



# Plan, Prepare and Prosper

## Succession: A Business Strategy

26 May 2020

### Case study activity

The Case **Study** is the analysis of the situation.

The **Case** is the “real life” situation

In this exercise you will work in small groups to undertake a case study of a farming family’s succession planning experience.

### The Activity:

- Individually read the background to the case you have been provided
- In your small group, discuss the points outlined in the ‘Analysis’ section. These discussions should be based on the evidence and facts provided in the case.
- Once you have completed the Analysis, move onto to discussing the ‘Findings and Recommendations’.
- Finally, finish the case study by talking through the ‘Implementation’ section.
- Your group will then have the opportunity to present back to the larger workshop group on what you found and hear about the other case study.
- You will have an experienced table facilitator to help guide you through this process and answer any questions.

### Background

You will be provided a copy of one case to read individually.

- a) Case 1 – The Jones Family
- b) Case 2 – The Rose Family

When reading the case, think about the following key points;

- What is the business history and its performance?
- Can you identify the business structure, governance?
- Have there been any major business changes in recent years (acquisition, sale, start of a new enterprise, debt)?
- Are there financial information and indications on business performance?
- Major seasonal issues (drought, flood etc)
- What is their production history and performance?

Who are the key people and what is their relevant history, role, performance and connection to the business

## **Analysis**

In your small group, discuss the points below based on the evidence and facts presented in the case.

Describe what has worked well for this family? And what didn't work well?

- Identify the success indicators in this succession case
- Identify the major problems
- Describe what steps could have been taken to enable this business and family to achieve its goals in future
- Identify any gaps this family and business hasn't considered and if there are any identifiable risks in their plan.

## **Findings and Recommendations**

- Summarise the key points above and discuss what the family could have done to improve their situation
- Develop alternative solutions for their problems
- Provide a recommendation on which solution they should use, and justify your choice by explaining how it will solve the major problem/s

## **Implementation**

- Explain what should be done, by whom and by when.
- Develop at least three SMART goals for the family
- Where possible include a rough estimate of required resources (for example, financial, time, human resources).

# Case One: The Jones Family

## Background

The Jones family's mixed enterprise sheep and cropping business has been built from a small farm to a truly profitable business over two generations.

There are several important aspects which have enabled this business to be successful. The attitudes and aptitudes of the people in the business in particular have allowed steady growth. They make informed decisions and do things well. In 1955 the farm was worth about \$345,000 (in 2018 dollars). Today the land is worth \$3,900,000 and the total value of family assets are now \$8,000,000. The annual capital growth, over a sixty-year period is 4.9%. At the same time the farm has sustained, maintained and educated two families. Equity is at 70% (are 5 million assets and 1.5 million liabilities).

The farming business is structured as a trust, trading as a company (as trustee for the trust). The beneficiaries are all family members, as decided by the trustee.

The decision point of succession from the previous generation (Ken + Jan) to the current owner (Jim + Sally) was easy because Jim is an only child and had a passion for agriculture and for managing the farm business. However, the decision point for Jim and Sally for succession to their three school aged children has been more carefully planned to enable a profitable farm business and a fair percent split in the future for those children.

Ken and Jan have been farming for over 40 years and are now in their late-sixties and their commitments on-farm have reduced to supporting peak periods. They are looking to retire to the coast in the next two years. Farm ownership and management had already been transferred to Jim and Sally seven years ago and a plan for Ken and Jan's retirement was in place. Ken and Jan had invested off farm when they could during their farming career.

Ken and Jan have always encouraged Jim and Sally to build their skills and experience on all aspects of the running the farm business (financial, production, marketing, people) since moving to the farm.

Jim worked as an agronomist for five years after leaving university, before returning to the farm in 2000. He is on the committee of the local grower group and the Jones family is well known in the area for regularly hosting trials on their farm. Jim is always seeking new information to keep their business ahead of the game.

### **Important disclaimer**

The Chief Executive Officer of the Department of Primary Industries and Regional Development and the State of Western Australia accept no liability whatsoever by reason of negligence or otherwise arising from the use or release of this information or any part of it.

**Copyright © Department of Primary Industries and Regional Development, 2018**

## Case Two: The Rose Family

The Rose Family have been farming on the South Coast of Western Australia for 80 years, with the farm currently being managed by fourth generation farmers, Bob and Sue. They run a mixed enterprise with cattle (70%) and cropping (30%). The farm is moderately profitable, but effectively just paying wages with some off-farm assets and reasonable equity.

Bob and Sue have two children, Kate (30) and Dan (27), both of which have worked on the farm from time to time after finishing their education. Bob and Sue are slowing down and spending less time on farm. They are looking to retire to Albany in the next two years.

Kate has been full time on the farm for seven years now and is effectively managing it with the support from her parents and husband Paul. Kate completed a degree at Muresk college and has a strong passion for farming. She met Paul at Muresk and Paul has been working as an agronomist on the South Coast since finishing university, while also supporting Kate with the farm.

Dan has been living and pursuing his own career as an accountant in the city and not looking at a career as a farmer. He has a long-term partner and is happy with the life he has started to build. He doesn't have expectations of involvement in the farm business.

Kate and Paul are starting a family of their own soon and are wanting to know what the future holds for them. They have started to indicate for the need for succession to be discussed by the family to gain some clarity of their future.

