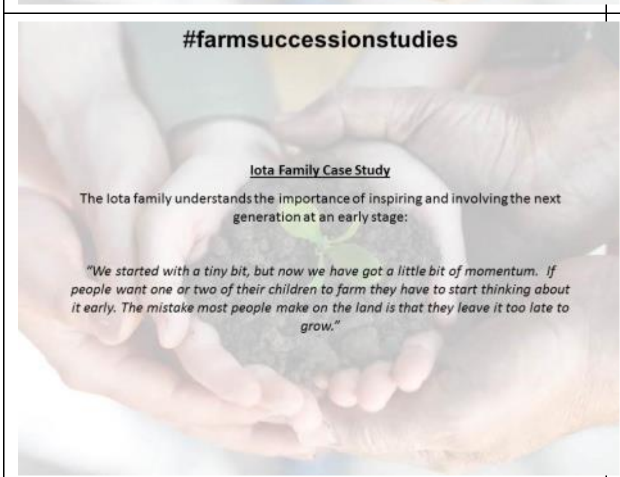
Date: 7 Mar 2018

Facebook:

- Reach: 113

Twitter:

- Impressions: 1071
- Link clicks: 10
- Likes: 8
- Retweets: 3



Case Study: IOTA 3

Date: 9 Mar 2018

Facebook:

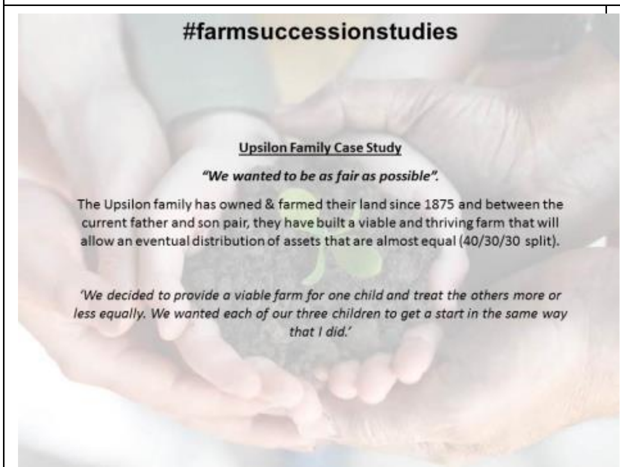
- Reach: 104

Twitter:

- Impressions: 408

UPSILON: The following images were placed on Facebook & Twitter with the below phrase:

The Upsilon family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY



Case Study: UPSILON 1

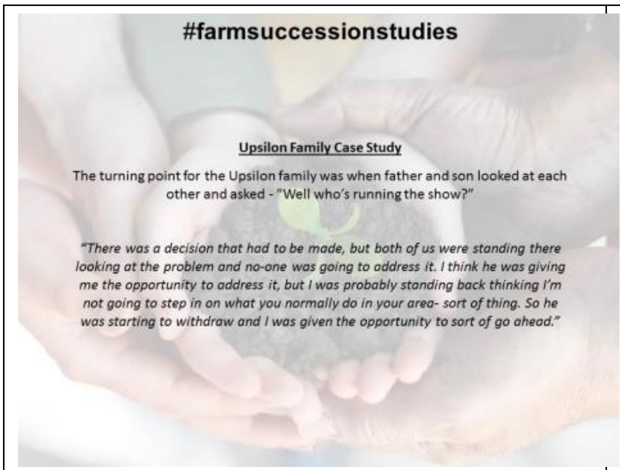
Date: 19 Mar 2018

Facebook:

- Reach: 197
- Link Clicks: 11

Twitter:

- Impressions: 1,361
- Link Clicks:9
- Likes: 3
- Retweets: 2



Case Study: UPSILON 2

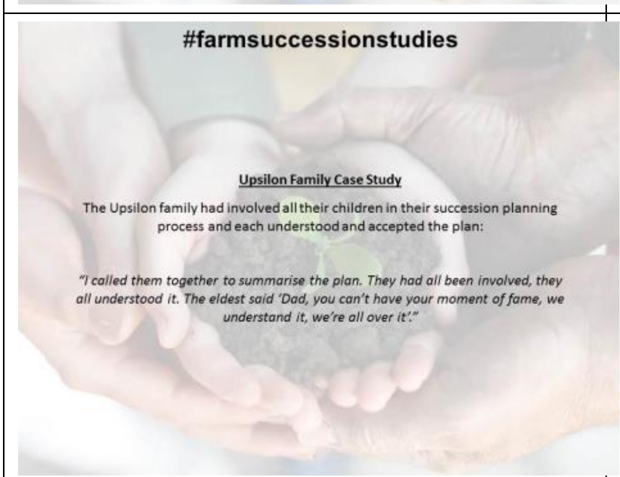
Date: 21 Mar 2018

Facebook:

- Reach: 126
- Link Clicks: 1

Twitter:

- Impressions: 452
- Likes: 2
- Link Clicks: 6



Case Study: UPSILON 3

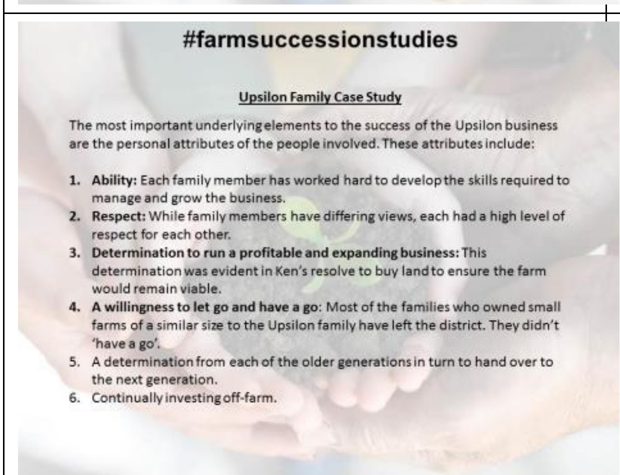
Date: 22 Mar 2018

Facebook:

- Reach: 104

Twitter:

- Impressions: 254



Case Study: UPSILON 4

Date: 23 Mar 2018

Facebook:

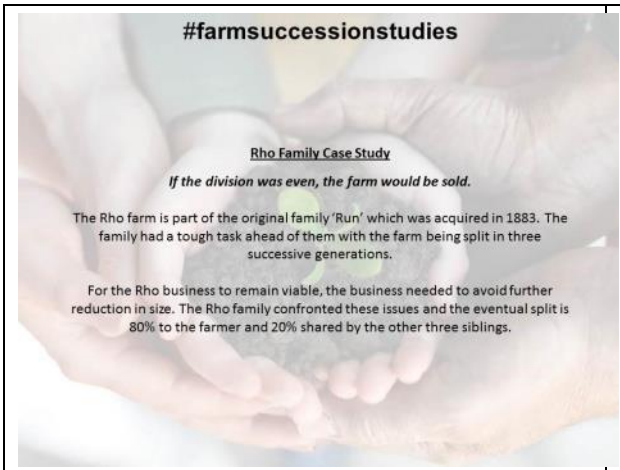
- Reach: 128
- Link Clicks: 2

Twitter:

- Impressions: 248
- Likes: 1

RHO: The following images were placed on Facebook & Twitter with the below phrase:

The Rho family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY



Case Study: RHO 1

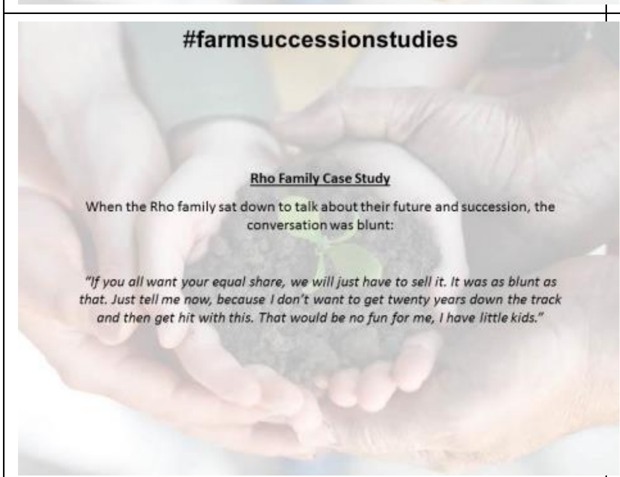
Date: 27 Mar 2018

Facebook:

- Reach: 133
- Link Clicks: 5

Twitter:

- Impressions: 237
- Likes: 1
- Link clicks: 2



Case Study: RHO 2

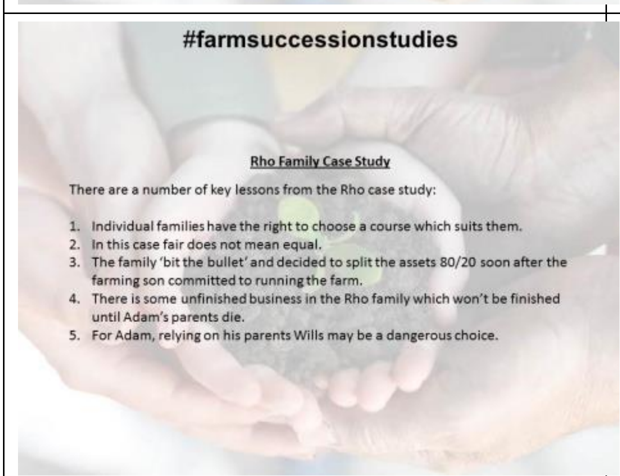
Date: 28 Mar 2018

Facebook:

- Reach: 100

Twitter:

- Impression: 211



Case Study: RHO 3

Date: 30 Mar 2018

Facebook:

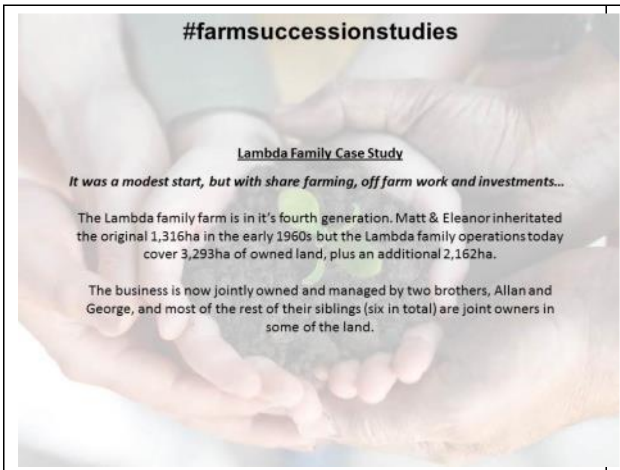
- Reach: 115
- Link Clicks: 2

Twitter:

- Impressions: 504
- Likes: 3
- Link Clicks: 6
- Retweets: 1

LAMBDA: The following images were placed on Facebook & Twitter with the below phrase:

The Lambda family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY



Case Study: LAMBDA 1

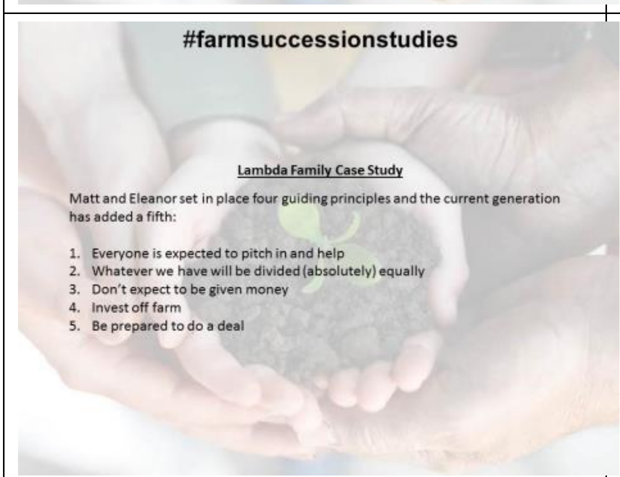
Date: 4 Apr 2018

Facebook:

- Reach: 149
- Likes: 1
- Shares: 1

Twitter:

- Impressions: 196



Case Study: LAMBDA 2

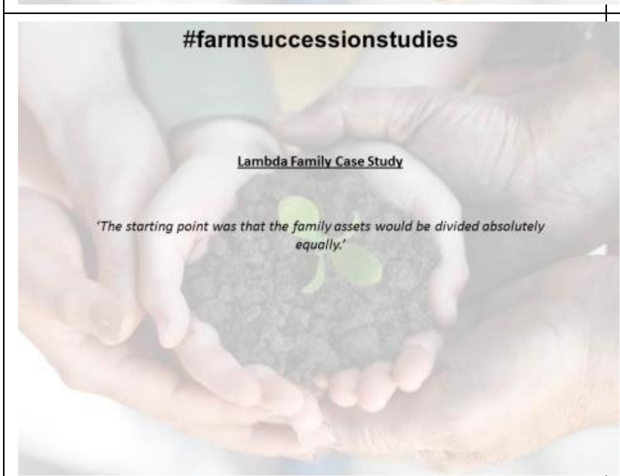
Date: 5 Apr 2018

Facebook:

- Reach: 101

Twitter:

- Impressions: 230



Case Study: LAMBDA 3

Date: 6 Apr 2018

Facebook:

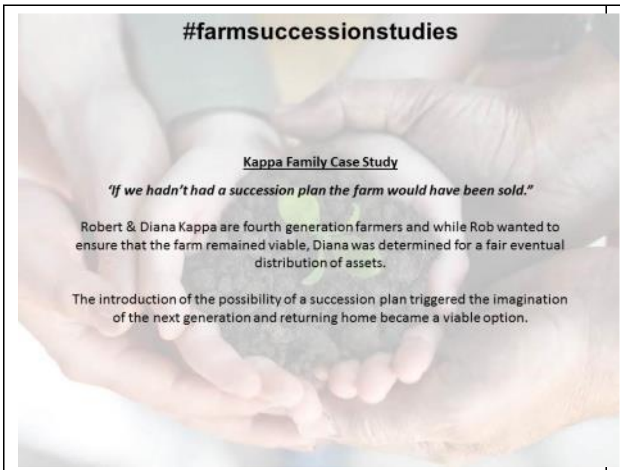
- Reach: 128
- Likes: 1

Twitter:

- Impressions: 210

KAPPA: The following images were placed on Facebook & Twitter with the below phrase:

The Kappa family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY



Case Study: KAPPA 1

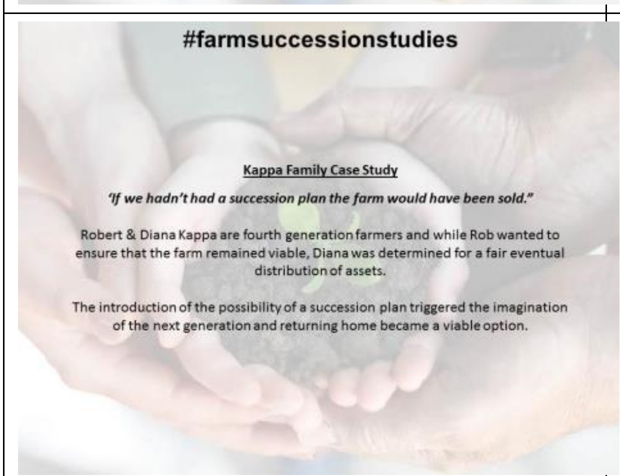
Date: 10 Apr 2018

Facebook:

