Dairy Australia
Your Levy at Work

Stepping back

Getting a game plan workbook

Disclaimer

Stepping back – Getting a game plan workshop

The Youngies Dairy Enterprise

Evan and Fi are seeking some direction!

The background

- Fi's grandparents Alan and Beryl own the 320 acres on which the dairy is situated, but no estate plan with a definite outcome has been decided. Alan and Beryl are not partners in The Youngies enterprise.
- Fi's parents Charlie and Dianne are partners in The Youngies and provide 400 acres of low productivity land for use by the enterprise, plus some limited labour. Charlie has an off-farm business from which he retains the income, but for which The Youngies incurs the costs.
- Evan and Fi are partners in The Youngies, providing 210 acres of milking area and 90% of the labour.
- The partnership involved in The Youngies (Charlie and Dianne, Evan and Fi) owns all of the mobile plant and livestock plus some of the fixed plant and renovations to the dairy. There is no partnership agreement written down.
- Cash flow is very tight (very limited ability to make drawings) and Evan and Fi have just had their first child.

It is important for Evan and Fi to get some clarity for the future, BUT equally important to preserve family relationships and not burn bridges!

Where do you start?

This is an unusual case … or maybe not?

Employment with a stock bonus

This option allows the opportunity for dairy entrants to grow wealth and for owners to attract and retain good people without the risks commonly associated with share farming.

This pathway has appeal for a number of reasons:

- The journey to herd ownership is challenging and ideally starts with accumulation of young stock.
- A young farmer with ambition and capability needs to find a farm business that provides such an opportunity.
- A stock bonus that continues to grow on longevity of tenure is a great retention tool.
- An employee can build up a significant stock inventory without the risk of share farming.
- An employer can provide an environment where the employee has ownership without the need to relinquish much of the control that share farming brings.
- For the employee there is an increased desire to care for stock.
- The stock accumulation phase allows both parties to accustom to a longer-term engagement that may well result in share farming.
- The business risk of transition to share farming for the farm owner is better informed having a long-term employee take on that role.
- The exit strategy is straightforward.
- It is tax advantageous for both parties.
- It is an attractive **interim** step for both parties.

Principles of an employment engagement with a stock bonus

1. The engagement is viewed as a long term agreement that allows a win-win from all perspectives including, business profitability, wealth creation, reward for effort, skills development, work-life balance, support, trust and respect.
2. A % of the heifers raised will be offered as a bonus annually. This % may be set at a lower rate for the initial years or have a minimum engagement period before the employee is able to effect it, as protection to the owner in case the tenure does not last beyond an agreed term of employment.
3. If such an agreement is being considered after there has already been a significant period of engagement then there may not be a need to consider a lower % in the event of early departure.
4. No rearing costs, lease, cull income or losses are considered. These cattle are only available on termination of employment.
5. It is assumed that the salary will be compliant with the Pastoral Award, given that such employees are classified as FLH5 or FLH7 and all hours are recorded and rewarded.
6. Individual cattle are not owned but rather a percentage of each of the age groups is owned as demonstrated on the spreadsheet.
7. The % does not change but as cattle leave the herd, the total number of that age group drops. This is accommodated by an increase in the % of calves kept each year.
8. The aim is to focus on a bonus in $ terms that reflects the principle behind the offering.
9. When the agreement settles, as a default, cattle are distributed based on percentages and allocated on a pro rata basis. For example, in a third ownership of yearlings, every third heifer would be numerically selected from lowest to highest. Any changes to this methodology would be negotiable.
10. The ownership of the cattle can be reflected in the balance sheets of both parties and tax will be payable on the change in stock value annually (usually assigned a low value).
11. In a situation where it is inevitable that the employee will eventually move on with their cattle to farm elsewhere, it is feasible for the business to rear more heifers leading up to this scenario so that the herd size is not untowardly affected on their departure.

A worked example

Andy and Lisa have taken on managing a 400 cow farm for Tony and Brenda, who are no longer wanting to be involved in the day to day operations.

They have built up a substantial asset in their dairy farm and neither of their two daughters are interested in farming. Tony has great pride in his cows and is very keen to give Andy and Lisa a chance to get ahead, whilst still being involved in the business. Andy and Lisa have been in the industry for 6 years, the last 12 months with Tony and Brenda. They are keen to own stock but don't want to borrow money to do so. Tony does not feel comfortable about handing over the risk of farming to them as he feels he would rather them have a guaranteed income until they are able to invest in the farm and are more advanced in decision making skills.

