Getting the next generation into farm ownership on their own footing

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Executive Summary

There is something special about owning a piece of land and providing high quality nutritional produce to the world. Farmers are dedicated to their jobs and work every day to put food on people's plates. This commitment is vital to sustain the growth of the world's population and address continuous change, be it market, technical, disease or environmentally driven. The challenge is to grow the agricultural industry and keep entry points open, to allow the next generation to attain farm ownership.

The aim of this project is to investigate what options there are for younger farmers to grow their equity within the agricultural industry, rather than investing in external options, and enable them to get a foot in the door to farm ownership.

From my discussions with farmers, rural professionals and business owners outside the agricultural industry, there is a sense that it is harder than it has ever been to buy a farm, but it is still possible. For those people wanting farm ownership, they felt this could still be achieved through hard work, embracing opportunities and a bit of luck. Generation Y and Z have a different view to the traditional mindset about the pathway that may lead them into farm ownership. In the past, this has typically involved hard physical graft, but for Generation Y and Z, they are looking for more than just physical ownership.

Generation Z, who are being raised in a fast-paced continually changing world, want to develop skills that are transferable between industries so they are not confined to the same job for many years. For this generation, while farm ownership may limit their diversity of skills, they also want the security and stability, which can be achieved by owning a farm. However, there are also some in Generation Z that have full autonomy in their farming role and, because they view themselves as guardians of the land for a limited time, they do not see the need for farm ownership to achieve their goals.

A significant issue that the agricultural industry is facing, is to create a vibrant industry that attracts and retains the next generation in farming. Without a diverse and exciting industry that allows progression within the farm gate, Generation Z will look to other industries that can fulfil their needs. Losing this resource will also have a direct impact on farm profitability.

From the discussions held with farmers and rural professionals, the model that appears to work best for all parties in the long term, and particularly Generation Y and Z, is equity partnerships. For Generation Y and Z it meets their desire for flexibility and provides a variety of structures and options for entry and exit. It enables a holistic approach as both parties are working towards the same goal. The advantages of equity partnerships are that they share the capital gain equitably, enables tax to be offset against capital improvements, and it is easy to change the proportion of shareholders holdings. There was also a view from rural professionals that, operational shareholders need opportunities to grow their equity in the farm. Given the cost of changing management of operational shareholders, this may be cheaper in the long term if existing managers are financially rewarded. Staff stability will enable the business to achieve higher targets because all the shareholders are aligned with common business goals. There are different ways an equity partnership can allow operational shareholders to do this, for instance rearing livestock, diversification of land use or farm profit performance-based shares. This in turn allows the next generation to grow their equity, and provide more opportunities for retiring farmers to sell their land.

New Zealand farmers are well known for their “kiwi ingenuity” and the challenge of getting into farm ownership from scratch is just another hurdle that can be overcome with creative thinking and support. In order for farms to remain in New Zealand ownership, it is important to work with young people, give them a vote of confidence, guidance and financial opportunities to pursue farm ownership in a way that is meaningful for them and allows them to meet their goals.

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1. Introduction

Farm ownership has become a distant reality for many young people getting into farming. The enormous capital outlay to purchase a property that can sustain family livelihood is often daunting for the youngest generation. The industry is also facing huge uncertainty with changing regulations and market volatility. Increasingly, older farmers are looking for options outside of farming, as they are forced to make changes into unfamiliar territory, taking on more risk and debt, when all many want to do is consolidate.

With generation Z being brought up in a high paced, multi-tasking world, they are continuously looking for the next opportunity that works for their lifestyle. They like to be flexible while achieving security and stability. In order for farming in New Zealand to stay attractive for the next generation, it needs to be a vibrant business where financial and human capital are combined to create an innovative market.

The aim of this project is to investigate what alternative options there are for people to grow their equity within the agricultural industry, which will enable them to get a footing in the door to farm ownership. The purpose of this report is to explore the ways that young people can access farm ownership. The key was to get an insight into what pathways could work across the agricultural industry and that can still be implemented in today's world.

2. Methodology

In order to achieve an in-depth analysis for the report, it was crucial that both people within and outside the industry were consulted to gauge a wide range of perspectives.

Three different groups of people were identified to provide meaningful insight into this research project.

The first group was six farmers that had started without any family or financial support and had worked their way towards some form of farm ownership. They were interviewed to establish how they attained farm ownership and whether they believe it can still be achieved in today's society. Three of these farmers have recently purchased their farm and actively run it on a day-to-day basis. The other three interviewees have owned their farm for longer, and are now predominately involved in other areas of the agricultural industry, while employing a manager to oversee the day-to-day operation.

Five rural professionals were also interviewed in the second group, which consisted of an accountant, lawyer, banker, rural coach, and farm consultant. These rural professionals were selected as they are involved helping farmers with different aspects of farm ownership. The purpose of interviewing these professionals was to discover what pathways towards farm ownership they had been involved with or witnessed, and which options would be best suited for today's environment and the latest generation.

The third group involved two business owners that operated outside the agricultural industry. The first proprietor works in the supermarket industry and has risen through the business to become a store owner. He was interviewed to provide insight into how they support and develop young talented people to enable them to achieve higher positions within their industry. The second business owner has created a company that is involved in developing the professional and personal performance of people. The interview with him provided information on what inspires Generation Z and how we can attract more of this generation into the agricultural industry and ultimately open up pathways for farm ownership.