- Reach: 106

Twitter:

- Impressions: 241



Case Study: KAPPA 2

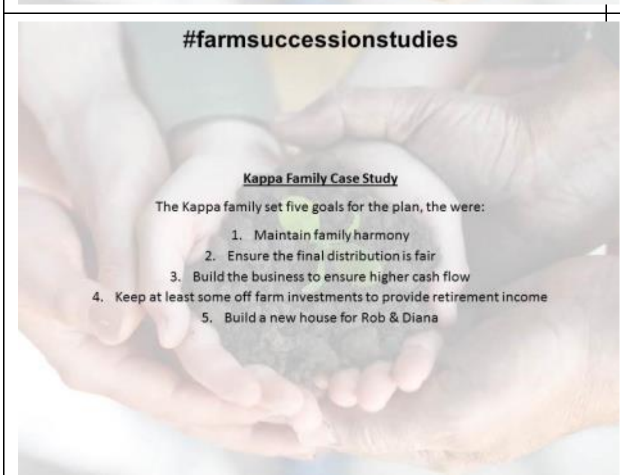
Date: 12 Apr 2018

Facebook:

- Reach: 96

Twitter:

- Impressions: 230



Case Study: KAPPA 3

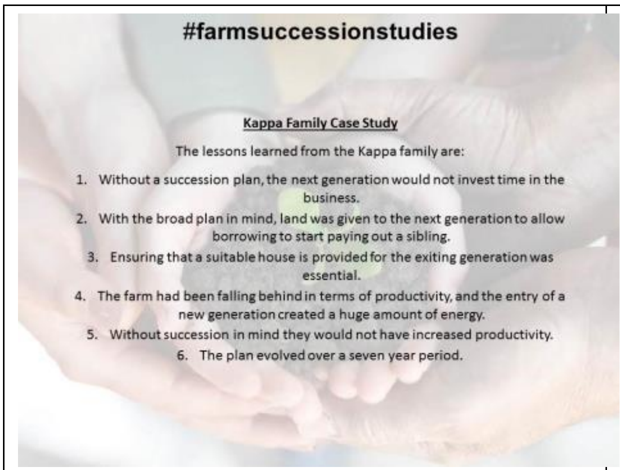
Date: 13 Apr 2018

Facebook:

- Reach: 92

Twitter:

- Impressions: 212
- Link clicks: 3



Case Study: KAPPA 4

Date: 13 Apr 2018

Facebook:

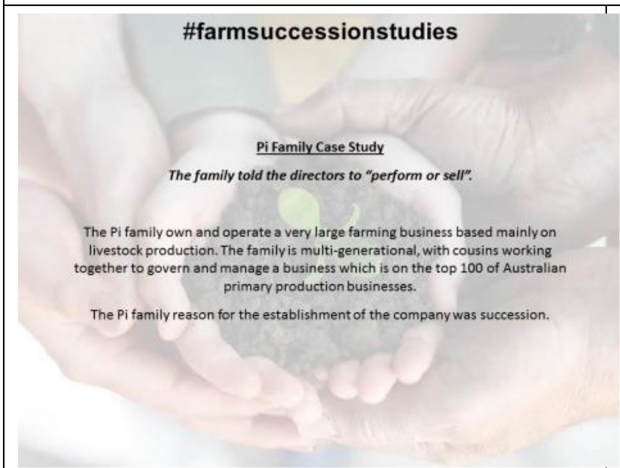
- Reach: 80

Twitter:

- Impressions: 208
- Link Clicks: 1

PI: The following images were placed on Facebook & Twitter with the below phrase:

The Pi family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY



Case Study: PI 1

Date: 16 Apr

Facebook:

- Reach: 177
- Likes: 1
- Link Clicks: 2

Twitter:

- Impressions: 284
- Likes: 1

Case Study: PI 2

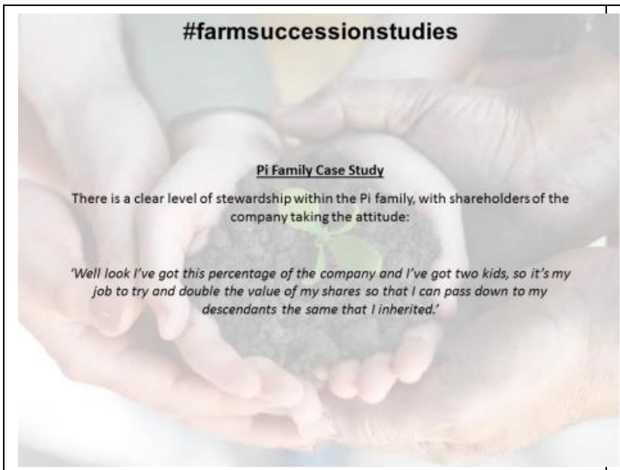
Date: 18 Apr

Facebook:

- Reach: 89

Twitter:

- Impressions: 200
- Likes: 1



Case Study: PI 3

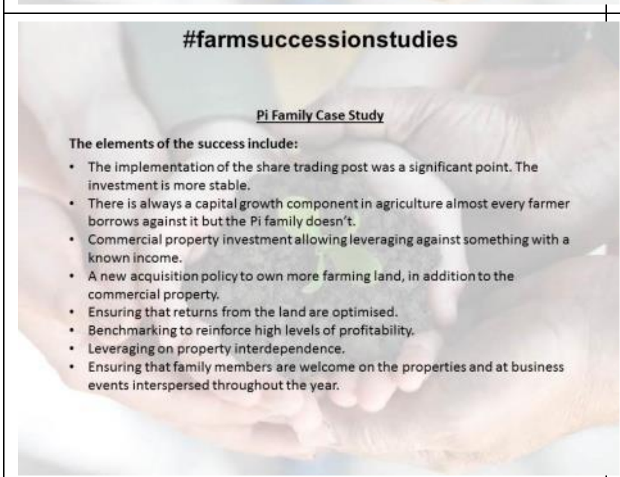
Date: 27 Apr 2018

Facebook:

- Reach: 99

Twitter:

- Impressions: 175



Case Study: PI 4

Date: 27 Apr 2018

Facebook:

- Reach: 109

Twitter:

- Impressions: 502
- Likes: 3
- Retweets: 1

Mu: The following images were placed on Facebook & Twitter with the below phrase:

The Mu family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY

EVENT REMINDER - it's not too late to register for the succession planning webinar Mike Stephens is running next Tuesday titled Succession Planning - what to do when you don't know where to start. More info at http://www.meridian-ag.com.au/farm-succession-webinars/ …

Date: 1 May 2018

Facebook:

- Reach: 112

Twitter:

- Impressions: 885
- Link Clicks: 8
- Likes: 3
- Retweets: 3

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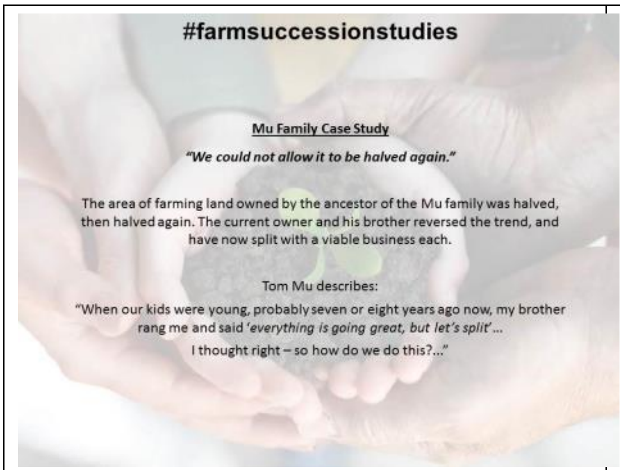
<td>
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<td>Case Study: MU 1
Date: 1 May 2018
Facebook:
Reach: 112
Twitter:
Impressions: 396
Link Clicks: 1
Likes: 1</td>
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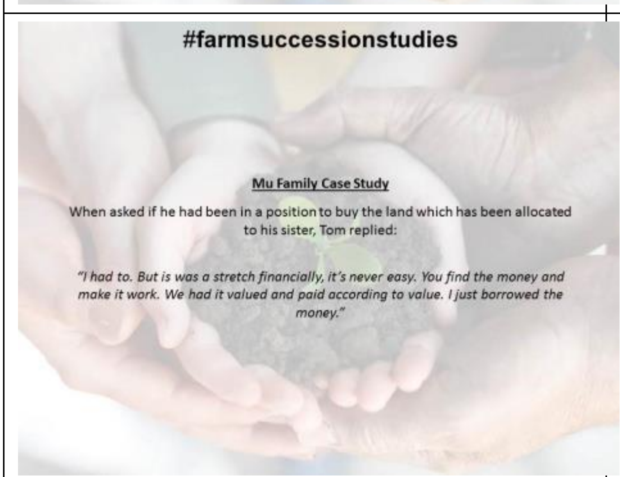
<td>
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<td>Case Study: MU 2
Date: 2 May 2018
Facebook:
Reach: 105
Twitter:
Impressions: 360</td>
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<td>Case Study: MU 3
Date: 3 May 2018
Facebook:
Reach: 129
Twitter:
Impressions: 412</td>
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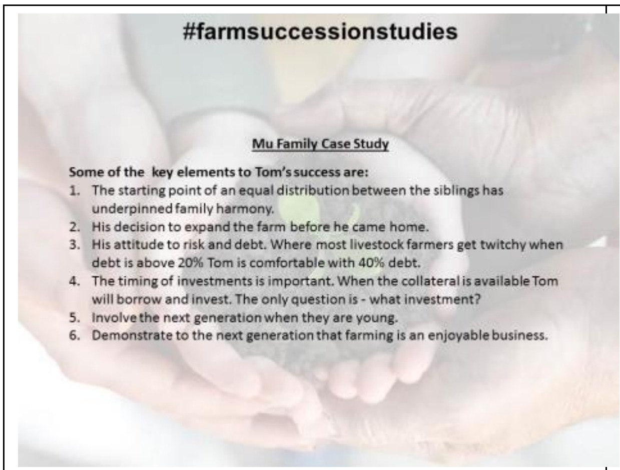
<td>
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<td>Case Study: MU 4
Date: 4 May 2018
Facebook:
Reach: 104
Twitter:
Impressions: 973
Link clicks: 14
Retweets: 3
Likes: 2
Hashtag clicks: 2</td>
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<td>EVENT REMINDER - it's not too late to register for the succession planning webinar Mike Stephens is running tomorrow titled Succession Planning - what to do when you don't know where to start. More info at http://www.meridian-ag.com.au/farm-succession-webinars/ …</td>
<td>Date: 7 May 2018
Facebook:
Reach: 130
Twitter:
Impressions: 468
Likes: 3</td>
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The Sigma family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY</td>
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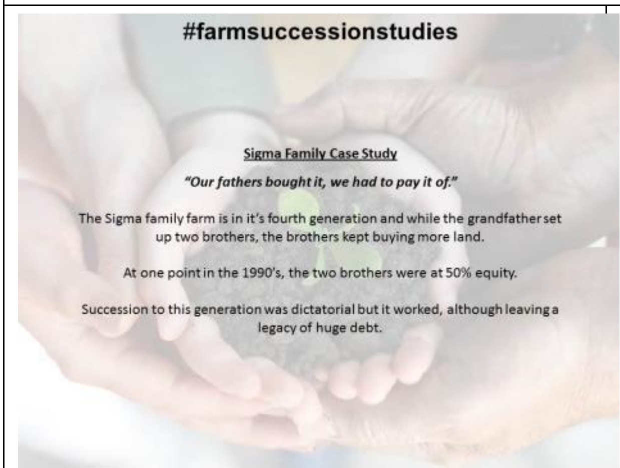
<td>
</td>
<td>Case Study: SIGMA 1
Date: 8 May 2018
Facebook:
Reach: 112
Twitter:
Impressions: 525
Link clicks: 6
Retweets: 1
Likes: 4</td>
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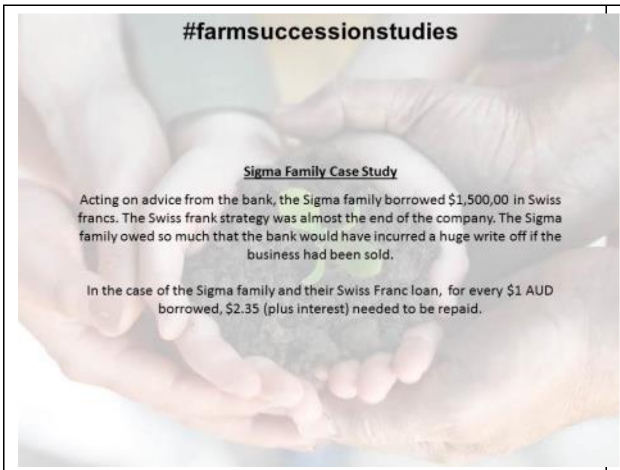


Case Study: SIGMA 2

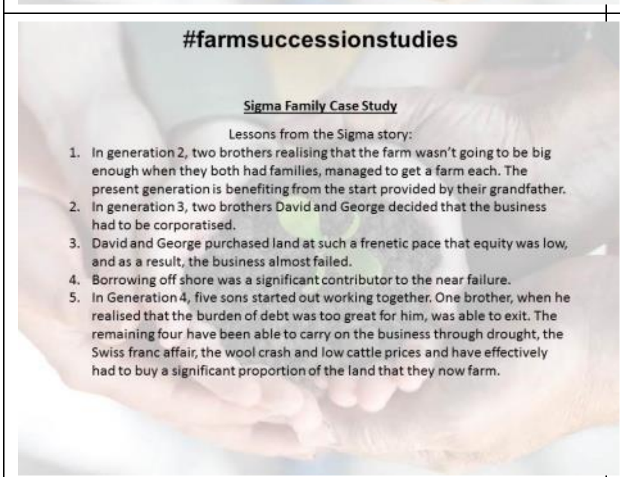
Date: 11 May 2018

Facebook:

- Reach: 109

Twitter:

- Impressions: 431
- Link clicks: 61



Case Study: SIGMA 3

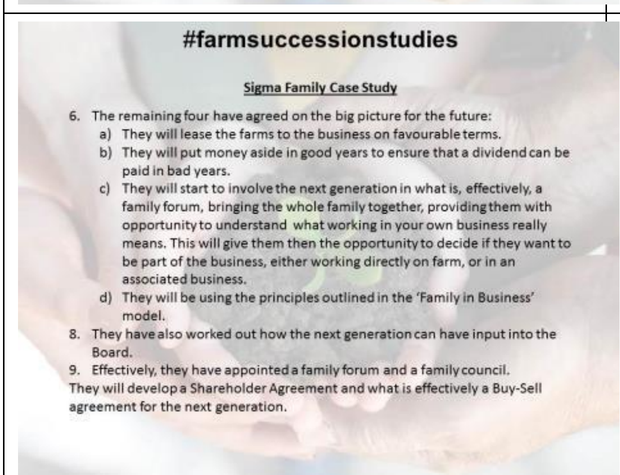
Date: 22 May 2018

Facebook:

- Reach: 124

Twitter:

- Impressions: 368



Case Study: SIGMA 4

Date: 25 May 2018

Facebook:

- Reach: 106

Twitter:

- Impressions: 431
- Link clicks: 1

Epsilon: The following images were placed on Facebook & Twitter with the below phrase:

The Epsilon family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY

Case Study: EPSILON 1

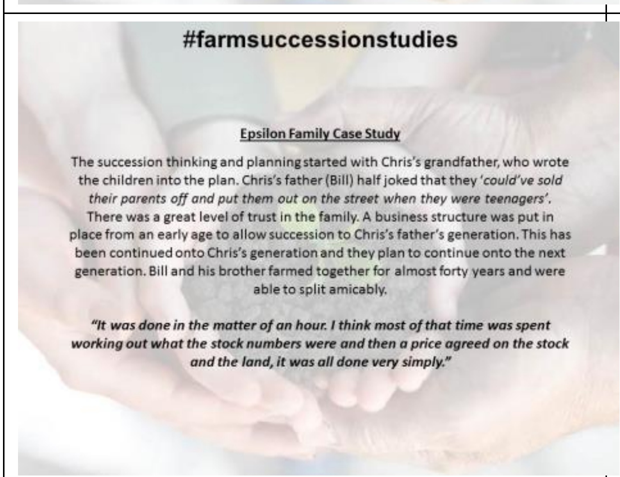
Date: 4 Jun 2018

Facebook:

- Reach: 132

Twitter:

- Impressions: 475



Case Study: EPSILON 2

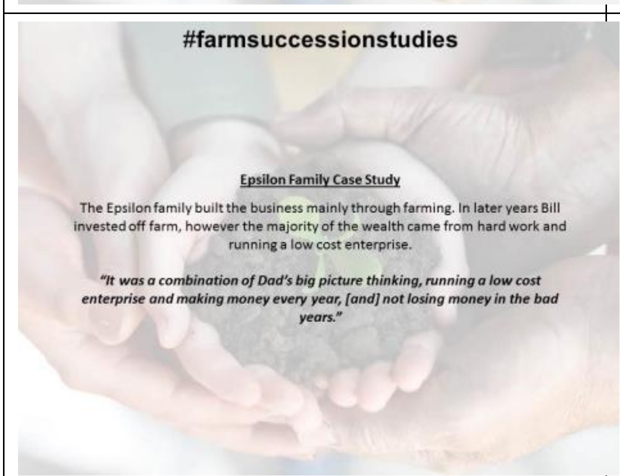
Date: 6 Jun 2018

Facebook:

- Reach: 122

Twitter:

- Impressions: 360
- Link clicks: 1



Case Study: EPSILON 3

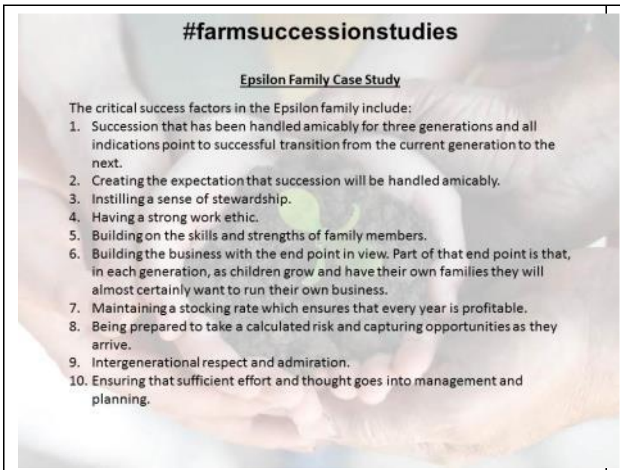
Date: 8 Jun 2018

Facebook:

- Reach: 100

Twitter:

- Impressions: 397
- Link clicks: 2
- Likes: 1



Case Study: EPSILON 4

Date: 13 Jun 2018

Facebook:

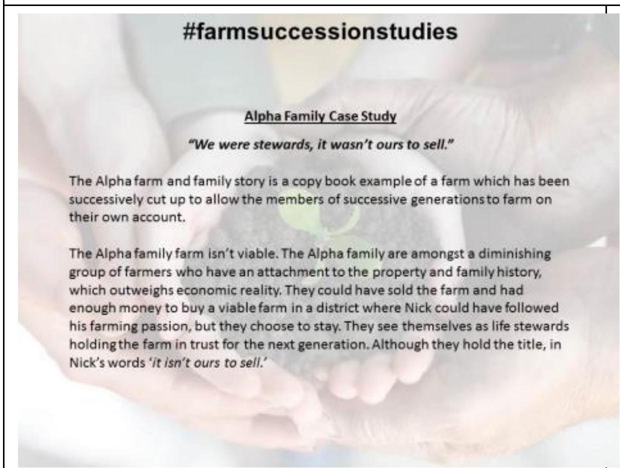
- Reach: 107

Twitter:

- Impressions: 382
- Link clicks: 1

Alpha: The following images were placed on Facebook & Twitter with the below phrase:

The Alpha family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY



Case Study: ALPHA 1

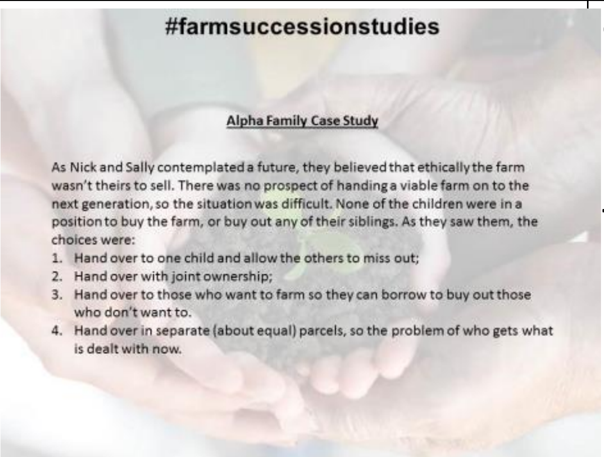
Date: 19 Jun 2018

Facebook:

- Reach: 117

Twitter:

- Impressions: 909
- Link clicks: 13
- Likes: 4
- Retweets: 2
- Hashtag clicks: 2



Case Study: ALPHA 2

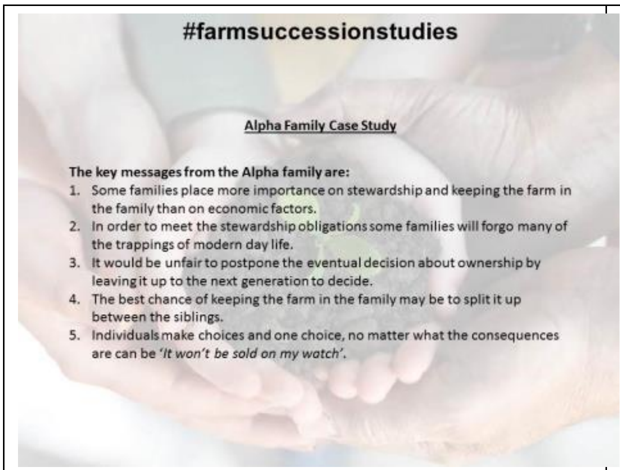
Date: 21 Jun 2018

Facebook:

- Reach: 197

Twitter:

- Impressions: 1,434
- Link clicks: 6
- Likes: 2
- Retweets: 2
- Hashtag clicks: 2



Case Study: ALPHA 3

Date: 22 Jun 2018

Facebook:

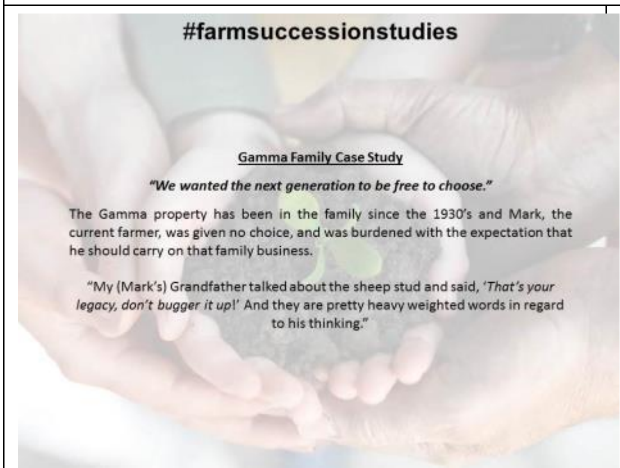
- Reach: 128

Twitter:

- Impressions: 1,660
- Link clicks: 16
- Likes: 4
- Retweets: 2
- Hashtag clicks: 1

Gamma: The following images were placed on Facebook & Twitter with the below phrase:

The Gamma family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY



Case Study: GAMMA 1

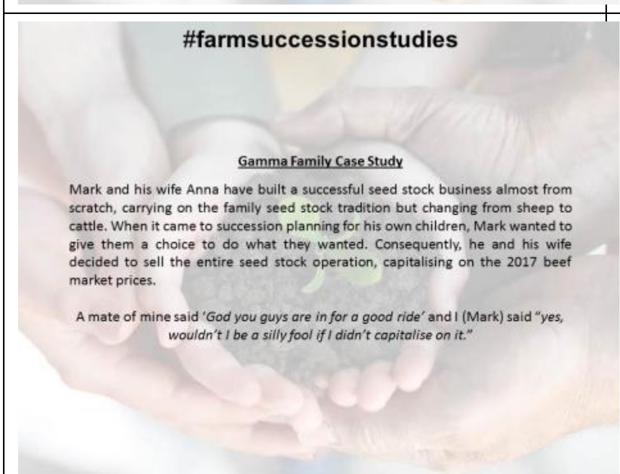
Date: 25 Jun 2018

Facebook:

- Reach: 138

Twitter:

- Impressions: 477
- Link clicks: 6
- Replies: 1
- Likes: 1



Case Study: GAMMA 2

Date: 27 Jun 2018

Facebook:

- Reach: 104

Twitter:

- Impressions: 776
- Link clicks: 12
- Likes: 2
- Retweets: 1
- Hashtag clicks: 1

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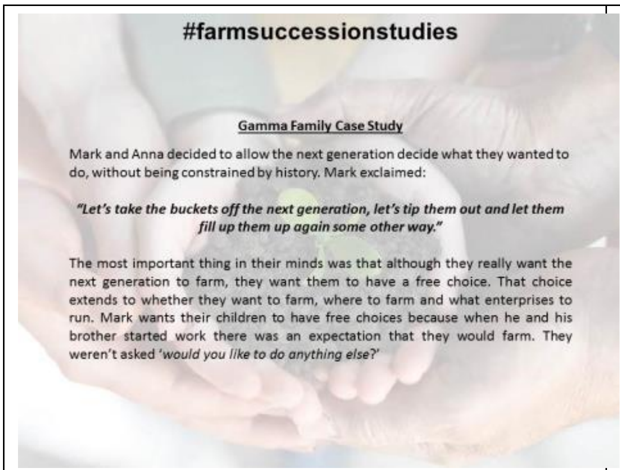
<td>
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Date: 3 Jul 2018
Facebook:
Reach: 130
Twitter:
Impressions: 870
Link clicks: 4
Likes: 3
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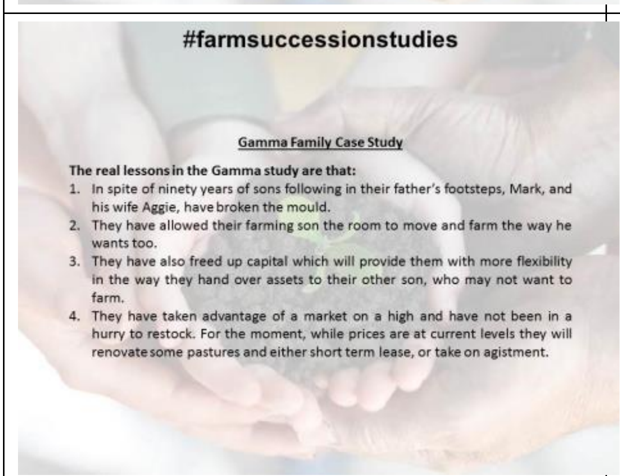
<td>
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Date: 5 Jul 2018
Facebook:
Reach: 135
Twitter:
Impressions: 527
Link clicks: 1
Likes: 1
Retweets: 1
Hashtag clicks: 2</td>
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The Zeta family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY</td>
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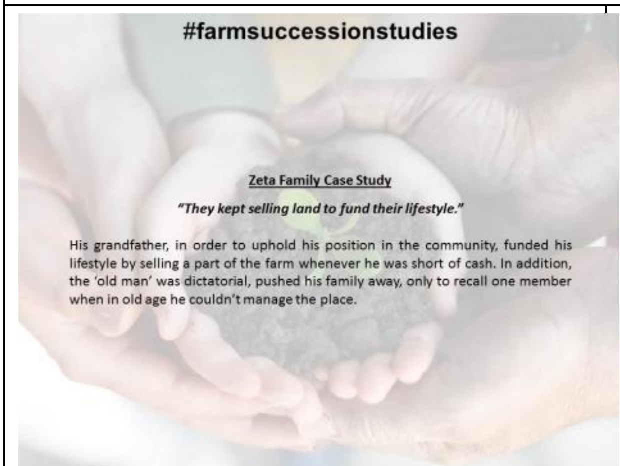
<td>
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<td>Case Study: ZETA 1
Date: 10 Jul 2018
Facebook:
Reach: 117
Twitter:
Impressions: 408
Link clicks: 1</td>
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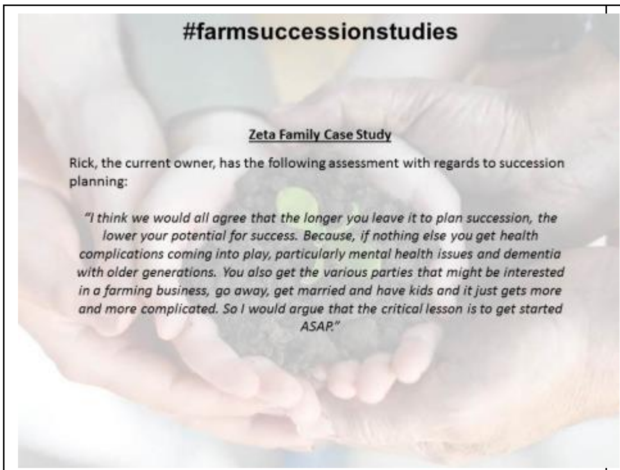


Case Study: ZETA 2

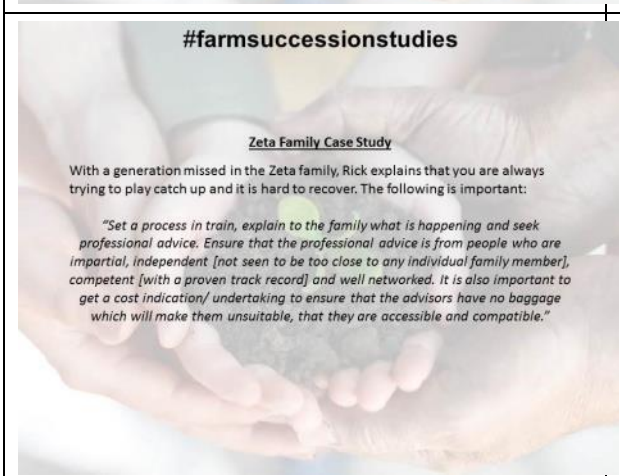
Date: 11 Jul 2018

Facebook:

- Reach: 114

Twitter:

- Impressions: 557
- Likes: 1
- Retweets: 1



Case Study: ZETA 3

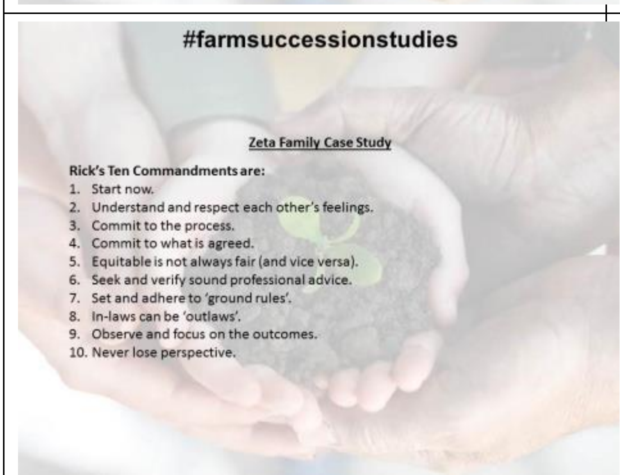
Date: 13 Jul 2018

Facebook:

- Reach: 99

Twitter:

- Impressions: 373
- Link clicks: 1



Case Study: ZETA 4

Date: 27 Aug 2018

Facebook:

- Reach: 166

Twitter:

- Impressions: 885
- Link clicks: 9
- Retweets: 1
- Likes: 1

ON FARM
NATIONAL

BUSINESS MANAGEMENT

Putting the success into succession

A new study has shed light on the tactics that can lead to business succession plans which satisfy all stakeholders in a new farm succession project.