Andy and Lisa both work on the farm and a relief milker comes in to milk for them when they have time off. They are paid for all the hours they do as per the Pastoral Award. They are categorised as FLH5 and FLH7 employees under the award. The stock bonus that they have agreed on, will only be activated if they stay on the farm beyond three years from their start of employment. It is 25% of all the heifers reared on the farm since they started, so by then they will have approximately 25 first calvers, 25 rising 2 year old heifers and 25 yearling calves. Beyond three years the % will rise by 5% per annum to maintain the $ value of the bonus as some of the original heifers will be leaving the herd through normal attrition.

At the end of five years, the market value of the stock will be around $200,000. They will not pay any costs of these cattle or receive income of cull value from any of them until they take possession. This will occur if they leave the farm or if they commence share farming or enter into a shared equity arrangement with Tony and Brenda. None of the cattle are individually owned, and come the time to take them away, they are selected by splitting on a numerical basis. If Andy and Lisa choose not to continue on beyond 3 years, they are only eligible for half the bonus.

If Lisa and Andy can save some money over the next 4 years, hopefully they will have enough savings to purchase more of the herd prior to a business arrangement with Tony and Brenda. At the moment, it suits Tony to have a keen couple in the business, growing their wealth but not exposed to the financial risks of the industry. He is also happy to know that the major operational decisions are ultimately his responsibility while he builds up trust and confidence in their decision making. Tony realises that for Andy and Lisa to have enough cows behind them to have a reasonable start when they are ready, he and Brenda need to share some of their profit in these forming years through a stock accumulation bonus.

That way, they may well have a long-term farm transition process in place. This would be a dream come true, compared to having to manage a constant turnover of young people, as they move on looking for unrealised opportunities. It could ultimately result in wealth preservation if Andy and Lisa take the farm business to the next level, rather than struggle as he and Brenda become less enthusiastic.

Wealth creation via stock accumulation through a longevity bonus

Stock values									
Age	R 1yr	R 2yr	1st C	2nd C	3rd C	4th C	5th C	6th C	7th C+
Value	$800	$1,600	$1,800	$1,800	$1,600	$1,400	$1,300	$1,100	$1,000

Adult herd numbers	400
Heifers reared as % of herd	25%
No. heifers reared	100

Long term commitment	Year 1 2016	Year 2 2017	Year 3 2018	Year 4 2019	Year 5 2020	Year 6 2021	Year 7 2022	Year 8 2023	Year 9 2024	Year 10 2025
Bonus % of heifers	25%	25%	25%	30%	35%	40%	45%	50%	55%	60%
2016	25.0%	25.0%	25.0%	22.5%	20.3%	16.2%	13.0%	9.1%	5.4%	3.3%
Number of heifers	25	25	25	23	20	16	13	9	5	3
2017		25.0%	25.0%	25.0%	22.5%	20.3%	16.2%	13.0%	9.1%	5.4%
Number of heifers		25	25	25	23	20	16	13	9	5
2018			25.0%	25.0%	25.0%	22.5%	20.3%	16.2%	13.0%	9.1%
Number of heifers			25	25	25	23	20	16	13	9
2019				30.0%	30.0%	30.0%	27.0%	24.3%	19.4%	15.6%
Number of heifers				30	30	30	27	24	19	16
2020					35.0%	35.0%	35.0%	31.5%	28.4%	22.7%
Number of heifers					35	35	35	32	28	23
2021						40.0%	40.0%	40.0%	36.0%	32.4%
Number of heifers						40	40	40	36	32
2022							45.0%	45.0%	45.0%	40.5%
Number of heifers							45	45	45	41
2023								50%	50%	50%
Number of heifers								50	50	50
2024									55.0%	55.0%
Number of heifers									55	55
2025										60.0%
Number of heifers										60
Value	$20,000	$60,000	$105,000	$149,500	$193,900	$237,580	$283,528	$329,087	$374,646	$421,398
Total number	25	50	75	103	133	164	196	229	261	294
Average Value	$800	$1,200	$1,400	$1,459	$1,461	$1,449	$1,444	$1,437	$1,434	$1,434
Addition	$20,000	$40,000	$45,000	$44,500	$44,400	$43,680	$45,948	$45,559	$45,559	$46,752

