



SUCCESSION PLANNING — GET STARTED!

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QUICK TAKE

- Succession planning is a key issue for many Australian farming business families.
- Do not delay succession planning—get started straight away.
- Every family situation differs, so there is no “one size fits all” succession plan.
- Succession planning is more than a commercial transaction—the family needs to emerge with its relationships intact.
- Understanding what motivates people in the planning process is essential, as are transparency and trust.

For many family farm businesses, succession planning is the ‘elephant in the room’. When succession planning is not addressed, or goes poorly, it often leads to the breakdown of family relationships. As every farm business differs there is no ‘one size fits all’ succession plan. However, there are a few key points to consider.

Has the Family Farm a Future? was the title of a forum held in Wagga Wagga, in June 2012. Bill Thompson, well-known succession planner from Commins Hendriks, provided a few key points:

- start early—the sooner the better
- avoid rash decisions
- explore options and make informed decisions
- communicate with all family members.

Bill also encouraged the treatment of the farm as a business, not just a lifestyle. The business must be profitable, and if profitability cannot be achieved within a reasonable time frame, some hard questions must be asked.

As Bill said, the key to succession planning is to start early. The process can take some time, so the sooner the process begins the better.

In the early stages of succession planning it is important to identify goals and explore options. It helps to find out how others have approached succession planning, and pick those options that will best work in your situation.

Key outcomes of a succession plan

Succession planning is not just a commercial transaction. It needs to be more than the transfer of the family business from one generation to the next. Key outcomes from succession planning must include:

- provision to fund retirement for the older generation
- emergence with all family relationships intact
- consideration of the family members not presently working in the family farm
- recognition of foregone wages or “sweat equity” for those on the farm.

Where to start?

In the early stages of succession planning, the family should come together to identify goals and discuss what each wants to achieve. For those who have difficulty discussing their views in such a forum, they should write their thoughts down.

Often the best process is to seek assistance early on from your trusted business advisors, such as:

- accountants
- agricultural consultants
- solicitors
- financiers.

We can all relate to the Christmas lunch where someone outside of the family is present. It may be a new partner. Rather than all family members falling into their bad habits, everyone is on their best behaviour, simply by introducing one stranger to the group. The succession planning process can be similar to this. If families have difficulty communicating with each other, succession planning may best be facilitated by an external expert. Remember that **trust is crucial** when choosing someone to assist.

As each family is different, some families will be able to achieve succession planning via a series of face to face meetings. Others may be best conducted with very few meetings and most of the discussion taking place through the external facilitator. Again there is no 'one size fits all' approach.

The planning process

Bill Thompson recommended families should:

- explore different options by working with your advisor/agricultural consultant who can "road test the options to see whether they are practical and workable"
- have an independent experienced chair for a family meeting
- use your advisors as part of the team.

When preparing for a family meeting with an independent chair, as a minimum bring with you the following:

- family tree
- farm mud map
- brief history
- balance sheet using fair market values
- summary of business structure.

Throughout the process, **transparency is essential**. All family members, including those not working in the family business, need to be considered in terms of the thinking and direction the succession plan is taking. **Information will empower people, build trust** in the process and provide outcomes based on facts.

What do people want?

It is important to understand people's wants and needs. Typically, the younger generation have the desire, but lack the capital to get started in agriculture. The older generation may be able to assist with the provision of capital through joint venture, lease or other arrangement.



Succession planning is a key issue for many Australian farming business families. Step 1: start talking.

The older generation want assurance about their retirement and confidence the next generation will not fail, or at least erode the balance sheet.

It is important to provide **certainty for all** family members and that certainty includes:

- freedom for the younger generation, with enough autonomy to make decisions and make their own mistakes and learn from those mistakes, rather than be overridden or criticised
- consideration of those family members not residing on the farm
- recognition of "sweat equity".

The exodus of young people away from agriculture often can be a result of the negative image of agriculture. The opportunities in informed and proactive agriculture need to be better understood and promoted. Rather than purchasing an expensive city home, remember the interest costs for a farm (which includes a house) is tax deductible and the core asset is also income producing. The cost of living, lifestyle and the tax-effective way that farms can be operated can negate the difference in the seemingly higher salary earned in a capital city compared with a farm.

The challenge ahead

With a large number of farmer baby boomers set to retire in the next five to ten years, succession planning should be addressed sooner rather than later. In our experience succession plans that are implemented before the younger generation turns 30 have a much higher chance of success. So get started—the sooner the better! 🌞

Further information

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Succession planning is more than a commercial transaction. Keep things in perspective and enjoy time with your family.