The project, a partnership between MLA Donor Company (MDC) and Meridian Agriculture, developed a series of case studies on businesses which had survived successive generations. The factors examined were those which led to a range of outcomes, from continuing to operate in the same way through to selling up.

Sixteen family-owned Australian farming businesses were thoroughly analysed for the report, which is now available online. Eight of those businesses are continuing and the balance were sold, deemed non-viable or have had significant changes in direction.

"In most cases the aims of all the businesses were the same: to ensure sufficient funds to retire, to hand over a viable farm, and to ensure that all members of the family are happy," project manager Mike Stephens from Meridian Agriculture said.

The case studies helped debunk some long-held beliefs, which included:

- **Get big or get out.** This could be replaced with 'get efficient or get out'.
- **You cannot fund retirement, pass on a viable farm and treat your children equally.** These can be achieved by: starting at an early age to build the business, handing over to the next generation early, encouraging family members to earn off-farm income, and using the relevant skills and talents of all family members to achieve agreed goals.
- **Keep the family capital as a single unit.** Maintaining the capital in a block may result in growth if the number of family grows faster than the capital value grows (in real terms), but eventually the asset will have to be sold or some of the shareholders bought out.
- **Maintain 80% equity.** It was shown that 80% equity is an indication of 'lazy capital'. The equity carried by producers involved in successful farm succession has mostly been between 60% and 70%, and an average return on capital of 14%/year has been achieved over the last 20 years.

With these findings in mind, the report also highlighted important contrasts between continuing and non-continuing businesses within the case studies:

- **Teamwork and involving the next generation.** The case studies highlight the importance of working together as a family unit to grow the business, and involving the next generation early on to ensure smooth succession.
- **Agreement on the end game.** In succession, it's important that all family members agree on the end game, and are happy with the outcomes of succession. Compare the approach to succession of two sets of brothers, in case studies where both pairs farmed together from an early age. One set of brothers used their combined talents so the inevitable split would be orderly and advantageous to all. 'It took about an hour to agree', and each member of the family got what they wanted. In contrast, another family endured 20 years of arguments to eventually agree to appoint a liquidator to sell and distribute the assets. The family lost about 40% of its wealth in the split, and no one got what they wanted. ■

Contrasting attributes of farm succession outcomes

Business continuing	Business not continuing
Determination to provide choices	Belief that retirement funds, a viable farm and a happy family, together, are not achievable
Intelligent leadership	Autocratic, patriarchal behaviour
History of well thought-out succession	Poor history of succession
Progressive farm management	Doing things the way they've always been done
Focus on the customer	What customer?
Intelligent use of capital	Using capital to support lifestyle
Prepared to have debt, maintaining low equity	Debt-averse, maintaining 'lazy capital'
Deliberate strategy to encourage stakeholders	Strategy to keep stakeholders off-farm and disengaged
Managing with humility, quietly going about your business	Maintaining position in the family and society as somebody important
Determination not to 'live like peasants'	Determination not to 'look like peasants'
Common end-game goals	No agreement about end-game goals

RESEARCH IN
REVIEW

PROJECT NAME
Farm success enabling

RESEARCH ORGANISATIONS
Meridian Agriculture

FUNDING ORGANISATIONS
MLA Donor Company and Meridian Agriculture

GOAL
To develop case studies on successful and unsuccessful farm succession situations as examples to industry.

BUDGET
$172,000

DURATION
2016–2018

KEY FINDINGS
- Successful farm business successions share key attributes.
- Unsuccessful farm business successions fail for varied reasons.
- Long-held beliefs were debunked.

Mike Stephens
E: mstephens@meridian-ag.com.au

Read the case studies at:
meridian-ag.com.au

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See article from the recent Feedback magazine around the series of case studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses & their approach to succession. More info at https://goo.gl/eVXRkY **#farmsuccessionstudies** pic.twitter.com/HoceV6q8E2

Date: 11 Sep 2018

Facebook:

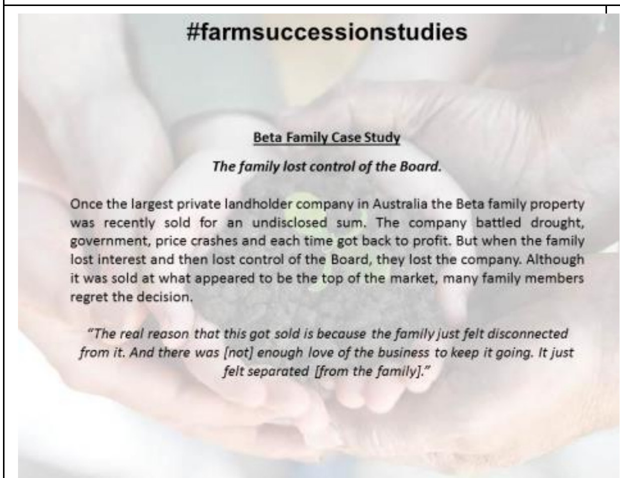
- Reach: 164

Twitter:

- Impressions: 736
- Link clicks: 5
- Retweets: 1
- Likes: 4

Beta: The following images were placed on Facebook & Twitter with the below phrase:

The Beta family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY



Case Study: BETA 1

Date: 13 Sep 2018

Facebook:

- Reach: 105

Twitter:

- Impressions: 534
- Link clicks: 4

Case Study: BETA 2

Date: 14 Sep 2018

Facebook:

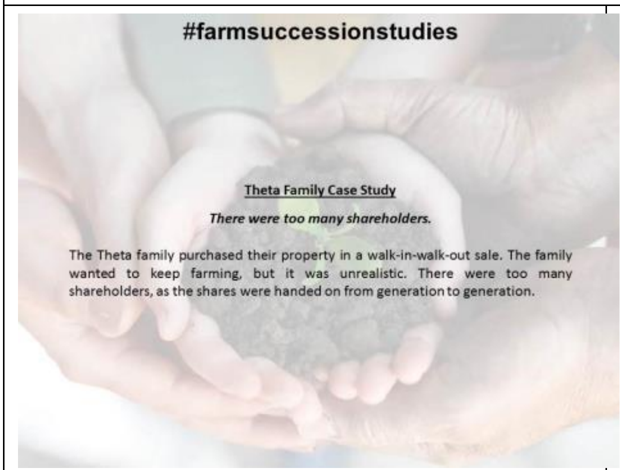
- Reach: 94

Twitter:

- Impressions: 1,608
- Link clicks: 8
- Retweets: 4
- Hashtag clicks: 4
- Likes: 2

Theta: The following images were placed on Facebook & Twitter with the below phrase:

The Theta family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY



Case Study: THETA 1

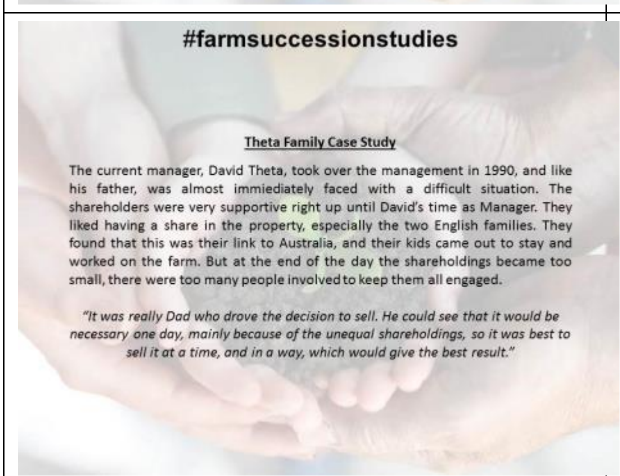
Date: 20 Sep 2018

Facebook:

- Reach: 100

Twitter:

- Impressions: 567
- Link clicks: 2
- Likes: 2
- Retweets: 1



Case Study: THETA 2

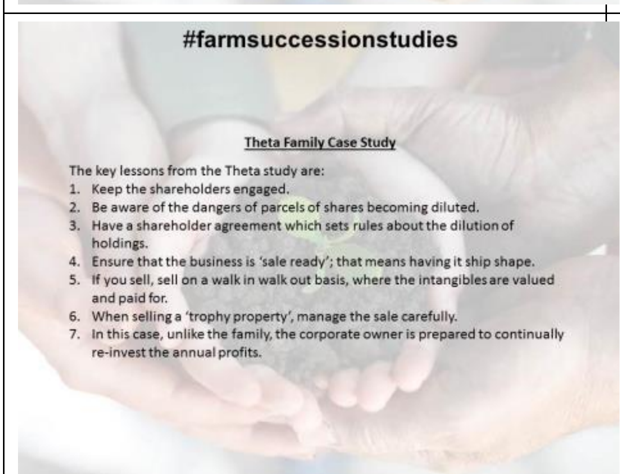
Date: 21 Sep 2018

Facebook:

- Reach: 114

Twitter:

- Impressions: 463



Case Study: THETA 3

Date: 26 Sep 2018

Facebook:

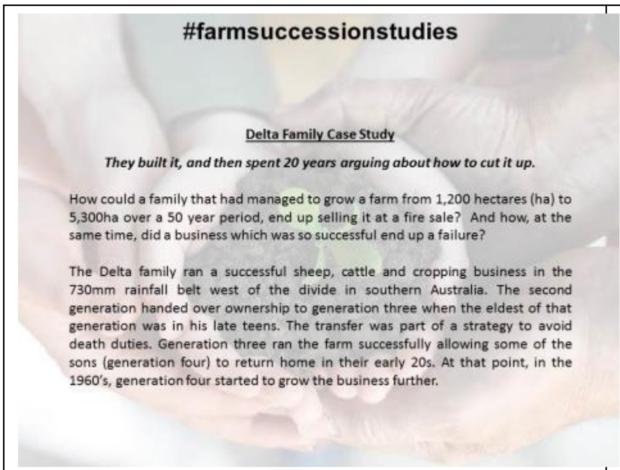
- Reach: 90

Twitter:

- Impressions: 303

Delta: The following images were placed on Facebook & Twitter with the below phrase:

The Delta family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY



Case Study: DELTA 1

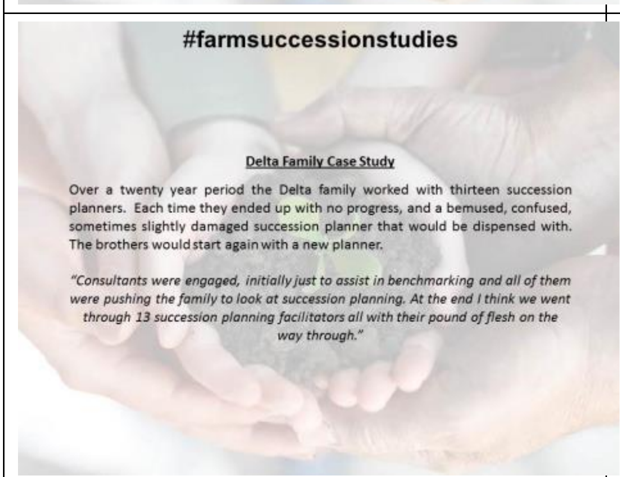
Date: 4 Oct 2018

Facebook:

- Reach: 154

Twitter:

- Impressions: 324
- Link clicks: 1



Case Study: DELTA 2

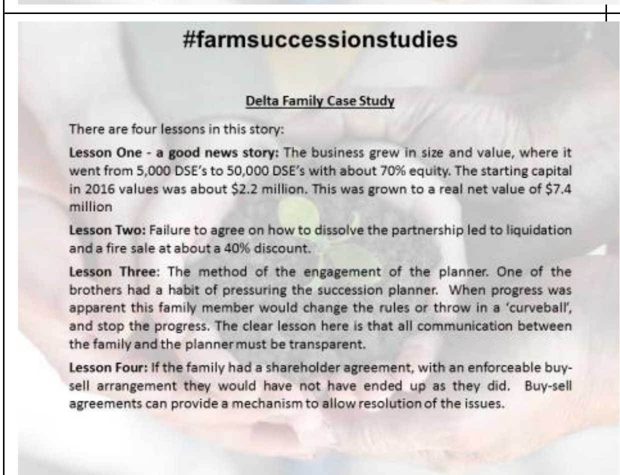
Date: 5 Oct 2018

Facebook:

- Reach: 136

Twitter:

- Impressions: 1,761
- Link clicks: 26
- Retweets: 3
- Likes: 3



Case Study: DELTA 1

Date: 10 Oct 2018

Facebook:

- Reach: 160

Twitter:

- Impressions: 324
- Likes: 1

Tau: The following images were placed on Facebook & Twitter with the below phrase:

The Tau family case study forms part of a series of studies completed by Mike Stephens that analyse the approaches of 16 family owned Australian farm businesses and their approach to succession. More info and a copy of the studies are available at https://goo.gl/eVXRkY