Shared equity calculator

Farm “Inheritance Dairy”

Farm physical and financial performance

Milking cows	400
Production kg ms	220,000
Cost of production per kg ms	$4.80
Milk price	$6.00
Stock sales	$80,000
Farm EBIT	$344,000

Farm Assets and liabilities			
Land	**Acres**	**$/acre**	**Total value**
	600	$6,000	$3,600,000
Farm Land Debt			$600,000
Debt funding interest rate			5.00%
Business			
Stock	**Number**	**$/head**	**Total value**
Milkers	400	$1,600	$640,000
Young stock	200	$1,000	$200,000
Plant			$400,000
Total business value			$1,240,000
Stepping back share	70%		$868,000
Stepping up share	30%		$372,000
Business debt			
Business debt			$100,000
Business debt interest rate			6.00%

Commercial value of equity investor employment on the farm			
	Annual hours	**$/hour**	**Total value**
Stepping back	1,500	30	$45,000
Stepping up	3,500	28	$98,000

Business performance		
Business income	Farm profit	$344,000
Business costs	Lease farm at 3%	$108,000
	Cap ex fund at 2%	$72,000
	Depreciation of plant	$40,000
	Debt funding	$6,000
Business earnings	Profit before tax	$118,000
	Return on Asset (RoA)	9.52%

Affordability		Stepping back	Stepping up
	Lease income	$108,000	-
	Employed income	$45,000	$98,000
	Business profit distribution	$82,600	$35,400
	Total income	$235,600	$133,400
	Costs		
	Personal costs	$100,000	$50,000
	Finance costs land	$30,000	-
	Finance costs personal	$20,000	$40,000
	Surplus funds before tax	$85,600	$43,400

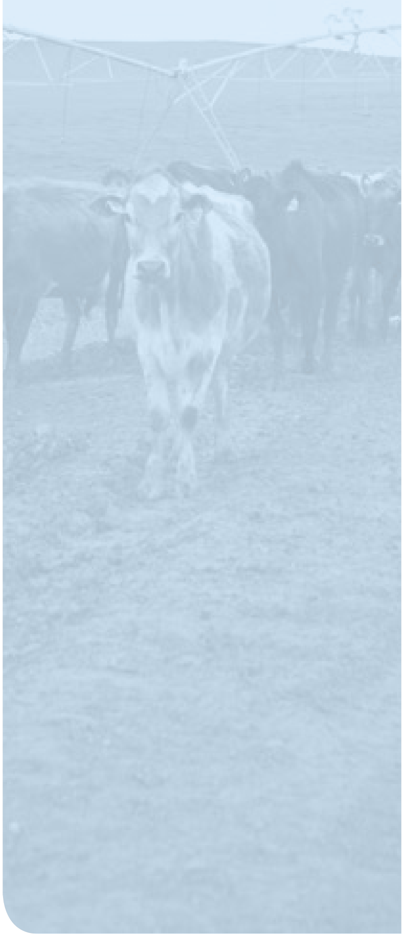
Notes

It is easy to see how this varies according to milk price,cost of production, level of debt on farm and business, amount of work done by each party and personal expenditure. The optional annual bonus represents the intellectual property that the SU brings to the farm as they contribute expertise and potential for increased profitability to the farm business.

The game plan for transition

What is meant by the term “Game Plan”? It is an agreed plan of action to be undertaken over time by the individuals in a business who desire to make a significant change within that business; it may be short or long term change.

Example game plan provided by OMJ Agriculture Consulting.



Such a change will generally affect individual roles within the business and the ownership of assets. It may relate to the development of a simple share arrangement right through to the complete withdrawal of some active asset owners in the business. Whatever the form the transition takes, the Game Plan acts as a summary of intentions, provides a time frame for achieving those intentions and becomes a means of communicating those intentions to all those who should be kept informed.