A slightly different interview questionnaire was developed to reflect the variety of these groups. (Appendices 4) These interviews were semi-structured and conducted by phone or video call with an accompanying transcript. The report also incorporates some of my personal observations and views, which are from 8 years of working in the agricultural industry, preceded by 3 years of study to complete a Bachelor Commerce-Ag majoring in Agricultural Management and Rural Valuation.

The responses from the interviews were analysed using a qualitative approach. Key themes were identified and have been explored in detail within the report. Responses from the interviews were also compared and contrasted, to identify different opportunities for farm ownership and discover what the next generation is wanting to achieve.

3. History of Land Ownership in New Zealand

Land has always been a strong part of who we are as New Zealanders. There were differences in traditional Maori ideas of how land should be owned compared to European settlers, which caused conflict and led to the signing of the Treaty of Waitangi in 1840 (McAloon, 2008). European settlers came to New Zealand looking for a brighter future and the opportunity to own some land. The size of farms has varied over the last two hundred years, from an area adequate to support a family through to more recent larger economical units that are possible as a result of the developments in technology. As a result of technological advances, this has allowed more opportunities to export products and a move away from the traditional systems of sheep and dairy. This has also seen increased land being used for horticulture, forestry, deer and goats.

<u>Provincial councils</u>

In 1853, provincial councils were set up across New Zealand to control land policy and determine regulations appropriate to their province (McAloon, 2008). Three of the key principles for the council were:

- Land titles came from the Crown and were available to the public. Initially, the deeds of transfer was the basis of this record, but from 1870, the Torrens system was introduced, which formally registered land titles with the aid of a map.
- Freehold land could be sold by auction, with the reserve price being specified in law.
- Pastoral land would be leased at low rates, with the leaseholder having the right to purchase small areas for cultivation or building a home.

Most Provincial councils aimed to make land available to settlers with minimal money as long as they lived on it and improved it.

<u>Soldier settlements after World Wars</u>

After World War 1 and 2, veterans were given opportunities to move onto Crown land with government loans enabling them to buy and lease land as long as they continued to develop it. In total, 1.6 million hectares was made available under the Discharged Settlement Act 1915 for veterans (McAloon, 2008).

<u>Land ownership structures</u>

The major ownership structures for land in New Zealand by 1935 consisted of freehold and crown lease (McAloon, 2008).

Freehold is the highest form of ownership in New Zealand and gives the owner the most flexibility, providing it doesn't have too many covenants, easements or restrictions based on the Resource Management Act.

Crown lease land gives the lessee exclusive possession of the land to graze stock. Leases run for 33 years with payment reviewed every 11 years. If other activities are wanting to be carried out, then permission is required to do so.

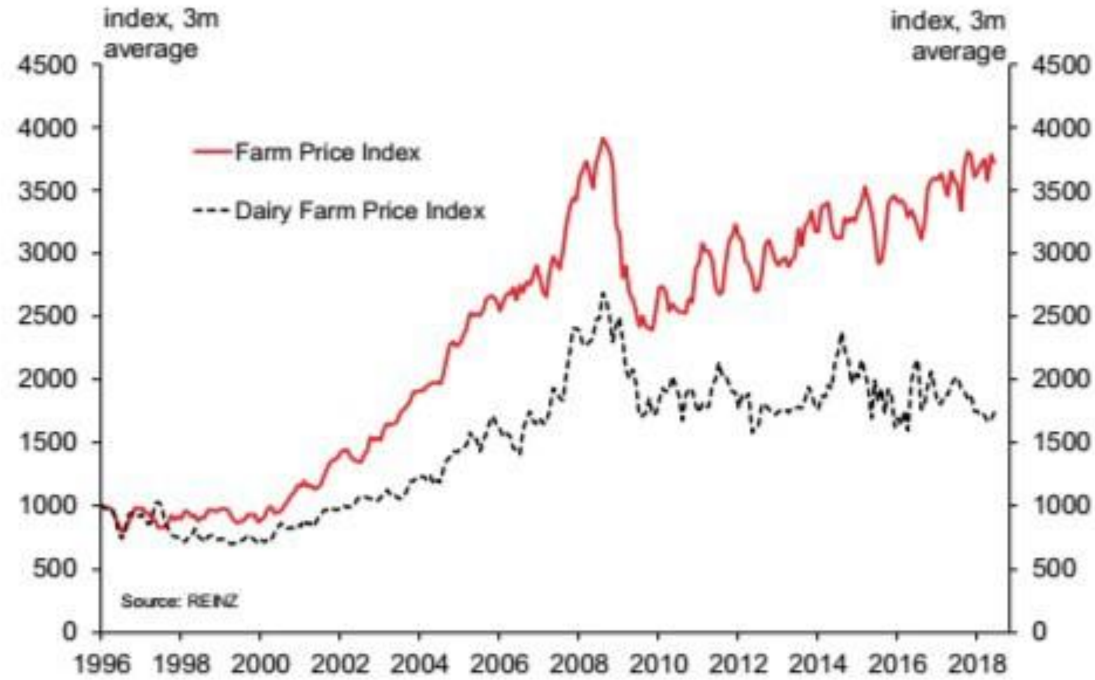
Tenure review on crown lease land has allowed marginal areas of grazing to be retired for conservation and provide the lessee with a part of land that can become freehold.