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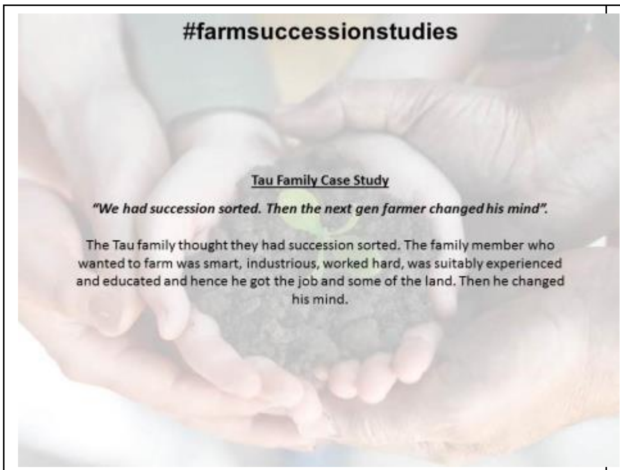
<td>
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Date: 18 Oct 2018
Facebook:
Reach: 122
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Impressions: 211</td>
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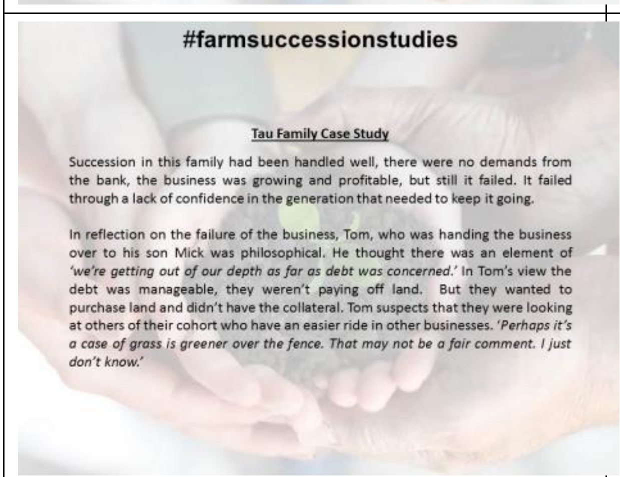
<td>
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Date: 19 Oct 2018
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Reach: 101
Twitter:
Impressions: 260
Link clicks: 1
Likes: 1
Retweets: 1</td>
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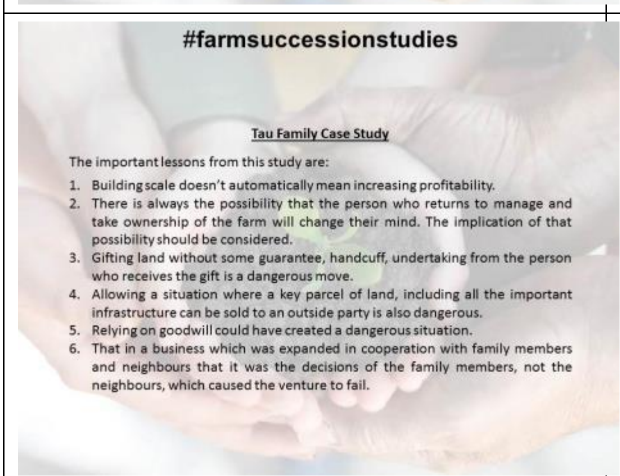
<td>
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Date: 16 Nov 2018
Facebook:
Reach: 127
Twitter:
Impressions: 329
Link clicks: 1
Likes: 1</td>
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9.7 Newsletter Articles (Meridian Ag)

1. Introductory Article – Spring 2017 (circulated Sep 2017)

Farm Succession

Regular readers of this newsletter will be aware that Mike Stephens is involved in a study on Family Farm Succession. Some readers have taken part in this study. The study, which is supported by the MLA Donor Company, has involved a series of case studies comparing the attributes, attitudes and actions of families who have handed over a viable farm with those who haven't. The studies, which cover several generations, are measured against the three aims of having sufficient funds for retirement, handing on a viable farm and providing for the next generation in a way which ensures that they are happy with their deal, both now and in the future. Although the complete cross study analysis is not yet available, there are some strong attributes emerging which seem to be of equal importance. The first is for the family to have the end game in mind. If that end game is the three aims, the family investments have to grow in a way which allows flexibility in the way the assets can be split up at some time in the future. This may be done by investing an off farm assets or by adding farm land which can be split from the core at a future date. The second attribute is to ensure cohesion between and within the generations. The business needs to steadily grow to achieve the three aims and this won't happen unless there is absolute commitment from all involved. The third attribute is respect and trust between and within the generations. We will follow the progress of Mike's study in future editions.

2. Article 2 – Summer 2017 (circulated December 2017)

Some Comparisons from Succession Case Studies – Pt 1

Some farming families manage to keep a viable farm in the family for generations and keep the non-farmers in the family happy. Other families don't. The differences are contrasted in the Farm Success Enabling Case Studies. Some of these case studies illustrate a business that continues successfully over multiple generations, some don't continue on in the same way, and some don't continue at all.

The case studies are based on intensive studies of sixteen, family owned, Australian farming businesses, selected from a list of fifty businesses. The studies consider the approaches to succession throughout successive generations. They contrast the attitudes, attributes and actions of people within each business. Eight will continue, while the other eight businesses have been sold, have remained in the family but are no longer viable, or have had significant changes in direction. To protect the privacy of the participants, a letter of the Greek alphabet has been used for the name of each family.

The business success is measured against the stated aims of each family. In most of the case studies the family aims are to; ensure sufficient funds to retire, to hand over a viable farm, and to ensure that all members of the family are happy. The aim has been to share the family wealth as near to equally as possible whilst achieving the three previously mentioned aims. In one case, the Rho family, the viability of the farm took precedence over the near equal distribution, and that has been accepted by the family concerned.

The Lambda study demonstrates a successful business growth strategy, with growth achieved while maintaining the enterprise mix. The business is now jointly owned and managed by two brothers, and most of their siblings are joint owners in a portion of the land. There are mechanisms in place to ensure that, if in future, any do want to sell, both a valuation and the timing can be agreed.

Other businesses have growth strategies which have included the development of a bull breeding business (the Iota family), significant off farm investment (the Mu family), brothers working together and building on their individual strengths (the Epsilon family). In the Sigma family brothers aggressively bought land and left it up to the next generation to pay for it. It nearly ended in failure when they borrowed heavily off shore.

Delta and Epsilon had similar histories. In the Delta family, which is continuing, the brothers agreed on the end game and the family split was easy, however in the Epsilon family it was hostile and led to business failure.

Table 1, below, contrasts a series of attributes which were common to businesses that were continuing, with those that are not or are no longer viable (not continuing).

Table 1: Contrasting Attributes of Continuing and Not Continuing Businesses.

Business continuing	Business not continuing
Intelligent leadership	Autocratic, patriarchal behaviour
A history of well thought out succession	Poor history of succession
Progressive farm management	Doing things the way we always did
A focus on the customer	What customer?
The intelligent use of capital	Using capital to support the lifestyle
Preparedness to go into debt and maintain low equity	Totally debt adverse and maintaining lazy capital in the business
Deliberate strategies to encourage stakeholders	A strategy of keeping stakeholders off farm and disengaged
Managing with humility and quietly going about your business	Maintaining your position in the family and society as somebody very important
A determination not to **live** like peasants	A determination not to **look** like peasants
A common end game goal	No agreement about the end game

More detail about the differences which enabled success and failure can be found in the next issue. Further information and a copy of the Summary Case Studies is available on the Meridian Agriculture website.

For a set of the full Case Studies (free of charge) please contact Meridian Agriculture on – 03 5341 6100.

The case studies, which form part of a larger study, have been funded by Meridian Agriculture and the MLA Donor Company.

3. Article 3 – Autumn 2018 (circulated in March 2018)

Some Comparisons from Succession Case Studies – Pt 2

Few farm businesses in Australia pass smoothly from one generation to the next. The Farm Success Enabling Case Studies summarise the approach of sixteen, family owned, Australian businesses towards succession planning, contrasting the attitudes, attributes and actions of people within each business.

With the stated aims for each family identified previously, the case studies have helped to debunk some common truisms within the industry. Some of these include:

- **Get big or get out** – could be replaced with 'get efficient or get out'. The Sigma and Tau family studies identified that an undercapitalised small business will become more inefficient if it tries to achieve scale, before it has achieved efficient use of capital. Similarly the Iota and Lambda family studies showed that the efficient use of capital can fuel expansion.
- **You cannot fund retirement, pass on a viable farm and treat your children equally (the three aims)** – as identified in the case studies of the Mu, Upsilon, and Epsilon families, the three aims of the family can be achieved by: starting at an early age to build the business; handing over to the next generation early; encouraging family members to earn off farm income; and using all the relevant skills and talents of family members to achieve agreed goals.
- **Keep the family capital in a block** – The Theta study shows that whilst maintaining the capital in a block may give growth if the family grows (in number) faster than the capital grows (in value in real terms), eventually the asset will have to be sold or some of the shareholders bought out.
- **Maintain 80% equity** – As was demonstrated with the Mu family study, 80% equity is an indication of 'lazy capital'. The equity has mostly been between 60% and 70%, and an average return on capital of 14% per year has been achieved over the last 20 years.

With these in mind, let's further examine some important contrasts of continuing and non-continuing businesses within the case study series:

Control of the Board and Shareholder engagement: The case studies highlight the importance of keeping control of the Board and ensuring shareholders are engaged. Two families, in the farming business since the 1800's, employed people from outside the family at a senior level. The Beta family relied heavily on external advice and consequently lost control of the Board, the family became disenchanted and the business was sold. In contrast, the Pi family kept control of the Board, and ensured family members had a keen interest in the business. The Pi family business is thriving.

Team work & involving the next generation: The case studies serve to highlight the importance of working together as a family unit to grow the business, and involving the next generation early on to ensure smooth succession. The Iota family business started small and now supports eight people including four members of the founding family. In contrast, the Zeta business started as a large business, but has shrunk and is now requires off farm income to rebuild infrastructure and support the family. The principle in the Zeta family was autocratic in his leadership style, and the next generation were chased away.

Agreement on the end game: In succession, it is important that all family members agree on the end game, and are happy with the outcomes of succession. Contrast two sets of brothers who farmed together from an early age and their approach to succession. The Epsilon brothers used their combined talents so the inevitable split would be orderly and advantageous to all. 'It took about an hour to agree' and each member of the family got what they wanted. In contrast, the Delta brothers took twenty years of argument to eventually agree to appoint a liquidator to sell and distribute the assets. The family lost about 40% of its wealth in the split, and no one got what they wanted.

A copy of the case studies and an analysis of 'success versus failure' is available at http://www.meridian-ag.com.au/the-library/current-projects/farm-success-enabling-case-studies/

9.8 Rennylea Succession articles

9.8.1 Article 1: Summer 2018

Rennylea Focus | Integrity | Performance | Profit | Commitment | Innovation 10

FARM SUCCESSION - WHAT DOES BEST PRACTICE LOOK LIKE?

In succession planning at Rennylea we are using a number of advisors and mentors to guide our processes. One of these is Mike Stephens, well known agricultural consultant, former Executive Director of the Beef Improvement Association and confidant to us over many years. Mike is currently writing a study on modern day succession planning and what best practice looks like. He contrasts it with the not so successful outcomes and highlights the attributes of the businesses that are successfully transitioning to a next generation vs those that are not. We are one of the 16 case studies.

Table 1: Contrasting Attributes of Continuing and Not Continuing Businesses.

Business continuing	Business not continuing
Intelligent leadership	Autocratic, patriarchal behaviour
A history of well thought out succession	Poor history of succession
Progressive farm management	Doing things the way we always did
A focus on the customer	What customer?
The intelligent use of capital	Using capital to support the lifestyle
Preparedness to go into debt and maintain low equity	Totally debt adverse and maintaining lazy capital in the business
Deliberate strategies to encourage stakeholders	A strategy of keeping stakeholders off farm and disengaged
Managing with humility and quietly going about your business	Maintaining your position in the family and society as somebody very important
A determination not to **live** like peasants	A determination not to **look** like peasants
A common end game goal	No agreement about the end game

From our experience, there are a number of important principles:

i. You cannot start too early, in our case we commenced the process in 2011, and are now on five year cycles in terms of checking in with where each person in the family is up to, their goals and aspirations.
ii. Formal meetings, agenda and notes are very important. There are no 'cattle yard conversations'.
iii. Each person is respected, and it is understood that fair is not always the same.

9.8.2 Artcle 2: Winter 2018

Rennylea Focus | Integrity | Performance | Profit | Commitment | Innovation 3

THE BUSINESS CYCLE, CHOOSE TO GROW OR DECLINE IN EACH GENERATION

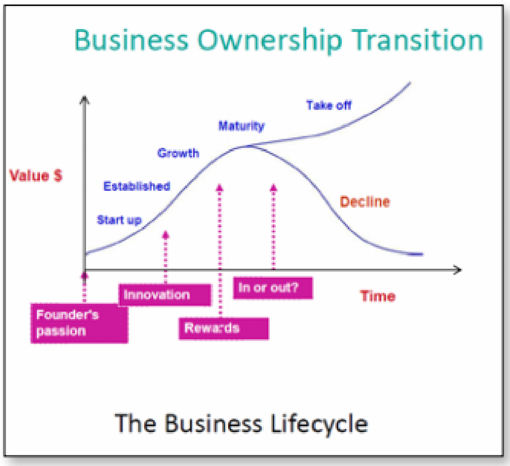
There are small numbers of businesses large and small which thrive over many generations. On the New York Stock Exchange, the Dow Jones Index is made up of 30 significant companies. Only 1, General Electric, has lasted the 121 years since the weighted index was invented by Charles Dow in 1896. And, spectacularly, GE is being 'booted off the Dow' at the beginning of July.

In the human world, communities of citizens that have long survival are called 'blue zones'. In the corporate world it is rare. However in Australian Agribusiness, it is a relatively common phenomenon.

Last newsletter, Summer 2018 (page 10), I wrote about the recent study by Meridian Agricultural Consultants on Succession in Aus Ag. The case studies from this project are on the Meridian website. Also there are 2 webinars which cover the findings, produced by Meat and Livestock Australia in conjunction with Meridian. Go to Meridian homepage, click on Library and then on Farm Success Enabling Case Studies.

Business reinvention needs to be conscious and engage with all parties as new generations come in to take the reins.

At Rennylea we are ensuring that the values, purpose and energy within the business are renewed as we pass the reins to Generation 5 of our family at Rennylea. The new arrangements are outlined below.



The Business Lifecycle

9.9 Charles Stewart Article

FIVE CHOICES

The first in a series of five articles on succession planning by Mike Stephens of Meridian Agriculture
This series rests heavily on articles written by Mike Stephens for Murray Dairy

It should be understood and acknowledged that managing a farm business is complex. In an attempt to further understand that complexity the author, who commenced work as a farm manager 1967 and finished in 1983 has completed a series of sixteen major and one hundred minor farm business case studies. The studies were supported by the MLA Donor Company. Following his career as a farm manager, the author founded Meridian Agriculture.

This is the first of the series of articles which have been heavily influenced by the case studies and which link the tasks of leadership (long-term business vision, looking at the horizon) and management (the here and now and the bottom line), with the day-to-day roles and responsibilities of people in a business. In part, they are about succession and estate planning.

The series links together the decision-making tasks at a strategic, tactical and operational level, with leadership, (Chair and Board), management, (CEO) and operational (operation managers and operator) roles. All the decisions, at each level, need to be linked with the aims of the farming family and the choices they have. Effectively the choices (as depicted below in Figure 1) are:

- Retire, die, sell, (in any order)
- Hand over the farm to one child with the others unhappy
- Hand over to one or more children with all happy
- Build a multigenerational business
- Build and sell a going concern.