There is no “template” for a game plan and nor should there be! It can only be described as a joint document drafted by a trusted advisor who has done a lot of listening and crunched a few numbers. That said, a **Game Plan** should contain some or all of the following:

› A description of the current structure and position of the business, including the roles of individuals, assets, liabilities and business performance. This may include all the assets owned by the individuals, not just farming assets. For example the net assets of the older generation are particularly important in situations where they desire to transition to a less active or perhaps no role in dairy farming. Inclusion of this information sets the background for deciding what change is possible.

› Objectives of the asset owners as described by the asset owners. This is done as an individual activity, preferably as part of a one-to-one conversation between the game plan author and the asset owner. If the expression “we want....” is used, it has to be checked with the individuals who are part of that “we”. This is a critical feature, to ensure every affected individual’s perspective is respected, especially those in the twilight of a career (after all the hard work!). Inclusion of this information helps explain why a change in the business may need to happen, either in the short term or further ahead.

› Input from other “active members” of the business in terms of their expectations for the future. An active member is defined (loosely) as someone who is actively involved in the business on a regular basis, for example, a family member who actually works in the business. Once again, this information is recorded as part of a one-to-one conversation between the game plan author and the individuals involved.

  “Active members” are distinct from “interested parties”. For example, a daughter who manages the herd is an active member compared to the daughter who is a nurse in Melbourne who comes home for the occasional weekend.

In terms of the Game Plan, meeting individually with the asset owners and other active members has proved the best place to start, before involving the “interested parties”. The success rate of “open and honest” family meetings is not high until AFTER the Game Plan has been drafted. This is because of the different levels of understanding of the business, which in turn can create unnecessary tension between family members. A clearly laid out document such as the Game Plan, eliminates a lot of misconceptions.

- A description of the pathway chosen to closely as possible achieve all the stated individual objectives, having been presented with a range of options by a trusted advisor. It’s no good coming up with a plan that doesn’t suit everyone, or worse still, one that no-one can afford, so each option will have been assessed in terms of its affordability and success in meeting objectives before choosing the best one.
- A stated time frame for the desired change to occur. When considering a long term change, it is advisable to break the plan into manageable steps. For example, it may be very detailed for the first 2-5 years and then more general beyond that; depending on the outcome/success of the 2-5 years, revision of plans going forward may have to occur.

  It is very rare to experience the “ultimate” succession plan that outlines every step for each individual for the next 20 years, including the nursing home! A broad long term picture accompanied by small, clearly defined and communicated steps seems to be the key to successful pathways.
- Even with a shorter term objective, the Game Plan must include steps and potential dates for activities to occur, if possible identifying who in the family will be the “driver” of the Game Plan.

The Game Plan is prepared initially in the form of a draft. It is circulated first to the major asset owners, then other active business members for approval. Once finalised, it can then be circulated to other family members and other professionals with the expertise to achieve the desired outcomes. The latter are engaged to assist individuals (in particular the asset owners) to work through the game plan - not direct it.

The importance of this document cannot be overstated. It gets individuals to clarify and state their objectives for the future, sometimes for the first time, before engaging other professionals who at times are guilty of providing and establishing options which do not achieve these individual objectives. It also provides other specific-issue professionals (accountants and solicitors) background information to be able to context their advice thus saving time and money.

Example game plan

Shie family future January 2015

This is an example of some-one's Game Plan being developed. It was prepared in January 2015. The core details are real but various other details have been changed to preserve confidentiality. It covers a 5 year period. See the end of the document for an up-date.

Background and purpose of this report

The Shie Family commenced a family dairy enterprise five years ago that involved the purchase and conversion of a dryland district grazing property. A 50 unit rotary dairy was built, plus subdivision, tracks and all the other necessities that arise with conversions.

The driving force behind the move into dairy has been eldest son, Darren, who is a career dairy farmer, having worked as an employee on some high performing dairy farms and obtained formal dairy qualifications. The movement into dairy has been strongly supported by his parents, Kevin and Edith, both financially (almost completely) and physically. Kevin had previously owned and operated a local substantial excavating business.

The farm milked 400 cows 2013/2014, and will milk more in the future, with the recent acquisition of an additional 220 acres that will come on line by June 2015.

An analysis of the financial and physical performance of the business suggests that the business appears to be performing quite well.

It is now time to develop a longer term plan, so that all family members are aware of each other's intentions and so that the necessary structures are established to secure the dairy business into the future, while enabling individuals to achieve their stated objectives.