Approximately 33% of land was freehold, while only 27% was crown lease with the remainder being in public reserves or Maori land in 1935. (McAloon, 2008) These percentages of land ownership remained relatively stable for the next 50 years.

Land prices

The price of land has trended upwards over time and has generally been a good and reliable investment for people. However, land use has changed as various commodities fluctuate and technological advances allow new farm systems in areas that were previously not possible (McAloon, 2008).

Graph 1: REINZ Farm Price and Dairy Farm Price Index



(Dabb, 2018)

The area of land owned by families has increased over the last half century, as farms try to remain economical and provide succession options for the next generation. As urban boundaries have pushed out with increasing population, this has resulted in a higher demand for lifestyle blocks, which are smaller than five hectares (McAloon, 2008).

Findings and Discussion

4. What is Farm Ownership?

Defining farm ownership is not as simple as it seems. Traditionally it was seen as an individual or family either owning a piece of land outright, or with some debt from third parties (Person C, 2020). From the interviews conducted with farmers who owned the land, the common response to what is farm ownership, was that it provides full control of a piece of land. Owners of land can have full control of how they run their operation, providing they are meeting all the environmental regulations and finance costs that are associated with owning the property.

Rural professionals had a different view on farm ownership. They have seen managers that have full control of a property due to empowerment by the owners that allows the managers to run the farm as if it was their own. (Person G, 2020). The goals and financial backing of these managers are often very different from the farmers owning their own land. However, the common theme is that farm ownership provides full control of a piece of land. This can be achieved in two different ways, from owning it personally to running it like it is your own, especially with the right people and systems in place.

5. Why is it Important to Own Land?

Land has always provided a deep connection for people, through memories, family history or spiritual beliefs (Korff, 2020). The great thing about owning land is it does not usually erode in value and typically appreciates over time. (Person F, 2020). Land can provide income as well as food for families and communities to survive. People often view land as providing security, because it is somewhere to call home or get away to relax. (Harvey, I. 2020). As a result, this drives many New Zealanders to aspire to owning a piece of land.

When farming, viewing land as a form of security can be narrow minded. The reality is we are only custodians of the land for a period of time, which allows us to use it in a way that suits, providing the rules and regulations of councils and government are met. (Harvey, I. 2020). If we took away the emotional attachment to land and treated it purely like a business, would that change the way farming operates? Is there an opportunity to scale up the idea of leasing and treat farming like commercial real estate by having a land owner and then a “tenant” who runs the day to day business? (Reidie, P. 2020) New Zealand farmers have typically wanted to own the entire asset and operating business themselves. Would the future of farming in New Zealand be more progressive and profitable if farmers only had to focus on doing what they do best? This may change the current behavior where farmers operate systems that may not be best suited for the land or lifestyle, but are required to in order to cover large debt repayments.

From the operational farmers that were interviewed, the common response in driving land ownership was because it provided them freedom to operate how they wished and was a place they could call home.

6. Traditional Pathways to Ownership

Over the last 50 years, getting into farm ownership has been relatively straight forward providing you worked hard, saved tirelessly and stuck at it, while improving your skills and business over 10-20 years.

The dairy industry has had a clear stepped progression, from starting out as a farm hand to then managing a property without any financial investment. (Dairy NZ, 2020). The next step has been for the manager to take on some business risk and more responsibility through contract milking. This involves starting their own business and funding some of the costs. As Contract Milkers are paid on a per milk solid basis, provided production is maximised, equity can be built up quite quickly.

After contract milking, comes lower order share-milking or 50:50 share-milking where more equity is required from the manager. (Dairy NZ, 2020). Sharemilkers are responsible for the day-to-day running costs and contribute large machinery and a portion, or all the cows in exchange for a percentage of the milk payment. This is a great way for retiring farm owners to still have an income, but not have to commit any day-to-day time to the farm. However, it does have its pitfalls if the goals and values of both parties are not aligned. Over the last 5 years, there has been only a handful of 50:50 sharemilking jobs available, as owners realise that the money contributed to the business from the sharemilker is inequitable compared to the contribution of the owners. (Frazer Farm Finance and Consulting, 2016). When land was cheaper and the contribution from both parties was relatively even, this was a better model. However, providing the sharemilker can secure a 50:50 position, it is still very profitable for sharemilkers and helps them build capital towards farm ownership.

The sheep, beef and horticultural industries also have progression steps through to management. Due to the scale in sheep and beef, and the value intensity per hectare in horticulture, establishing a small step to allow a manager to grow and have a piece of the pie can seem pointless to the owner in the grand scheme of the whole farm. (Person F, 2020). This is where farm owners need to think long-term what they can offer a manager they wish to retain and grow. This might have a financial impact, but in the long run would likely be more profitable than changing managers and wearing the inevitable costs of recruiting a new manager and them familiarizing themselves with the business.