Figure 1: Five Choices

Each of the five choices requires a different strategy:

1. Retire, die, sell (in any order): In this scenario you go on farming and the farm will be sold to fund your superannuation, or you will die first and it will be sold to fund your partner's superannuation, or you will both die and the farm will be sold and your children will inherit the money.

2. Hand over the farm to one child with all others unhappy: In this scenario, the choice is made to handover to one child and leave the rest of the family unhappy with the result. This is often what happens when succession is handled badly.

3. Hand over to one or more children with all happy: The scenario requires careful long term planning to ensure that there are sufficient resources to provide for both the farming and the non-farming children. Previous research concluded that scale enabled succession. This study shows the opposite. It is the drive to create the possibility of succession, which motivates people to grow the business. The task is difficult and takes a long-term commitment. If you assume 2.9% inflation, $1,000,000 for retirement, a thirty-year generation interval and two children you need to grow your assets by 7.9% a year for thirty years to give the children you had. That is 7.9% capital growth, not 7.9%profit

4. Build a multigenerational business: This scenario requires scale, systems and very clear roles and responsibilities from the Board, the Managers and all of the people involved in the operation.

5. Build and sell as a going concern: This scenario is rarely seen in Australian farming, where you build a business and sell it as a going concern complete with the livestock, plant, systems and the history. Taking this choice means following the dictum of the noted management academic Peter Drucker, who said that the aim of all businesses should be to be create a business to sell.

Whichever choice you make, you need to ensure that the business performs to your expectations. That will require leadership and management, which can be both be seen as sources of capital and are the subject of the next article in this series.

The following articles in this series will be published in Charles Stewart's Farming Industry email newsletter. To subscribe to this newsletter please email: rural@charlesstewart.com.au

From left - Lachie and Jackie Dullard with Charles Stewart Livestock Manager Peter McConachy.

GRAZING | LIFESTYLE | LAND BANK / INVESTMENTS | WINERIES | DAIRY FARMS | CROPPING

9.10 Details for Webinar 1:

Webinar 1: *Succession planning – dos and don'ts from the people who've been there and done that.*

Do you know what's going to happen to the family property and business when your parents want to retire? How will they fund their retirement? Do you know if you kids want to take on the business? It all comes back to communication and planning and it's a situation every family business faces. So, how do you work through this process to find the best outcome for all parties? Join us for a short webinar to find out more!

Why join us for the webinar?

- We'll talk through the lessons from a series of in-depth succession planning farming case studies from across Australia. They feature both businesses who will successfully continue and those which will not. Compelling viewing for members of any farming family who are serious about succession planning.

- Understand what the key outcomes of the succession planning process need to be – sufficient funds for retirement, handing on a viable farm, and providing for the next generation while ensuring they are satisfied with their deal, now and in the future.

- Hear from the experts! Mike Stephens of Meridian Agriculture has been specialising in succession with farming families for over twenty years and will be presenting the learnings from these case studies.

When is the webinar? 1pm NSW time, 10 April 2018

9.11 Details for Webinar 2:

Webinar 2: *Succession planning – what to do when you don’t know where to start*

What will you do to get your family business ready for the future? Land values won’t always increase at 6% per year, interest rates won’t always be at 5%, and livestock prices will continue to fluctuate. There’s no better time than right now to start succession planning and if you’re stumped for where to start and what do to, this webinar is a must see.

This webinar is the second in a two part series and builds on *Webinar 1: Succession planning – dos and don’ts from the people who’ve been there and done that.*

Why join us for the webinar?

- Kick start the succession planning process in your family business – we’ll talk through some easy steps you can follow
- How to give yourselves the best chance of developing a long term, acceptable succession plan for all parties
- Hear from the experts! Mike Stephens of Meridian Agriculture has been specialising in succession with farming families for over twenty years and will be presenting the learnings from these case studies.

When is the webinar? 6pm NSW time, 8 May 2018

9.12 Case Study brochure/information leaflet

MERIDIAN Agriculture

mla MEAT & LIVESTOCK AUSTRALIA DONOR COMPANY

Farm Success Enabling Case Studies

"You've got to think about providing for the next generation. And so you can't actually have the view, 'Oh, when we get the debt paid off we'll be right'. You've actually got to keep pushing hard…"

Mike Stephens (Meridian Agriculture), with assistance from the MLA Donor Company, conducted a series of farm success enabling case studies. The studies are based on intensive review of sixteen, family owned, Australian farm businesses, and consider the approaches to succession throughout successive generations. The case studies followed a major literature review and extensive surveys.

Participants were selected so as to demonstrate a wide variety of business and family circumstances. Of an initial 30 subjects considered, 19 were contacted and sixteen selected. Interviews were conducted with each family, and in some cases their support professionals.

The studies contrast the attitudes, attributes and actions of people within each business. Eight will continue, while the eight have been sold, have remained in the family but are no longer viable, or have had significant changes in direction. The studies, which cover several generations, are measured against the three aims of having sufficient funds for retirement, handing on a viable farm and providing for the next generation in a way which ensures that they are satisfied with their deal.

Contrasting actions, attitudes and behaviours of continuing with non-continuing businesses:

Business continuing	Business not continuing
An absolute determination to grow the business to allow choices	The belief that the three main aims were not achievable
Intelligent leadership	Autocratic, patriarchal behaviour
A history of well thought out succession	Poor history of succession
Progressive farm management	Doing things the way we always did
A focus on the customer	What customer?
The intelligent use of capital	Using capital to support the lifestyle
Preparedness to go into debt and maintain low equity	Totally debt adverse and maintaining lazy capital in the business
Deliberate strategies to encourage stakeholders	A strategy of keeping stakeholders off farm and dis-engaged
Managing with humility and quietly going about your business	Maintaining your position in the family and society as somebody very important
A determination not to live like peasants	A determination not to look like peasants
A common end game goal	No agreement about the end game

For more information or a copy of the Case Studies, please visit http://www.meridian-ag.com.au or contact Meridian Agriculture on 03 5341 6100 or info@meridian-ag.com.au

www.meridian-ag.com.au |

Key taglines & quotes from the Case Studies (each has a letter of the Greek alphabet):

1. The Iota family were determined that they "weren't going to live like peasants" and built a dynamic multi-generational family business.

"If people want one or two of their children to farm they have got to start thinking about it early. The mistake that most people on the land make is that they leave it too late to grow."

2. Being an only child helped Jim (Upsilon family) set up a viable farm that could be passed almost equally to the next gen.
3. The Rho family farm had been split in three successive generations and if the division was even, the farm would unviable and then sold.
4. The start for the Lambda family was modest, but with share farming, off farm work and investments their business grew to become successful family business.

"The starting point was that family assets would be divided absolutely equally".

5. In the case of the Kappa family, "If we hadn't had a succession plan the farm would have been sold."
6. After the lean years following the wool crash the Pi family told the Directors to "perform or sell".
7. The Mu family farm was halved and then halved again and the family "could not allow it to be halved again."
8. The grandfathers of the Sigma family set up the two brothers, who then proceeded to buy more and more land - "Our fathers bought it, but now have to pay it off."
9. The Epsilon family had a strong history of succession done well - "Dad and his brother always had the end game in mind."

"It [the split] was done in a matter of an hour. I think most of that time was spent working out what the stock numbers were and then a price agreed."

10. Nick and Sally (Alpha family) inherited a farm that has been successively cut up over five generations

"We were the stewards, it wasn't ours to sell."

11. Mark (Gamma family) was given no choice and burdened with the family expectation that he should carry on. Mark broke this mould and "wanted the next generation to be free to choose".
12. The grandfather (Zeta family), in order to uphold his position in the community, kept selling land to find their lifestyle.

"I think we could agree that the longer you leave it to plan succession, the lower your potential for success."

13. The Beta family lost interest and then lost control of the Board – the lost the company.
14. The Theta family wanted to keep farming but it was unrealistic – there were too many shareholders.
15. The Delta family spent twenty years and hundreds of thousands of dollars arguing about whether to break it up
16. The Tau family thought they had succession sorted and then the next gen father changes his mind.

Key messages from the Case Studies:

- There are a number of mechanisms to achieve successful business growth, which in turn can help set up succession for future generations
- It is important that all family members agree on the end game and are happy with the outcomes of succession.
- It is important to keep control of the Board and ensure that Shareholders are engaged
- It is important to work together as a family unit to grow the business and involve the next generations early to ensure smooth succession

9.13 Farm Success Enabling Case Studies – Study participant survey results

1. Please rate your overall satisfaction with your involvement in the case study series (with 1 being negative and 5 being highly beneficial).

	1	2	3	4	5	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	0.00% 0	6.67% 1	53.33% 8	40.00% 6	15	4.33

#	PLEASE PROVIDE ANY ADDITIONAL COMMENTS	DATE
1	Helped the developement of our succession plan	11/20/2018 12:50 PM
2	The varying approaches to farm succession planning was informative.	11/14/2018 11:04 AM
3	I saw the report which was great, I would be interested in later knowing how my input has assisted mediators and facilitators better prepare and approach succession planning	10/18/2018 2:50 PM
4	Generated interest amongst family and clients	10/12/2018 5:15 PM
5	Most suggestions discussed have been implemented	10/12/2018 4:11 PM

2. Have you read a copy of case studies other than your own produced as part of the series (16 in total)?

ANSWER CHOICES	RESPONSES	
Read one	6.67%	1
Read a few	53.33%	8
Read them all	20.00%	3
Have not read any	20.00%	3
Other (please specify)	0.00%	0
TOTAL		15

3. Overall, how would you rate the information provided in the case studies, with 1 being not helpful and 5 being very helpful?

	1	2	3	4	5	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	0.00% 0	25.00% 3	50.00% 6	25.00% 3	12	4.00

#	PLEASE PROVIDE ANY ADDITIONAL COMMENTS AROUND THE CASE STUDIES	DATE
1	The information is a useful guide to families considering succession planning and how to avoid pitfalls.	11/14/2018 11:05 AM
2	Didn't know about the webinars below	10/18/2018 2:51 PM
3	useful each situation is different	10/12/2018 5:15 PM
4	As noted in first question	10/12/2018 4:12 PM

4. Did you join one or both of the Succession webinars that Mike Stephens presented (Webinar 1 – Succession planning – do's and dont's from people who have been and done that, and Webinar 2 – Succession planning – what to do when you don't know where to start).

ANSWER CHOICES	RESPONSES	
Yes	6.67%	1
No	93.33%	14
TOTAL		15

5. Overall, how would you rate the information provided on the webinar, with 1 being not helpful and 5 being very helpful.

	1	2	3	4	5	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	0.00% 0	0.00% 0	0.00% 0	100.00% 1	1	5.00

6. Has your understanding of succession planning changed since taking part in the case study series?

ANSWER CHOICES	RESPONSES	
Yes	64.29%	9
No	35.71%	5
TOTAL		14

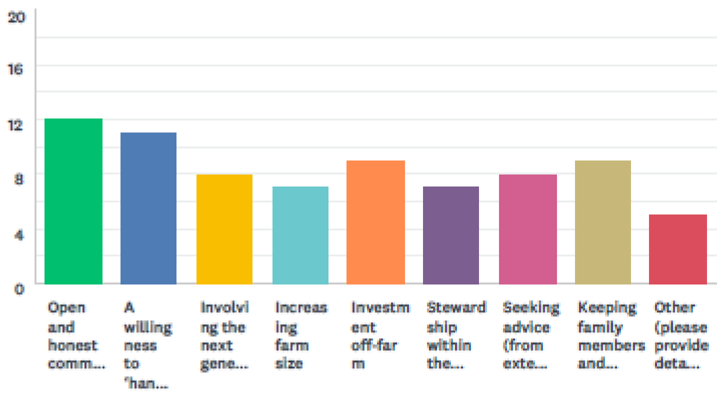
#	IF YOUR ANSWER IS NO, PLEASE PROVIDE SOME REASONING	DATE
1	My father set up a very successful succession plan that formed the basis of my understanding & we have worked with other farming families on their succession but it was still interesting to hear how Mike approached succession & the strategies he used.	11/21/2018 7:15 AM
2	i had a good understanding already	11/20/2018 9:01 PM
3	we already had a fair grasp of the issues	11/20/2018 7:20 PM
4	As the daughter of a farming family in which the two sons were set up: one with the family property and the other on a new property, the two daughters did not receive anything of this level, only what came from the parents' estates which was not remarkable after many years of aged care accommodation. The son, who had the family property which had been in the family since 1875, sold it in 2014 and was very well rewarded financially!	11/14/2018 11:12 AM
5	Our phase has passed and I haven't seen or heard about the report more widely and haven't seen any changes to families acknowledgement or approach to this issue. My understanding is still unchanged, as there are many issues compounding moving to the next stage and navigating these issues is something that requires considerable skill.	10/18/2018 2:55 PM
6	Kept renewing the processes as time moves on. keep communication open and transparent Identify key dates that need to occur to continue. All in all make sure that all parties are aware of the progress and in step.	10/12/2018 5:17 PM

7. Please provide some details on how your understanding of succession planning has changed since your involvement in the Case study Series.