The purpose of this draft report is to clarify both the current and future issues of individuals, plus the business position, to enable a future position to be developed.

The report, when finalised, can be used to discuss the future with external professionals assisting the development of the stated desired future outcome.

The initiator for the "Future Plan" was Darren, supported by Kevin and Edith. This has arisen because Darren, quite correctly, needs to know his future in the business, particularly since he now has a family with wife Sue and two children.

I met with Kevin, Edith, Darren and Sue individually and then a family meeting was held on 1/8/2014. The contents of this report hopefully reflect the sentiments of those present, in particular the major asset owners (Kevin and Edith) and full time active share-farmer in the business (Darren).

Even though there may be reluctance to resolve some of the difficult issues which emerged at the 1/8 meeting, if they are not resolved now, they will be forced to be resolved in the future, and family relationships may suffer in the meantime.

This "sorting" process will take time and this report is the first stage. To place a time frame on this, a reasonable and achievable target is to have this resolved and documented by 30/6/2015.

Family individuals and objectives

All family members were at the 1/8/2014 meeting and their stated position is as follows:

Kevin (aged 61)

- Has an excavation business and a small scale beef grazing background but has enjoyed the move into dairying.
- Wants family harmony in the future.
- Would like to see the business grow.
- Definitely wants to have the option of including other family members in the business should they show a genuine interest to be formally involved.
- At this stage would prefer to retain partial ownership (minimum 50%) of the livestock.
- Does not see retirement as being in the short term, and is happy to keep providing physical support full time in the dairy business for a period of 5 years. After 5 years, involvement is likely to be minimal and at his discretion rather than an expectation.

Edith (aged 54)

- Works off farm in administration part time, but would like to retire from this in the near future (1-2 years).
- Family harmony is a high priority.
- All family members are a high priority in the future and the younger members (Danny and Carol) have not yet had the time to determine their long term intentions.
- Is told by the bank, the accountant and consultant that the dairy business is very profitable, but cash is often still tight.
- Not prepared to exclude the future possibility of Danny and Carol being involved in the dairy business at this stage.

Darren (aged 33)

- Is a passionate career dairy farmer and has exhibited a high level of expertise as an employee and now “manager”.
- Controls/directs daily activities in the family dairy business.
- Provides some assets.
- Is ambitious to have a dairy growth pathway, either in the family business or another dairy business.
- Feels that he has been the “driver/initiator’ of the dairy business and it’s now time to increase level of control and identify direction and assets growth for him and Sue in the dairy business.
- Believes that other family members (Danny and Carol) are unlikely to become passionate participants in the dairy business.

Sue

- Is a passionate dairy career person, in conjunction with a growing family.
- Has a family background in dairy farming.
- Definitely wants harmony within the Shie Family, but also requires clarity for her family with Darren.
- Would like to be more involved in the current business, but her arrival was after the development of the current arrangements, which have not been reviewed.
- Long term farm ownership is a goal. If it’s not here, fine, but we need to know.

Danny (aged 30)

- Has just completed a double degree in Science and Law.
- Recently obtained a full time position with a public organisation involved in environmental management.
- After completing his degree, he returned home briefly as an employee, undertaking milking and farm duties as required; paid as a casual farm employee.
- Definitely wants the long term option to be involved in the dairy business.
- Is slightly concerned that Darren’s level of control and ownership of the business could impact on his ability to return to the business.
- Is not sure if he has a long term passion for or interest in dairy farming but is prepared to indicate his intentions within the next year.

Carol (aged 26)

- Is studying Aged Care locally through TAFE, which will continue until 2016.
- Works part time as a retail assistant close by.
- Has a very strong passion, high level of skill, and commitment to greyhound racing, owning greyhounds.
- At this stage has no indication of her long term career intentions.
- Is concerned that Darren's control and asset ownership does not increase in the short term future, or if it does, it is very transparent.
- Has indicated some difficulty working with Darren in the dairy business, but at times has been paid as a casual milker.
- It is very unlikely that she will consider a long term dairy career.
- The issues listed above are very common to many family farming situations that have succeeded in achieving business growth while preserving family relationships.
- Therefore, there is no reason to think that this not achievable and it's "all too hard" in this situation.