Leasing has always been an option to build towards ownership and a good way for young farmers to have full control of a property without the large debt. Small support blocks are a great way of providing extra income while still performing the main farm role. Finding larger blocks can be difficult but provide great options for scale to dilute costs and run an efficient operation. In the current climate, the returns lessors are wanting is in line with bank interest rates (Person B, 2020). For most, the aim is to build capital towards farm ownership and reduce the risk from leasing.

Equity partnerships vary a lot between parties, but have been a great way for farmers to get into land ownership on a larger scale than they could afford on their own. The main difficulties that arise with equity partnerships is when one party wants to sell out. (Person J, 2020). If the other parties can’t afford to buy out the other person or they can’t find a new investor, this leaves one party in a difficult situation. It can be especially hard to bring a new investor in or buy out the party when there has been a high appreciation of land value over the period of investment.

From the dairy farm owners that were interviewed, two (Person A, and C) had followed the traditional pathway of progressing through the industry. The third (Person B) had chosen to take an operations' role and use their salary to leverage their equity. All of the dairy farm owners had used external investment opportunities that were not related to their job to generate further equity. This was either through livestock or rental property income.

7. Generational Differences

Figure 1: An overview of the working generations

Characteristics	Maturists (pre-1945)	Baby Boomers (1945-1960)	Generation X (1961-1980)	Generation Y (1981-1995)	Generation Z (Born after 1995)
Formative experiences	Second World War Rationing Fixed-gender roles Rock 'n' Roll Nuclear families Defined gender roles — particularly for women	Cold War Post-War boom "Swinging Sixties" Apollo Moon landings Youth culture Woodstock Family-orientated Rise of the teenager	End of Cold War Fall of Berlin Wall Reagan / Gorbachev Thatcherism Live Aid Introduction of first PC Early mobile technology Latch-key kids; rising levels of divorce	9/11 terrorist attacks PlayStation Social media Invasion of Iraq Reality TV Google Earth Glastonbury	Economic downturn Global warming Global focus Mobile devices Energy crisis Arab Spring Produce own media Cloud computing Wiki-leaks
Percentage in U.K. workforce*	3%	33%	35%	29%	Currently employed in either part-time jobs or new apprenticeships
Aspiration	Home ownership	Job security	Work-life balance	Freedom and flexibility	Security and stability
Attitude toward technology	Largely disengaged	Early information technology (IT) adaptors	Digital Immigrants	Digital Natives	"Technoholics" – entirely dependent on IT; limited grasp of alternatives
Attitude toward career	Jobs are for life	Organisational — careers are defined by employers	Early "portfolio" careers — loyal to profession, not necessarily to employer	Digital entrepreneurs — work "with" organisations not "for"	Career multitaskers — will move seamlessly between organisations and "pop-up" businesses
Signature product	Automobile	Television	Personal Computer	Tablet/Smart Phone	Google glass, graphene, nano-computing, 3-D printing, driverless cars
Communication media	Formal letter	Telephone	E-mail and text message	Text or social media	Hand-held (or integrated into clothing) communication devices
Communication preference	Face-to-face	Face-to-face ideally, but telephone or e-mail if required	Text messaging or e-mail	Online and mobile (text messaging)	Facetime
Preference when making financial decisions	Face-to-face meetings	Face-to-face ideally, but increasingly will go online	Online — would prefer face-to-face if time permitting	Face-to-face	Solutions will be digitally crowd-sourced

*Percentages are approximate at the time of publication.

(McCrindle Australia , 2015)

There has been a major shift in people attitudes, aspirations, and communication over the last 100 years, which is shown in the generational changes above. Traditionally people were set in their ways and grateful for the opportunities they had in their home town. They worked hard to achieve their goals and hoped for a happy retirement. (McDougall, Gen Z '8 Key Effectiveness Skills' Research, 2020).

With the rise of technology over the last 50 years, people's attitude towards news and information has changed. With a touch of button, anything can be discovered and events across the world are spread globally within minutes. This has created a generation who gather information virtually and can hold multiple jobs run from a home office.

This digital world has had the biggest impact on generations' attitudes. (Webb, 2020). The ability to see changing climates and economic fluctuations has resulted in Gen Y and Z relying more on themselves. Gen Y and Z are always on the lookout for new opportunities within their career. Although they work hard, they believe working with organisations and not for them, is a better fit for their lifestyle. (McCrindle Australia , 2015). This view will see them develop skills which are transferable between multiple businesses and allow them to become self-employed, enabling them to move seamlessly between organisations.

There has been a recent study done by Business Genetics (April 2020), which has consulted major companies' interns to see what Gen Z qualities are important to lead in today's world. These eight characteristics listed below, (McDougall, 2020) are key for young managers to make them effective in management roles over the next ten years.

- **Agility** (dexterity) - the ability to shift from one state to another, responsiveness to impact and the ability to address such shifts rapidly.
- **Ambiguity** - the ability to manage ambiguity (chaos), whilst avoiding paralysis, and accepting it will be part of your professional life.
- **Emotional Intelligence** - empathy and the understanding of another person that transcends rational or commercial requirements.
- **Failing** - being allowed to fail and having the capability to handle your own failure and learn from it.
- **Flexibility** - having 'working' relationships with people and avoiding rigidity in your thinking and behaviour.
- **Integrity** - something that cannot be claimed but can only be conferred on an individual.