#	RESPONSES	DATE
1	It looks like there is a lack of opportunity for many young sons/daughters to come into the business & make decisions. Without that opportunity there is no chance to make mistakes, which are essential to learning. I was given the chance to make mistakes & have become more conscience of giving my children that same chance, in time. It has become clearer that there is a great need for communication between all family members, for division of responsibility between generations & to grow the business to a suitable size to meet the needs of a growing family.	11/21/2018 7:31 AM
2	Understand that while all family members should benefit from the plan, the farm drivers must be considered first.	11/20/2018 12:54 PM
3	I was always aware that as the daughter, there was no possibility that I would benefit from the farm. It is essential that off-farm investments be established to accommodate the children who would not have a share in the farm and this was not done in my family. It would have been financially possible. I am confident my father would never have considered the farm would be sold - if he did, I know he would have arranged for some of the profit to be shared with siblings. As it is, one branch of the family (brother, his wife, children and grandchildren) are set to be provided well for generations, while the others are left without.	11/14/2018 11:25 AM
4	Act earlier rather than later involve everyone where possible	10/23/2018 2:51 PM
5	There is no 1 template to follow, it must be worked through for each family and they will be different	10/19/2018 4:50 PM
6	Probably has not changed our committment to open and transparent processes. But it certainly awakened our understanding that failing to do this is not an option when the next generation are returning into the farming business.	10/12/2018 5:21 PM
7	Succession planning is constantly a moving target with reviews quite often as circumstances and the economy changes	10/12/2018 4:22 PM

8. What do you believe are the attributes, attitudes and skills that have enabled some businesses to continue and present a successful succession plan (multiple choice – can select more than one – with other comment box):

Answered: 13 Skipped: 2

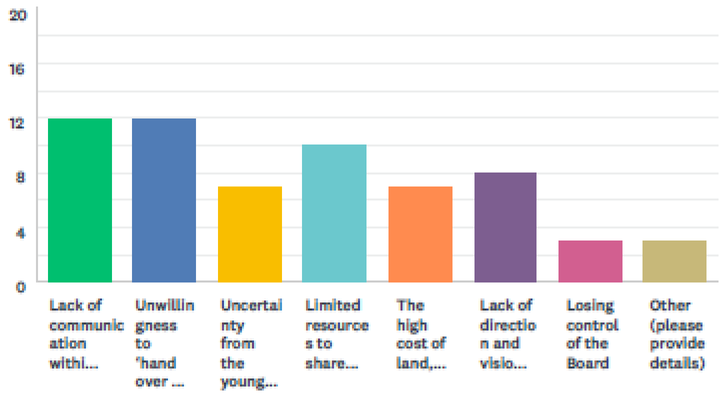


ANSWER CHOICES	RESPONSES	
Open and honest communication with all family members	92.31%	12
A willingness to 'hand over the reigns' to the next generation	84.62%	11
Involving the next generation from a young age	61.54%	8
Increasing farm size	53.85%	7
Investment off-farm	69.23%	9
Stewardship within the family	53.85%	7
Seeking advice (from external professionals)	61.54%	8
Keeping family members and shareholders engaged	69.23%	9
Other (please provide details)	38.46%	5
Total Respondents: 13		

#	OTHER (PLEASE PROVIDE DETAILS)	DATE
1	Share the decision making early	11/21/2018 7:31 AM
2	don't leave out the "daughter in law"	10/25/2018 7:32 AM
3	There are a number of influential external issues that constrain the boxes above, ie drought, debt, management style, etc.	10/18/2018 4:45 PM
4	i think all of the above have relevance in succession planning procedures	10/14/2018 7:01 PM
5	Leadership from a family member that oversights and owns the process and takes responsibility for its progress	10/12/2018 5:21 PM

9. What do you believe are the major road blocks to succession (multiple choice – can select more than one – with other comment box)

Answered: 13 Skipped: 2



ANSWER CHOICES	RESPONSES	
Lack of communication within the family	92.31%	12
Unwillingness to 'hand over the reigns' from the older generation	92.31%	12
Uncertainty from the younger generation	53.85%	7
Limited resources to share within the family	76.92%	10
The high cost of land, stock and plant	53.85%	7
Lack of direction and vision for the future of the business	61.54%	8
Losing control of the Board	23.08%	3
Other (please provide details)	23.08%	3
Total Respondents: 13		

#	OTHER (PLEASE PROVIDE DETAILS)	DATE
1	Lack of leadership from senior generation - what do the parents need?	11/21/2018 7:31 AM
2	Inward looking management. some of the worst cases we see are farming families that don't understand the wider context. Stick to long cherished views without the ability to challenge and change.	10/12/2018 5:21 PM
3	Personal relationships within the family . not all families can get on or trust each other	10/12/2018 4:22 PM

10. Was your involvement in the case study series helpful for your future planning?

ANSWER CHOICES	RESPONSES	
Yes	92.31%	12
No	7.69%	1
TOTAL		13

#	IF YOU RESPONSE WAS YES OR NO, PLEASE EXPLAIN	DATE
1	everything is helpful	11/20/2018 7:23 PM
2	Concurrent with our succession plan. Helped focus on key areas on planning.	11/20/2018 12:57 PM
3	The information in the case studies can be used, not only in farm succession planning, but in dealing with setting up inheritances within non-farming families.	11/14/2018 11:28 AM
4	reinforced our approach	10/25/2018 7:33 AM
5	For us to plan early for our three children	10/18/2018 4:46 PM
6	Our planning had been fairly sorted before case study	10/14/2018 7:02 PM
7	We shared the findings with our clients through a written newsletter to 2,300 people. we had significant feedback on the usefulness of the information. For families that are 'stuck' this can be quite confronting.	10/12/2018 5:23 PM
8	Our involvement in this case study allowed our family to review the past, plan for the future , and find a way to implement the plan , which looks like been in a successful way. The next generation need to want to be successful and the older generation need to be able to have enough funds to carry on for the future and feel happy to do so.	10/12/2018 4:29 PM

11. Have you changed your succession plan since you authorised the case study?

ANSWER CHOICES	RESPONSES	
Yes	33.33%	4
No	66.67%	8
TOTAL		12

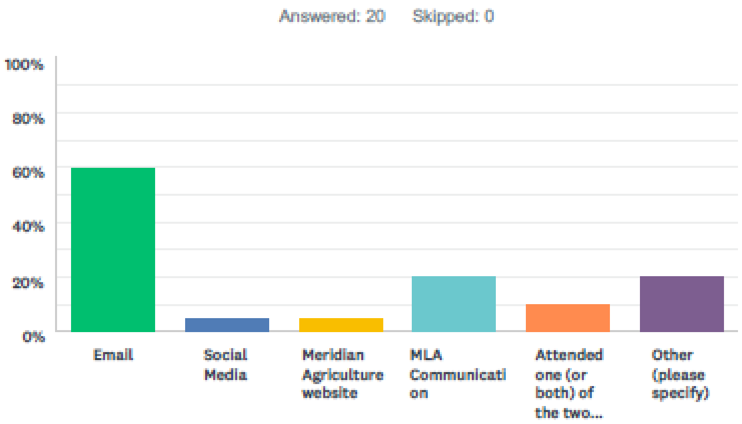
#	IF YOUR ANSWER WAS NO, PLEASE PROVIDE SOME DETAIL AROUND WHY YOUR SUCCESSION PLAN HAS NOT CHANGED FOLLOWING YOUR INVOLVEMENT IN THE CASE STUDY SERIES (I.E. YOUR SUCCESSION PLAN WAS ALREADY FINISHED).	DATE
1	Its a mental change but our children are old enough to have the conversation around succession so these conversation are being had earlier than they might otherwise have been had.	11/21/2018 7:33 AM
2	already finished	11/20/2018 7:23 PM
3	Our plan is corporate based and had different focus than Mike's case study. However, considerations in both the case study and our plan were similar throughout.	11/20/2018 12:57 PM
4	dusted	10/25/2018 7:33 AM
5	part of the plan has been acted upon The next phase is only coming up soon	10/23/2018 2:54 PM
6	Dont own land.	10/19/2018 4:51 PM
7	the plan is evolving as the business continues to grow and the 2 members of generation 5 are embedded in the operation	10/12/2018 5:23 PM
8	All family members are comfortable with the current plan, which is still being implemented over a five year time period	10/12/2018 4:29 PM

12. Briefly describe what changes you have made to your succession plan as a result of your involvement in the case study series.

#	RESPONSES	DATE
1	Starting succession conversations earlier. We have also restructured the Trust structure to better facilitate the next generation.	11/21/2018 7:34 AM
2	We now have a plan!	10/15/2018 2:45 PM
3	Asset and ownership of property has changed	10/14/2018 7:03 PM
4	Clearer about the steps, eg. removing one member of the family from the trading company Separation of the issues of the trading company (livestock and plant and equipment) versus the ownership of land. Schedule of steps clear.	10/12/2018 5:24 PM

9.14 Farm Success Enabling Case Studies – Study audience survey results

1. How did you hear about the Farm Success Enabling Case Studies?



ANSWER CHOICES	RESPONSES	
Email	60.00%	12
Social Media	5.00%	1
Meridian Agriculture website	5.00%	1
MLA Communication	20.00%	4
Attended one (or both) of the two webinar's	10.00%	2
Other (please specify)	20.00%	4
Total Respondents: 20		

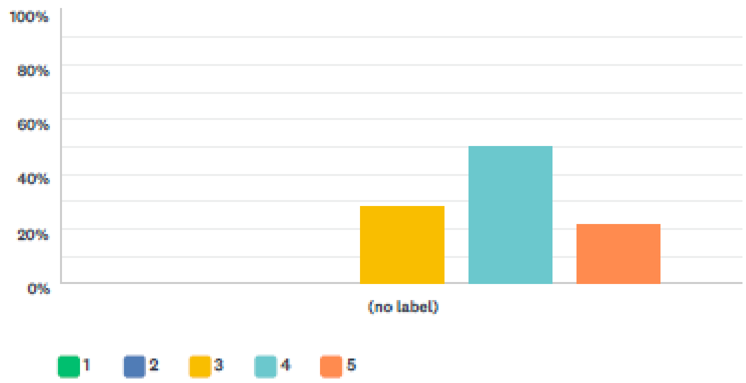
#	OTHER (PLEASE SPECIFY)	DATE
1	Direct relationship with Mike Stephens	10/28/2018 3:44 PM
2	Monaro farming system	10/23/2018 5:28 AM
3	Monaro Farming Systems	10/22/2018 8:00 PM
4	Mike Stephens directly	10/22/2018 5:07 PM

2. Have you read the 16 Case Studies?

ANSWER CHOICES	RESPONSES	
Read one	5.00%	1
Read a few	40.00%	8
Read them all	30.00%	6
Have not read any	25.00%	5
TOTAL		20

3. Overall, how would you rate the information provided in the case studies, with 1 being not helpful and 5 being very helpful.

Answered: 14 Skipped: 6

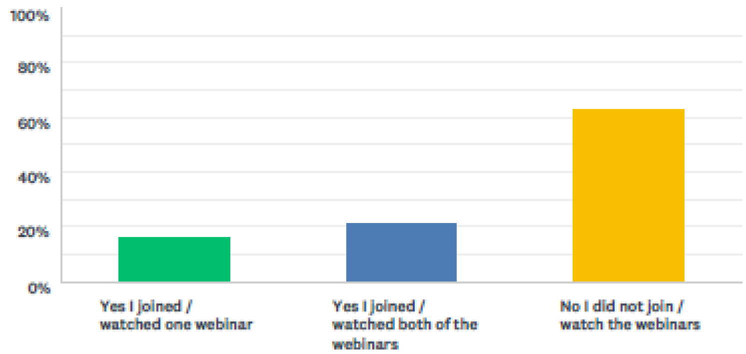


	1	2	3	4	5	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	0.00% 0	28.57% 4	50.00% 7	21.43% 3	14	3.93

#	PLEASE PROVIDE ANY COMMENTS AROUND THIS RATING	DATE
1	Good coverage of farm and management structure. Good honest assesment by participants	10/24/2018 1:47 PM
2	leading our own family succession I found the case studies great to expand my ideas and options.	10/23/2018 10:35 AM
3	It's hard to find other enterprise structures aligning well with ours	10/21/2018 4:26 PM
4	Need to take notes with regard to personal situation.	10/21/2018 9:11 AM

4. Did you join one or both of the Succession webinars that Mike Stephens presented (Webinar 1 – Succession planning – do's and dont's from people who have been and done that, and Webinar 2 – Succession planning – what to do when you don't know where to start).

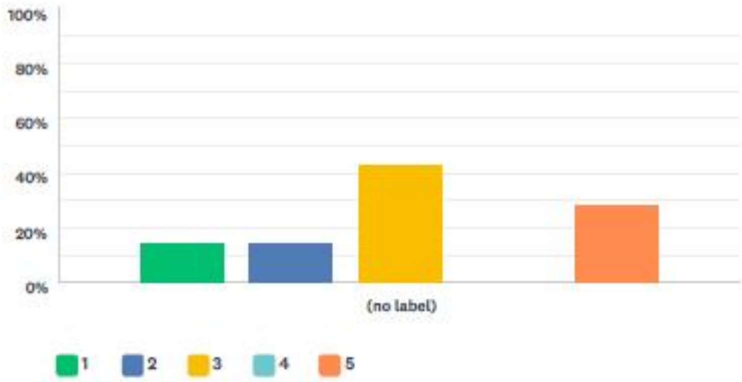
Answered: 19 Skipped: 1



ANSWER CHOICES	RESPONSES	
Yes I joined / watched one webinar	15.79%	3
Yes I joined / watched both of the webinars	21.05%	4
No I did not join / watch the webinars	63.16%	12
TOTAL		19

5. Overall, how would you rate the information provided on the webinar with 1 being not helpful and 5 being very helpful.

Answered: 7   Skipped: 13

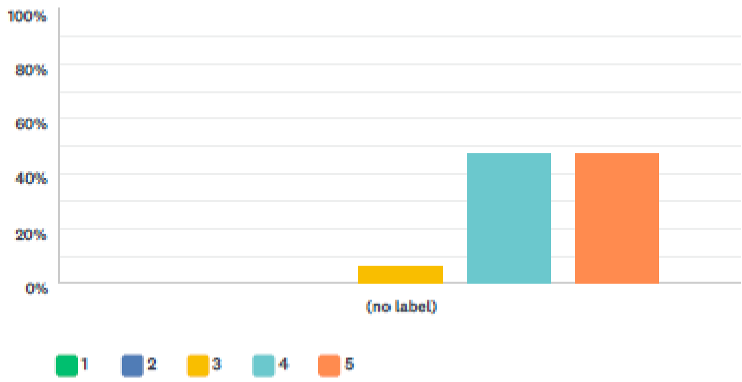


	1	2	3	4	5	TOTAL	WEIGHTED AVERAGE
(no label)	14.29% 1	14.29% 1	42.86% 3	0.00% 0	28.57% 2	7	3.14

#	PLEASE PROVIDE ANY COMMENTS AROUND THIS RATING	DATE
1	I didn't find 'What to do when you don't know where to start' to provide as explicit a path as I had hoped	10/21/2018 4:28 PM
2	Extremely difficult to understand diction.	10/21/2018 9:13 AM

6. On a scale of 1-5, with 1 being low and 5 being high, how important is succession planning to you?

Answered: 17   Skipped: 3

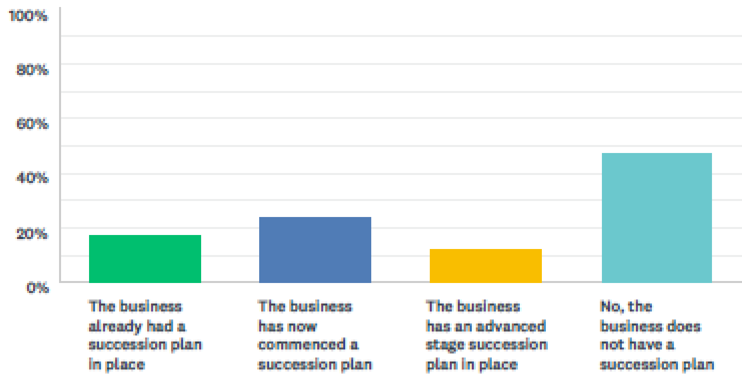


	1	2	3	4	5	TOTAL	WEIGHTED AVERAGE
(no label)	0.00% 0	0.00% 0	5.88% 1	47.06% 8	47.06% 8	17	4.41

#	PLEASE PROVIDE DETAILS AROUND YOUR SCORING	DATE
1	I would like to pass the business on so i have rated it as important.	10/29/2018 10:01 PM
2	Relevant to understand future needs of customers and the industry	10/28/2018 3:45 PM
3	Critical to allow planning and implementation of strategies on farm. How do you move forward decisively with farming if the uncertainty of not knowing what the ownership and management of the asset will be has not been dealt with?	10/24/2018 1:49 PM
4	8 years since final meeting between 5 & 6 gen family and the resentment and bitterness from elders has fragmented family	10/22/2018 8:02 PM
5	Despite high level of interest in the property and industry, our third generation is not interested in investing time, energy and money into our business which could implode at any time due to potential family conflict.	10/21/2018 4:31 PM
6	I'm getting older and have 4 children.	10/21/2018 9:14 AM