Physical resources, current business arrangement, and future growth

Physical Resources

- 428 acres on 5 titles:
  - 4 acres with Kevin and Edith's house
  - 96 acres with the dairy and a house in which Darren and Sue live
  - 228 acres
  - 2 titles of 50 acres = 100 acres.
  - Kevin and Edith own the 428 acres. Shire valuation is $2,717,000. A more realistic valuation would be $3,547,000.
- 96 acres owned by Darren and Sue, which is used as a turnout block by the dairy business. This is valued (Darren) at $580,000.
- 96 acres is also leased, part of which is milking area.
- A recent purchase of an adjacent 210 acres @$6,100/acre by Kevin and Edith required $1,281,000 of additional debt.
- This means that the land area and facilities can now cope with 560 cows on a milking area of 230 hectares. This is a stocking rate of 2.4 cows per hectare which is quite achievable with a low risk profile.
- Stock provision includes 375 milkers and 127 replacements, owned by Kevin and Edith. In addition, there are 60 cows and 20 heifers provided by Darren and Sue.
- Plant and equipment: Darren provides a tractor and motorbike as part of the share arrangement, and Kevin and Edith provide a tractor with front end loader, mower, and two motorbikes.

Current business arrangement

› A share arrangement was established when the dairy enterprise was commenced. This has not been reviewed since commencement and there is no formal agreement, just "guides" related to cost and income sharing.

› Darren receives 34% of milk income and pays 34% of some costs: fertiliser, purchased feed, fodder conservation, cropping, pasture renovation, vet visits and 100% of repairs and maintenance to his equipment.

› Kevin and Edith pay all other costs and receive 70% of milk income.

› Livestock sales are 100% "each their own."

› The labour expectation is that both Darren and Kevin are full time (which means hours are similar to other self employed dairy farmers - a lot!!).

Financial position

Kevin and Edith:

› Depending upon valuations, their total assets are $5.9 million and liabilities $2.2million. Hence they have a net worth of $3.7 million, or 63% equity, which is a good net worth but slightly low % equity for their age. This does not include Edith's superannuation of $176,000 in an Australian Superannuation Fund.

› Based on their per cow income, say 68% of 460 cows (313 cows), their annual debt servicing is a moderate $492 per cow ($2,200,000 @7%= $154,000/313 cows), which is reasonably high. This would place pressure on cash flow, especially on a developing dairy farm. Hence Edith's comment that the farm is not paying them much beyond drawings. This debt servicing includes some principal and interest.

› The profit and loss for Kevin and Edith indicates losses in the last two years of $41,840 and $307,028. However these include depreciation of about $175,000 and interest of about $120,000. When these are added back in to get the figure for Kevin and Edith's 70% share of the farm Operating Surplus (before interest and depreciation), the figures become $264,572 and - $29,163). The figure for the year before last seems quite reasonable and if this was based on 70% of total milker numbers of say 355 cows (248 cows), it calculates to $1,067 per cow ($264,572/248 cows). This would mean that the total business (before share split) should have had an operating surplus of at least $377,960. The interim figures I have done indicate that the operating surplus in 2013/2014 was $558,824 ($1,574 per cow) - if this is correct it is an excellent result. However, remember that no owner operator labour has been paid as yet.

Darren (and Sue)

- Assets include 106 acres ($580,000), a rental property ($250,000), livestock ($60,000), Tractor and motorbike ($80,000).
- Liabilities include $390,000 on land and $70,000 on the tractor.
- Net Worth is $510,000 and equity 52.5%
- Darren's Profit and Loss has not been reviewed.

The financial position indicates a growing business performing well, but debt and development putting pressure on cash flow especially for the Owners. This does **NOT** mean that the current share is not equitable; it is simply a statement of fact regarding the debt and debt servicing position of each party.

Labour: who does what?

It is clear that Darren "manages" the dairy business and provides the skill set that is generating profit, something that eludes a lot of the dairy industry.

A suggested description of the current provision is that Darren and Kevin provide about the same hours - a lot each!! But it is important to acknowledge that the two individuals would have very different commercial values to the dairy business.

Kevin would be a valued employee (worth say $78,000 including on costs). Darren would be a valued dairy manager (worth say $115,000 including on costs). They both work hard, but Darren has simply got more dairy skills, as he should have because he's been in the game for a lot longer.