And the final two, most distinguishing factors:

- **Forming trusted and enduring relationships** - the ability to build a completely dependable relationship beyond the normal state of expected behaviours…
- **Judgment** - the ability to convert real-life experiences into principles that guide sound counsel when you're in unknown territory. Is this learned or innate? In Ian Harvery's experience, judgement is highly intuitive.

With an ever changing world, it is important farmers are able to adapt quickly and embrace change. Farmers in positions of responsibility need to view themselves as "executives" as they are no longer seen as just working the land, but business people capable of running complex multi-million dollar operations. (Harvey, I. 2020). Farmers need to develop skills that are transferrable not only between sectors within the agricultural industry, but also throughout other industries, to ensure when change happens, they can be quick to react and reap the advantages that come from being flexible.

The key learning for Gen Z is to be effective rather than efficient. (Harvey, I. 2020). Being effective, changes the whole mindset from thinking what is the fastest way to get the job done (efficient mentality), to how to get the best result in the long term for both business and people. People can only be effective for a maximum of 55 hours per week and this is less the older they get. (Harvey, I. 2020). Hence this is why a work life balance is key to long term productivity and success.

8. Personal Goals

Everyone has different things they want to achieve in life, so it is important to set regular, measurable and realistic goals in order to succeed. Having a variety of goals for both personal and work life is important to ensure balance. Looking to have short (1 year) medium (5 year) and long (10 year) term goals, creates balance and structure to make great improvements in life. (Person G, 2020).

Traditionally, people have set goals to progress through their industry from being an assistant to management, and finally owning their own farm. (Person G, 2020). This pathway is still relevant today, although farm ownership maybe 20-30 years away, which takes significant discipline to remain on track. For people who are dedicated to getting into farm ownership, it is important that tunnel vision doesn't occur and their long-term goals are regularly revisited and adapted if required, to ensure opportunities are not being missed.

Increasingly, people are not as loyal to a job as they used to be. Change is the only constant for Gen Z. Their goals will be very different from the previous generation, as they look to continue learning and develop skills that are transferable across multiple industries in order to grasp any opportunities that arise and to ensure they remain employable. (McCrindle Australia , 2015)

It is important to remember when setting goals, that a work-life balance is achieved, and family and friends are on side throughout your journey. There are many people who have worked tirelessly through their career and achieved remarkable things, but have overlooked the value of family and friends and have become isolated. (Harvey, I. 2020). People are more productive with work when feeling supported.

We are moving away from a model, where efficiency has been driven by the workplace, in order to meet higher targets with a growing population. The view now being driven from Gen Z is that the level of efficiency has hit a peak and we are therefore better to focus on effectiveness. Once people work over 55 hours a week, their level of effectiveness drops significantly. (Harvey, I. 2020). Generation Z want a balance in life, so as an employer in today's society, it is more common to see people desiring work flexibility and reduced hours with less pay. As an employer it is important to recognize this, and utilise the time employees work as effectively as possible, to maximise output for the business.

All six of the farm owners that were interviewed, had set goals very early in their career establishing where they had wanted to be in 5 to 10-years time. When they looked back at these goals, the ultimate goal did not change, but how they got there did for various reasons. The farm owners regularly set short-term goals, which kept them on track to achieve their long-term goal.

9. Support and Guidance

Progression through the industry takes courage, knowledge and willpower to continue improving and aiming for higher goals. It is important that people build a key network around themselves to provide emotional, technical and financial support. There are plenty of people willing to lend a hand to those that are keen to progress and achieve great things. Some of the people who can help with growing and developing young farmers are listed below:

- Mentors – Someone who is respected and available to bounce ideas off and has been in similar situations.
- Industry courses – A great way to keep up to date with the latest changes, meet peers that are going through a similar situation and to network with others.
- Bankers – A wealth of knowledge to assist with understanding the financial operation of a business.
- Accountants – Important to help get the most out of a business financially and identify areas for improvement and tax planning.
- Lawyers – Ensure businesses are set up correctly to avoid any unforeseen personal liability and help with farm succession.

All six of the farm owners interviewed had used some form of support from the list above, to obtain advice and challenge their ideas. Three farm owners had primarily used one service more than others due to having a close relationship with that person.

10. Starting out: Paid employment vs self-employed.

The decision to work for someone or go out on your own can be a challenging decision for some people. Each one has its own benefits and shortcomings. An individual's current personal situation and aspirations, and also the nature of the available job, need to be taken into consideration.

Paid employment is a great way to start earning income especially if new to an industry, have limited savings or rely on paying bills each payday. As a manager, they are guaranteed a set income for the year with no risk borne from the weather or other factors. People that are paid wages have a lot more rights than being self-employed, like annual leave, regular time off, minimum wage, sick leave etc. (New Zealand Immigration, 2020) This can be valuable for people who want to have a work-life balance, and is becoming more popular in today's society. (Harvey, I. 2020). The disadvantage of paid employment is that, unless a bonus structure is allowed for, in a great year there is no extra benefit or recognition of that to the employee (Dairy NZ, 2020). Continuing to grow in your job is important. Often setting up your own business and managing costs is a great way to take the next step and have some accountability financially for some of the decisions you make. While this is not possible with paid employment, steps can be implemented to create a similar process enabling the farmer to still develop these skills without wearing the financial risk.