In 2003, all family members agreed to a succession planning session with the farm's professional advisers (bank, accountant and lawyer). The overall objective of the meeting was to develop a plan that enabled security for the parents, a viable farm for the farming family and a fair and reasonably equal distribution of family assets.

At the full day meeting the following key verbal agreements were made;

- The farm business would be taken over by Kate and Paul. Dan didn't believe he wanted to farm. Succession of management was done – easy.
- Kate and Paul would need to partially fund Bob and Sue's retirement into the future and any future age care needs.
- The majority of farming asset would be transferred to Kate and Paul together with all debt. An investigation was required to see if that could be done economically.
- Some off-farm assets would be purchased for Bob and Sue by debt secured on the farm.
- Bob and Sue would retain off farm assets (Albany house) for place to live, security and partial income.
- Off farm assets (with no debt) are to go to Dan

Everyone decided the succession meeting was a great success and everyone was happy.

The major concern, from all the family and the professionals involved in the meeting was that the farm may be unviable with the new debt loads following the past decade of poor agricultural profitability. Kate and Paul, however, were willing to "give it a go" and were happy that there was certainty of succession and estate planning process.

The various family groups continued to have very good relationships and everyone “got on with life”. Everyone was happy to have Christmas together and conversations were happy and relaxed.

Eight years on this situation has changed dramatically.

Kate and Paul have two children and been through a couple of tough seasons. They also completed a lot of farm development and productivity improvements during that time.

Several years after the ‘succession meeting’ the parents and Kate and Paul investigated the transfer of farm land to them and discovered it was quite easy and without cost due to various government exemptions and roll-overs.

80% of farm land was transferred to Kate and Paul in 2007. They got the debt under control and started to make modest profits. They made investments in off farm real-estate using farm assets as security.

In 2009, the neighbouring farm came up for sale and Kate and Paul make the decision to buy it, stretching equity of the farm business, which dropped to below 60%. Farm asset values rose dramatically in the late 2000s following land use change and rises in profitability of farms. However, the stock market crashed following GFC.

Younger brother Dan got wind of these decisions and the impact of the ‘family’s’ business and started to question who has control. The result of all this was that “words were spoken” at a family gathering and Dan discovered that the majority of the farm land had already been transferred to Kate and Paul. He didn’t believe this was part of the agreement of that succession meeting they had, and he is concerned that the family assets are at risk if Kate and Paul get divorced.

Dan went back to review the agreement that was made and realised that there were no minutes of the meeting that were recorded, documented and/or signed. Dan questioned the process following the original succession and estate planning meeting, the fairness of the outcome now and the security of their parents’ income and assets and the potential estate. It is all now hearsay, and finger pointing between Kate and Dan with ‘he said, she said’ arguments starting to happen.

By 2012 the net value of the farming assets has increased significantly driven by the increase in asset value and the high level of gearing. Despite this, the farm is currently barely viable under the weight of debt, current commodity prices, some difficult seasons and the emotional stress of succession clouding judgments.

A nasty emotional dispute develops between Dan and Kate (and their spouses) with threats of legal action, etc and puts serious pressure on the parents who thought succession was completed and everyone was happy.

# Facilitators Cheat Sheet

## The Jones Family

### Analysis

#### Describe what has worked well for this family? And what didn't work well?

Have built a successful business

Positive attitudes from all involved to grow and sustain a successful farming business

#### Identify the success indicators in this succession case

- Communication and Regular meetings
- Everyone from the family involved, including younger children if they wanted
- Clear process driven by a shared vision across generations
- Allowed sufficient time to make the important decisions and forward planning for the next generation

#### Identify the major problems

- Describe what steps could have been taken to enable this family to achieve its goals in future
- Identify any gaps this family hasn't considered and if there are any identifiable risks in their plan.

Life insurance

### Findings and Recommendations

- Summarise the key points above and discuss what the family could have done to improve their situation
- Develop alternative solutions for their problems
- Provide a recommendation on which solution they should use, and justify your choice by explaining how it will solve the major problem/s

### Implementation

- Explain what should be done, by whom and by when.
- Develop at least three SMART goals for the family
- Where possible include a rough estimate of required resources (both financial and time).

# The Rose Family

## Analysis

### **Describe what has worked well for this family? And what didn't work well?**

What worked – they made the decision to have a meeting about succession. They had their advisors in the room – but potentially they weren't skilled enough to provide the right recommendations to the family and to clear document the discussion.

What didn't – it was only one meeting, not a process.

### **Identify the success indicators in this succession case**

Investments off farm

### **Identify the major problems**

Lack of communication – Dan (son) thought he could still had input into the farm business, but management and assets has already been handed over (because the parents though this is what everyone want – from the one meeting they had)

No written evidence of succession discussions and agreements

Only one succession planning meeting – not enough to fully understand the decisions made and address all factors that need discussion/decision

### **Describe what steps could have been taken to enable this family to achieve its goals in future**

Identify any gaps this family hasn't considered and if there are any identifiable risks in their plan.

There is no clear documented plan that all parties could sign and agree to – this was the biggest risk and what cause it all to fall over. Can't rely on verbal agreements, because there is no evidence.

## **Findings and Recommendations**

- Summarise the key points above and discuss what the family could have done to improve their situation
- Develop alternative solutions for their problems
- Provide a recommendation on which solution they should use, and justify your choice by explaining how it will solve the major problem/s

## **Implementation**

- Explain what should be done, by whom and by when.
- Develop at least three SMART goals for the family
- Where possible include a rough estimate of required resources (both financial and time).