The role of other family members has been mainly milking, and, in some cases (Danny and Carol), this has been paid work, and, in other cases, unpaid work (Edith and Sue).

There has been no external labour employed, but this might (will) have to change in the future with the potential growth ahead.

Future options to achieve objectives

Considering the questions being asked and the growth ahead for the business, it cannot just continue as per current arrangements.

As an outsider, but familiar with the issues, I would make the following comments:

- Darren and Sue are important individuals in a dairy business which will grow to 550 - 600 cows in the future. It would risk the profitability of the business if they were to leave. It's critical to the business that they are not put on "hold" in asset growth in the short term.
- Kevin and Edith have taken on substantial debt and workload to start this dairy business, at a late stage of life. It is now critical that it works. In fact, it could be advantageous to reduce their debt by "sharing" some assets but not losing control of all their assets.

- Danny and Carol are obviously very concerned that Darren will acquire excessive farm assets and control of the business. Communication and consultation with them is absolutely critical to preserve fragile family relationships.
- In reality, it will be 5–10 years before Carol and Danny have made life direction decisions. Even after that, there is another phase where, if they indicate they have a “dairy passion”, it needs to be proved - possibly another 5 years on wages. It is important that both Carol and Danny, and to some extent Sue (whose role is not clear amidst all this), are paid a commercial casual rate for work that they undertake on the farm. This avoids any future issues.
- Considering all of the above, I believe there are two possible pathways in the future.
  - **Engage Darren and Sue as more substantial share-farmers,** with **some** level of equity in the livestock, machinery and equipment provision (a proportion), daily control of the business, and the responsibility for the provision of external labour and paid internal labour. Kevin’s and Edith’s labour value would be built into a share arrangement as would Darren and Sue’s. This could be at a lower level due to the expectations of transition. This option could be established so that it does not exclude the possibility of Danny and or Carol being involved, and owning assets, in the business in the future. They could purchase/acquire Kevin and Edith’s share of livestock and operate with Darren and Sue, conditional upon being able to work together. It also has the ability to reduce Kevin and Edith’s debt and hence debt servicing pressure.
  - The second option is to establish a trading company acting on behalf of a unit trust. The company would own all the cows and mobile assets and the trust all the land assets which can then be “protected”. In this case the livestock and plant and equipment assets would be owned by the shareholders of the company and as the company grew so too will the assets owned by the individual shareholders. The company would pay wages in line with levels of responsibility, duties, and workload. The company could be owned in different proportions by different individuals.

An external professional opinion has been obtained regarding these two pathways especially the second. It is critical that all individuals understand the implications of a joint ownership.

I feel that my preference, at present, is for the share arrangement, with substantial emphasis being placed on terms and conditions to ensure all parties concerns are included. Tony King, an excellent accountant who does a lot of work with farming families regarding business structures, will provide his opinion and is likely to meet with Kevin and Edith in the near future.

Where to from here?

The next steps in this process are:

- This document was sent to Tony King a partner in one of the local accountancy and financial advisors businesses. Since then, Tony and I have met briefly to discuss his reaction and potential options. Tony has dealt with many succession-pathway structures. Tony and I both feel this will be a gradual process, perhaps involving a changed share, with Darren and Sue owning a proportion of stock, but not over 50%, and this equity being used to reduce Kevin and Edith's debt. Then, further down the track, a company type structure may be appropriate; however, the options will be outlined in a brief summary Tony will prepare. This process has been approved by Kevin and Edith. At this stage Kevin, Edith, Darren and Sue have all indicated their preference for a changed share and livestock ownership situation, rather than a unit trust, but will review Tony's document.
- After Kevin and Edith have received Tony's summary they may want to organise a meeting with Tony at his office. I can attend that meeting if desired.
- Following all this, I believe a meeting with the "active" members of the business (i.e. those with assets or livelihoods in the business - Kevin, Edith, Darren and Sue) should be held, to explain where the process is at, following the July meeting.
- Preparation of a projected 2015/2016 annual total farm budget with the new land and new debt.
- A review of the current share under the expanded farm and the 2015/2016 budget figures to ensure fairness and affordability for both parties.
- The grand plan as described above (revised share arrangement and stock ownership that meets fairness and affordability criteria) is finalised for the next 5 - 10 years and possibly longer. The target date for this would be by 30/12/2015, then the plan described and communicated to all concerned (including Darren and Carol).