Being self-employed on farm is very different to contractors that are self-employed, as they are generally only working in one place and are not paid on an hourly basis, but normally using a production-based measure (Dairy NZ, 2020). Additional hours worked do not always correspond to more income. Often time is the limiting factor in terms of how much one person can achieve. In order to earn more, more value must be added to the client/consumer or leverage off other labour units. This is a real advantage of being self-employed if you are trying to grow your business and produce more income. Self-employed contractors have an advantage in that they can capitalize on their employee's wages. They do this by charging a higher rate than what they pay them. (Person J, 2020). Part of this extra income goes towards employing and managing staff, with the rest becoming extra income for the contractor.

For farmers that are self-employed, getting paid on a production measure changes the focus for them as they cannot leverage off labour. Often owners have a set budget and targets the farmer should be able to achieve based on the previous year's production. (Person J, 2020). This leaves few opportunities for self-employed farmers to maximise revenue and creates a mentality of cost cutting in order to make extra profit. This can have a flow-on effect to health and safety, animal welfare and the mental wellbeing of everyone working on farm, as shortcuts are taken.

As an individual, it is about weighing up the pros and cons of each option. First of all, a farmer needs to establish what's important to them and what their goals are. Next, they need to take a look at the farm, discuss where the farm is heading over the next five years and talk to others who know the farm business's positive features and downsides (Dairy NZ, 2020). This will help in deciding whether being self-employed or in paid employment is the best option.

The idea that successful people's "money works for them, not them work for money" (Robert T. Kiyosaki) can be true when self-employed. However, with paid employment, one is always working for their money so it is important to be regularly investing savings into growth opportunities that can work behind the scenes and in something where one has skills or knowledge. It is important that the investment does not require a significant time commitment that takes from the paid employment, otherwise one can be caught in the trap of working for your money. Investments will start small, but over time will grow and as opportunities are sought and arise. Diversification of investments is also important to spread risk and ensure entire savings are not lost.

All the farm owners interviewed had initially started working for someone in paid employment. Only one (Person B) of the six farm owners stayed on a salary right the way through to farm ownership. The reason for this is that they believed they had reliable income with no yearly fluctuations, which allowed them to build higher equity through off-farm investments. However, the other five farm owners viewed self-employment as a quicker way to grow equity as their financial return was influenced through their skill in managing the farm.

The Agri accountant and lawyer (Person H and I) thought it was very difficult to make any real headway being employed by someone on wages or salary as investment is needed to get ahead and grow your asset. However, the rural coach and banker (Person G and K) said that they had seen a couple of people who had reduced the financial fluctuations, kept investing and been better off on a salary. The rural banker noted that they can still work for a salary in an equity partnership where they can increase their financial position, but also spread their risk and use some of their salary to invest in other areas.

11. Business Structures

There are many different ways of setting up a business. The best choice will be dependent on the personal situation of the person or couple. It is recommended that advice is sought from lawyers and accountants prior to starting the business. This will be discussed further under Models for Ownership.

Some factors that need to be considered are:

- How long is the business planning to be in operation?
- How many people are going to be involved in the business?
- How are payments for shareholders going to work?
- What personal liability are they willing to be exposed to and what assets do they want to protect?
- Do business partners need to be able to sell out or buy in easily?
- What is the best way to offset tax
- Is the business going to be passed onto the next generation?

The Agri accountant (Person H) considered it crucial to have an accountant that was not afraid to challenge the farmer. Getting things right at the start had major advantages and saved significant time and money in the long run. When discussing business structures with the farm owners, they all were heavily reliant on their accountant and lawyer for ensuring they had the best options available for their circumstances.

12. Risk Mitigation Strategies

Farmers and their businesses are exposed to varying levels of risk every day. Whether it be weather, markets, social or environmental issues, they all have an outcome on the financial success of the business and mental wellbeing of the farmer. In order to improve the outcome for the farmer, risk mitigation strategies should be considered to provide confidence for the long-term operation.

Short-term risk mitigation strategies include:

- Fixing of milk price, meat or orchard contracts for the season.
- Contracting of supplement feed to provide financial reliability.
- Developing individual training plans or flexible requirements to meet staff needs and allow them to maximise opportunities within the business.
- Developing farm plans and undertaking best management practice to ensure sustainability of the land and livestock.

Long-term risk mitigation strategies include:

- Diversification of land use to spread risk, ie: small orchard or mixed cropping within a dairy farm.
- Value added opportunities, ie: A2, grass fed meat, farmers' market or farm gate sales.
- Feed pads or barns for livestock. This has an environmental benefit, but also improves animal welfare especially through the winter months. For chickens, pigs and goats, housing is vital for high production growth, as weather fluctuations are eliminated, limiting mortality and encouraging growth rates of animals.

Not all the risk mitigation strategies will work, or be appropriate for every land use. However, it is important to factor in what opportunities are available.