7. As a result of the case studies and surveys, have you adopted/modified a succession plan for your business?

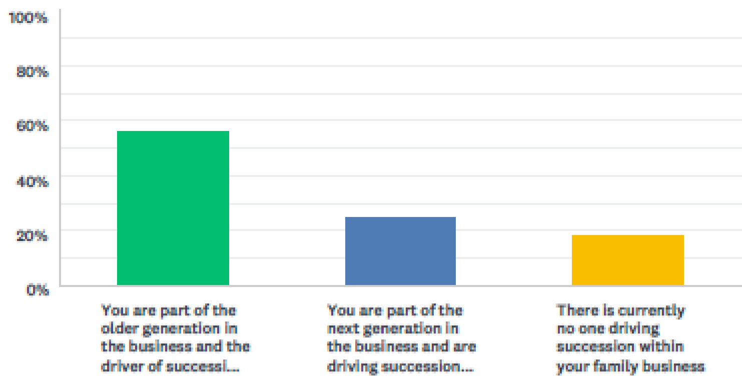
Answered: 17 Skipped: 3



ANSWER CHOICES	RESPONSES	
The business already had a succession plan in place	17.65%	3
The business has now commenced a succession plan	23.53%	4
The business has an advanced stage succession plan in place	11.76%	2
No, the business does not have a succession plan	47.06%	8
TOTAL		17

8. In respect to your own circumstances, can you confirm the following:

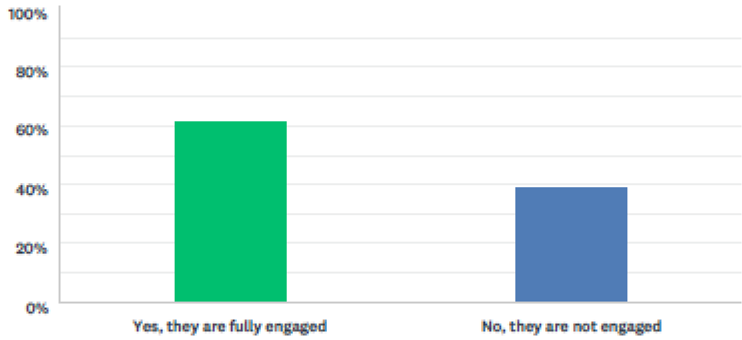
Answered: 16 Skipped: 4



ANSWER CHOICES	RESPONSES	
You are part of the older generation in the business and the driver of succession within your family	56.25%	9
You are part of the next generation in the business and are driving succession within your family	25.00%	4
There is currently no one driving succession within your family business	18.75%	3
TOTAL		16

9. Is the younger generation on board with the succession plan:

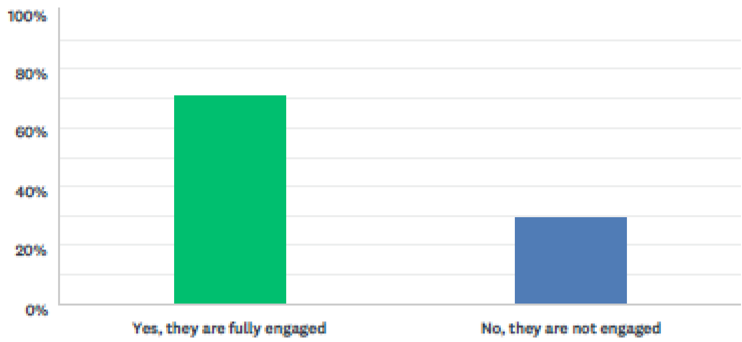
Answered: 13 Skipped: 7



ANSWER CHOICES	RESPONSES	
Yes, they are fully engaged	61.54%	8
No, they are not engaged	38.46%	5
TOTAL		13

10. Is the older generation on board with succession planning?

Answered: 17 Skipped: 3



ANSWER CHOICES	RESPONSES	
Yes, they are fully engaged	70.59%	12
No, they are not engaged	29.41%	5
TOTAL		17

11. What are the key message/s you have learned from the 16 case studies and webinars?

Answered: 11 Skipped: 9

#	RESPONSES	DATE
1	There is more than one approach. Clear goals and communication is critical. Equality or perfectly balanced outcomes are not always possible.	10/28/2018 3:49 PM
2	Hmmmm, not one alike and none like ours at all! We have $30k paid to bring the involvement of planners, bankers and accountants..... all $$$ goals were made and hit by next gen paying abovew and beyond to baby boomers who were fit/healthy (at the time) w NO plan of exiting business. GFC came and wiped 50% of their retirement away placing more pressure on business. Other sibling did what ever he wanted (professional, personal) and had huge handout to set him up very well. Other son at home is "living like a peasant" and having to look after elderly resentful parents which looks like the sale of land is now imminent!	10/22/2018 8:09 PM
3	Not always fair, must keep pushing hard	10/22/2018 5:10 PM
4	Every succession plan is different and they be changed - they are not set in concrete.	10/22/2018 12:13 PM
5	Start early. Being fair might not mean being equal	10/22/2018 9:24 AM
6	Involve all key stakeholders in the decision making	10/22/2018 9:11 AM
7	Input is required from a variety of professionals. Wills should not form the basis of a succession plan	10/22/2018 5:04 AM
8	Invest off-farm, have shareholder agreements with buy-sell agreements, fair is not necessarily equitable if everyone is happy.	10/21/2018 4:41 PM
9	plan early.	10/21/2018 11:38 AM
10	start churning ideas to match our needs	10/21/2018 9:45 AM
11	Start early - circumstances change for all.	10/21/2018 9:16 AM

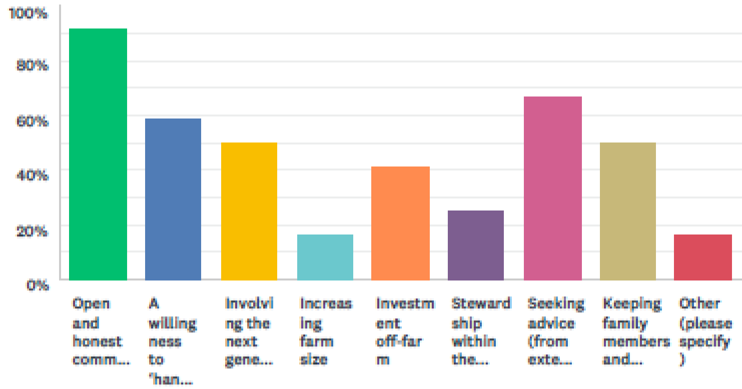
12. List the attributes, attitudes and skills that you believe enable businesses to continue and present a successful succession plan before your involvement in the case studies/webinars?

Answered: 10 Skipped: 10

#	RESPONSES	DATE
1	Perhaps had a narrower, more binary view before the research was published.	10/28/2018 3:49 PM
2	NA	10/22/2018 5:10 PM
3	A common end goal.	10/22/2018 12:13 PM
4	??????? Not well written question. What are you getting at?	10/22/2018 9:24 AM
5	family communication, having an independent facilitator/adviser	10/22/2018 9:11 AM
6	Use of various professionals and facilitators	10/22/2018 5:04 AM
7	before: open and honest communication, seeking advice, engagement of all stakeholders After: same, usefulness of off-farm investment	10/21/2018 4:41 PM
8	everyone is to be involved.	10/21/2018 11:38 AM
9	a. quite a lot b. now all of them	10/21/2018 9:45 AM
10	It was not really on high priority.	10/21/2018 9:16 AM

13. Since your involvement in the Case Studies , what do you believe are the attributes, attitudes and skills that have enabled some businesses to continue and present a successful succession plan (multiple choice – can select more than one – with other comment box):

Answered: 12   Skipped: 8

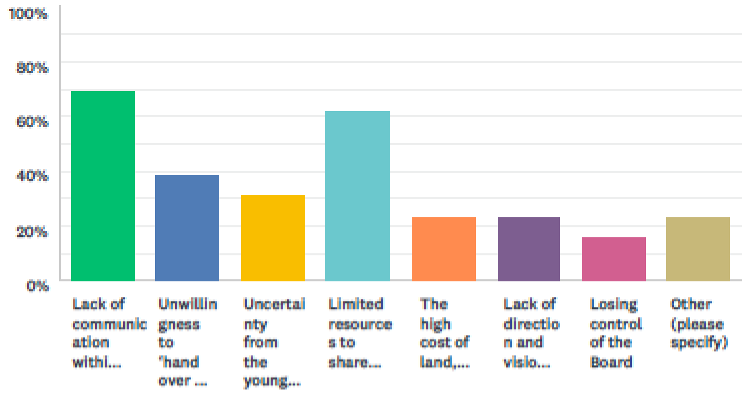


ANSWER CHOICES	RESPONSES	
Open and honest communication with all family members	91.67%	11
A willingness to 'hand over the reigns' to the next generation	58.33%	7
Involving the next generation from a young age	50.00%	6
Increasing farm size	16.67%	2
Investment off-farm	41.67%	5
Stewardship within the family	25.00%	3
Seeking advice (from external professionals)	66.67%	8
Keeping family members and shareholders engaged	50.00%	6
Other (please specify)	16.67%	2
Total Respondents: 12		

#	OTHER (PLEASE SPECIFY)	DATE
1	A caveat on seeking advice - the key is finding an advisor that can work with the personalities in the business and listen rather than tell.	10/22/2018 12:13 PM
2	& possibly invest off farm	10/21/2018 9:45 AM

14. List what you believe are the major road blocks to succession before your involvement in the case studies/webinars?

Answered: 13   Skipped: 7



ANSWER CHOICES	RESPONSES	
Lack of communication within the family	69.23%	9
Unwillingness to 'hand over the reigns' from the older generation	38.46%	5
Uncertainty from the younger generation	30.77%	4
Limited resources to share within the family	61.54%	8
The high cost of land, stock and plant	23.08%	3
Lack of direction and vision for the future of the business	23.08%	3
Losing control of the Board	15.38%	2
Other (please specify)	23.08%	3
Total Respondents: 13		

#	OTHER (PLEASE SPECIFY)	DATE
1	FAIR DOES NOT MEAN EQUAL!	10/22/2018 8:09 PM
2	family politics, distribution of assets in wills to numerous siblings and uncertainty around their intentions (ie communication),	10/21/2018 4:41 PM
3	the unknown of the swags future	10/21/2018 9:45 AM

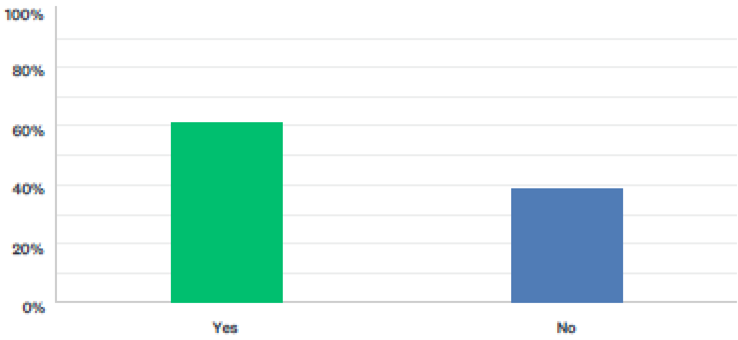
15. Since your involvement in the Case Studies, what do you believe are the major road blocks to succession (multiple choice – can select more than one – with other comment box)

Answered: 11   Skipped: 9

#	RESPONSES	DATE
1	nothing additional to add	10/28/2018 3:49 PM
2	Communication, no one willing to take the first step	10/22/2018 5:10 PM
3	Lack of a large enough "pie".	10/22/2018 12:13 PM
4	Communications before and after	10/22/2018 9:24 AM
5	Older generation unwillingness to to discuss succession. Some interest in engaging in the discussion, knows it needs to be done but still reluctant to commit to putting a plan in place	10/22/2018 9:11 AM
6	Younger generation "expectations". Older generation fear of losing their stability and control. Unwillingness to communicate.	10/22/2018 5:04 AM
7	limited rsources, communication issues	10/21/2018 4:41 PM
8	Poor commodity prices. Costs ie Rates, Land Tax are major draw backs.	10/21/2018 11:38 AM
9	a.equality /fair b. & still working on it	10/21/2018 9:45 AM
10	As above.	10/21/2018 9:16 AM
11	Getting family to talk	10/21/2018 8:47 AM

16. Have you changed your approach to succession planning since reading the 16 case studies and/or partaking/watching the two webinars?

Answered: 13 Skipped: 7



ANSWER CHOICES	RESPONSES	
Yes	61.54%	8
No	38.46%	5
TOTAL		13

#	DESCRIPTION	DATE
	There are no responses.	

17. Please describe that what changes you have made in you approach to succession planning.

Answered: 8 Skipped: 12

#	RESPONSES	DATE
1	Broad advice, open dialogue and communication, take time, look forward, consider non binary options.	10/28/2018 3:50 PM
2	have not yet approached it	10/22/2018 5:11 PM
3	The need to engage all parties early in the discussion. Open communication.	10/22/2018 12:13 PM
4	Getting in expert help earlier in the process	10/22/2018 9:13 AM
5	Mainly more determined to progress succession planning. Proposing to family use of a facilitator. More involvement and respect for views of upcoming generation.	10/21/2018 4:44 PM
6	my thoughts have cleared somewhat	10/21/2018 9:46 AM
7	Given higher priority.	10/21/2018 9:18 AM
8	asked them to watch the webinar and think about what has to be done	10/21/2018 8:48 AM

18. Please elaborate on why you have not changed your approach to succession planning.

Answered: 10 Skipped: 10

#	RESPONSES	DATE
1	I have changed.	10/28/2018 3:50 PM
2	Too far already down the chosen path, NEVER use a bank's team of succession planners!	10/22/2018 8:10 PM
3	I cannot be the driver, it is not my family farm	10/22/2018 5:11 PM
4	I have changed my approach. The SurveyMonkey is asleep at the wheel !	10/22/2018 12:13 PM
5	It reinforced what I already thought	10/22/2018 9:24 AM
6	There is not a lot I can do until dad comes to the table and is committed to the process	10/22/2018 9:13 AM
7	I was previously aware of a large number of the problems/pitfalls and had altered course appropriately.	10/22/2018 5:07 AM
8	we started our process a long time ago and much of what is now have already in place.	10/21/2018 11:39 AM
9	na	10/21/2018 9:46 AM
10	Have changed approach.	10/21/2018 9:18 AM

19. Please provide any additional comments.

Answered: 4 Skipped: 16

#	RESPONSES	DATE
1	NA	10/28/2018 3:50 PM
2	Succession is very important but very hard to initiate if you are a "ring in" to the family. I think it has to be driven from within the family to work rather than an "outsider" who has married in	10/22/2018 5:12 PM
3	Excellent case studies, lots a very insightful and useful information	10/22/2018 9:14 AM
4	some times the sound was unintelligible today on youtube (October 20 2018)	10/21/2018 9:47 AM