Update

By 30/6/2016 the components of the grand plan were in place and communicated to Danny and Carol. Darren and Sue now own 50% of all livestock, with significant debt, plus the majority of the mobile plant.

This is the agreed arrangement for the next five years. After that, the situation will be reviewed and the next Game Plan developed.

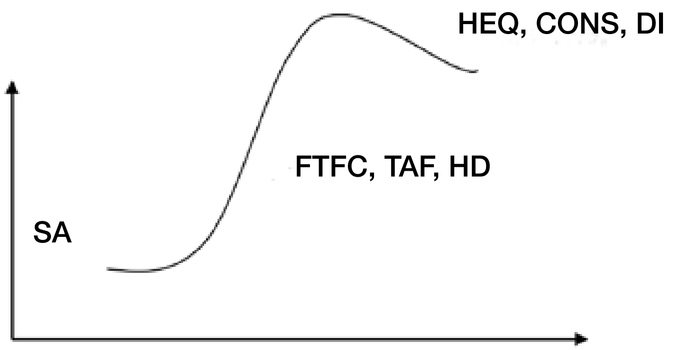
OMJ AGRICULTURAL CONSULTING
SERVICES TO AGRICULTURE FOR THIRTY YEARS

January 2015

Stepping back – Getting a game plan
Follow-up questionnaire

It's worth reflecting on where you are at and how urgently you need to do something re the future. This questionnaire is not to be sent back to me or anyone else. It is meant to be a quick review for you and your business partners so that you can assess where you are at.

1. **On the dairy farmer life curve where do you sit? (Put yourself on the curve)**



SA – Stuffing around

FTFC – Focus, tight cash flow

TAF – Tight arse factor

HD – High debt

HEQ – High equity

CONS – Consolidation

DI – Discretionary involvement

2. **What are the "ages" of the owners of your dairy business?**

☐ **Owner 1** ☐ **Owner 2** ☐ **Owner 3** ☐ **Owner 4**

Considering the average life expectancy of Australians is 84, according to the Australian

Bureau of Statistics, how many years between your age and 84?

3. **Have you calculated you net worth recently?**

Net worth = Total Assets – Total Liabilities.

After deducting the amount needed for somewhere to live....to enjoy life on about $80,000/yr for 20 years post retirement, you would need a net income generating amount of $1.2 M achieving a 3.5 % return. How does your situation stack up?

4. **Dealing with multiple generations in your business**

a. If the dairy business ceased tomorrow, does everyone know who would own the various assets in it?

☐ **Yes** ☐ **No**

b. If you own all or the major part of the assets in your business, are other active members aware of your future intentions re your assets while you are alive? (As distinct from estate entitlements)

☐ **Yes** ☐ **No**

c. If you are older than 60 (within 24 years of 84), are the active family members in your business (partial asset owners or just employees) aware of what your estate intentions are in relation to the farming assets?

☐ **Yes** ☐ **No**

If you have ticked "yes" to all three questions, it seems as if communication and future planning are under control. Three "no"s suggest that some action needs to be taken.

5. **Can you explain your current business structure to someone else and the entitlements of individuals within that structure?**

   ☐ **Yes** ☐ **No**

   If no, then you need to get the individual professional who established the structure to give you an explanation in writing.

6. **On the scale opposite (1 – nowhere near; 10 –plan exists) circle how close are you to planning your transition/succession pathway?**

   1 2 3 4 5 6 7 8 9 10

   Considering that the process can take 5 years, is your position appropriate for your age?

7. **Developing a transition/succession "game plan" that acknowledges what all the individuals want is critical if it is to succeed. Can each asset owner in your business write down their personal objectives for the next 10 years? This will determine the look of the "game plan".**

8. **Put names beside the following important people.**

   Game Plan Facilitator ______________________

   Accountant ______________________

   Solicitor ______________________

9. **All transition/succession processes need a "driver", someone within the business/family who keeps the process moving. Who is your designated driver? (They will need to know the "game plan" and expectations!)**

   ____

Remember the core values for success:

EMPATHY, RESPECT, CONFIDENCE, PATIENCE, TRUST

It is important that everyone involved do some self-evaluation in relation to these.

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Notes

Notes





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