All of the farm owners interviewed were aware of the risk that operating a business presents, especially as farming is susceptible to many factors outside of their control. Most of these farmers looked to reduce risk through securing the price of feed or the sale of animals. However, only one farmer (Person D) had invested substantially in reducing long term risk. They had decided to go chicken and goat farming using a high-input system with housing to eliminate the variability of weather. This was hugely beneficial as they could consistently produce a product year-round that always met consumer expectation.

13. Models for land ownership

In today's continually changing world, one size does not fit all. The aim of this report is been to provide a discussion of different models that parties can adapt to hopefully provide a solution towards farm ownership.

These models have come about from the discussions with farmers, accountants, bankers, lawyers, respected industry professionals and business owners outside the industry, who wish to support the path of young people in finding a way towards farm ownership.

Appendices 1 and 2 outline pathways for farm owners considering an operating structure and what structures will enable progression. The key models and ideas for land ownership from interviews undertaken are discussed below.

13.1 Vendor financing

Vendor financing is where the seller lends some money to the purchaser towards an asset, for a period of time and at a certain interest rate. It is a great way for young people to purchase a farm if they are just short of the deposit. It also provides people wanting to retire from farming, some income from interest, which may be more than a bank deposit gives. There are various ideas listed below that enhance this option. (Cultivate Farms, 2017)

Tips for sellers:

- Do due diligence to ensure the farmer is competent and use a mortgage broker to assess whether the farmer is capable of vendor financing.
- Take insurance over the farm in the event of a natural disaster.
- Consult an agronomist to make sure the buyer's operational farm plan is practical and the business plan is profitable in the long term.
- Use a lawyer to ensure the mortgage is registered against land so that it can be taken back if the buyer defaults on payments.

Tips for buyers:

- When approaching potential sellers, understand what they want going forward and outline how you can help them achieve that.
- Ask them what they need to get set up somewhere else. This can be your deposit for the property, for example, they may need to purchase a house in town.
- Offer long term interest higher than what banks offer so that they can plan their income over a period of time. This cuts out the middle man of banks and is a win for the seller by earning more than on term deposit.
- Factor in regular instalments so the debt is paid down over the finance period.

In order for vendor financing to be fair for both parties, it has to satisfy the needs of the seller and also the capacity of the buyer to pay for it as well as run the property. From the farm owners interviewed, none had used vendor financing as an option to purchase their farm. With interest rates being very low at the moment, rural professionals and farm owners consider vendor financing is a worthwhile opportunity for young farmers and owners, as plenty of farmers are looking to retire over the next 5 years.

13.2 Family loans

Raising money through family can be the best way for getting a foot in the door to farm ownership. Going into a joint business venture as family can be beneficial for all family members. It can provide a job for younger members and income for retirement for the older generation. Often interest rates can be lower than banks and repayments on principal are not always required. It is important to remember that you cannot easily walk away from family if the business goes under. Therefore, ensure robust discussions take place and is agreed on, and independent professional advice is sought for all family members involved. Having a lawyer and accountant regularly review the business plans can be very beneficial.

Considerations before undertaking a family loan are:

- Fully understand the business venture and how it will work.
- Have a clear structure of expectations for productive and financial outcomes.
- Ensure payment plans are clearly written out with clauses if circumstances change.
- Agree on review dates to discuss short and long-term plans.

Getting into farm ownership is not an easy task and can take years of saving. Bringing the family into help financially can help fast track this process. With careful planning and consideration, it can be beneficial to all family members and will minimise unnecessary issues later on.

All the people interviewed said utilising family money is a significant advantage to gaining a foot in the door to owning some land. They all recommended that professional expertise is also involved to preserve the family relationships.

13.3 Performance based shares.

Having staff leave is not only a headache but a financial cost which is sometimes not appreciated or fully considered. The right staff in the business can either make or break it. It is important to recognise the presence of good quality staff, so they can be offered new challenges and/or progression to where they want to go. Progression may not necessary mean going to a higher position, but extending someone so they are taking on more responsibility and continuing to progress in their role.

For senior members of the team, who are crucial to the long-term success of the business, retaining them may be essential for business viability and profitability. When considering the full cost of staff turnover on a dairy farm (Appendix 3) the average salary is $81,769.22. This is a huge financial cost to any business and has a negative impact on the short-term progress of the business. Putting this into context on a dairy farm, a change in junior staff may only have 6-month loss in productivity. However, when there is a replacement of a manager, with directional say in the business, they will spend the first year learning the farm and how everything works. The second year they will be making changes to improve the operation, and the third year some results will start to be seen in the business. It is at this point, that they will want to continue growing and achieving their goals and will look elsewhere if they are not able to achieve this within the business.

Giving the manager a financial stake in the business allows them to grow their equity and take ownership of the business as if it was their own. A manager is more likely to take the business in the right direction overall if they are invested in it as a whole. This is an advantage over contract/sharemilking agreements. By having some financial accountability, they are likely to ensure the business is operating as best as it can.

Gaining enough to invest in an equity partnership can take a few years, if only earning a manager's salary. For farm owners who wish to retain a good manager and are not keen on contractors to run the day-to-day business, giving the manager a share of the profit above the district average, in the form of equity is an option.

This can be done by looking at the district's average operating profit/hectare and benchmarking the farm against it for a reference point. Creating a financial budget with expected operating profit/ha over the next few years will give the manager something to focus on when running the farm. The aim is to give the manager a percentage of the profit/ha over and above the reference point or district average. Ideally, for a fair share, this percentage will equivalent to the cost of staff turnover in a year. This would be paid to the manager as shares within the business so they can grow their investment, which would also continue to drive them in working hard to grow their investment and the other shareholders.

Most farm businesses are operated under a company structure with shares being divided up amongst investors. This makes it easier to allow a manager to buy in or be allocated shares compared to a partnership or trust.

<u>Example of performance-based shares</u>

District operating profit/ha = $3,000
Farm operating profit/ha = $4,000
Additional operating profit/ha is 4,000 – 3000 = $1,000
Area = 250ha
Average staff turnover cost = $81,769.22
Additional operating profit is 250 x $1000 = $250,000
Percentage of shares for manager is 81,769.22 / 250,000 = **32.7% or $81,769.22 equity**

Key issues to be discussed prior to entering into a performance-based share agreement include:

- What is a fair reference point especially if the manager has already been on the farm for a few years and performance has increased since taking charge?
- Does the reference point change each year based on the district average?
- Does the share of profit stay the same if they gain a higher additional operating profit, or are they remunerated for achieving other goals?
- How do you convert the profit into shares each year within the business?
- Does the farm need to be valued annually to reflect a true share value of the business?
- How will the owner pay the manager out if they decide to leave after a period of time?

If looking to implement a performance-based share agreement, seeking advice from lawyers and accountants is highly recommended. There needs to be structures in place so both parties can make changes if required. If the time comes for the manager to leave, the owner has allowed options to payout and is not left with huge debt.

When discussing performance-based shares with rural professionals, the accountant and lawyer had reservations. From past experience, they had seen situations where it was difficult for owners to source significant capital to pay out managers who left. They also felt it was difficult for farm owners to ensure they had ready access to adequate funds to pay the managers out. The rural bank manager and farm consultant believed operational shareholders needed to be financially rewarded for their skill, knowledge and commitment to the farm so they saw performance-based shares as a great way to do this. None of the farm owners interviewed had received performance-based shares in the farm. However, three farm owners had received financial bonuses for achieving KPIs as part of their management role.

13.4 Leasing

Leasing can be a great option for both parties for different reasons. It allows full control of the property for the lessee without the capital investment. It also provides income for the lessor without having to be tied to the farm. Some advantages and considerations are listed below (Dairy NZ, 2020)

Advantages for lessor

- Farm retention if wanting to pass on farm, but next generation not ready to take over and want to take a step back
- Fixed income with no risk
- Still get capital gain from increased land value
- Can allow owner to live on farm still
- Minimal market risks
- No working capital required

Risks for lessor

- Need clear maintenance expectations for infrastructure, soil, weeds and pests etc
- Reliant on lessee being financially and technically competent
- Little to no say in decision making for farm operation
- Potential disputes with lessee

Advantages for lessee

- Full management control
- Don’t require large capital investment
- Enables economies of scale with machinery, overheads and labour
- Increased profitability

Risks for lessee

- No capital gains
- Can face uncertainty with long term access to land
- Exposed to full production and market risk
- May not gain full benefits from long term investment in land productivity like lime and weed control
- Can't dilute tax with capital expenditure on farm

As with any agreements, it is crucial that everything is documented prior to starting the lease. Seeking advice from different rural professionals is a good option especially if it is a first lease or something is unfamiliar. Building relationships that are professional and work for both parties is key to ensuring long term success and also future opportunities.

Only one farm owner (Person E) is still leasing land as well as owning a farm. The reason for this is they need scale to generate cashflow in order to meet debt repayments on their own farm. Two other farm owners (Person D and F) had leased land prior to purchasing their farm. They leased land as they could maximise their control of the property and benefit from higher returns than being a salaried worker.

13.5 Equity Partnerships

Equity partnerships are good options for parties that want to commit medium to long term and can see potential growth in land value. These partnerships have been favourable over the last 20 years with the continual rise in land prices from intensification. However, with a reduction in bank appetite, this has played an effect on asset values as people haven't been able attain the finance. This has reduced demand, along with commodity prices recently having an impact, ultimately leading to a cash poor asset rich situation. Prices for farm land have been coming back or holding throughout New Zealand. Hence there is a need to commit to a longer term. The value of land may now be shifting towards being valued on a productive approach to better reflect the return on equity, increasing the importance of having a high performing manager's contribution to the partnership. Some advantages and considerations are detailed below (Dairy NZ, 2020)

Advantages of equity partnerships:

- Enables various parties to be invested in agriculture without having to oversee the management.
- Can release equity to fund other projects or retirement.
- Helpful for enabling succession planning.
- Able to create a business that has expertise in a wider range of areas.
- Options for the operational manager to offset tax with capital developments compared to leasing a farm.
- For Generation Y and Z it meets their desire for flexibility and provides a variety of structures and options for entry and exit.

Factors to consider with equity partnerships:

- Exposed to a wider range of risk, for example, market prices, climate variation and regulatory change.
- Risk of financial security, being in business with other investment parties
- Ensuring due diligence is done on all investment parties and the business prior to entering an equity partnership.
- Having a plan to ensure a timely exit strategy is in place if an investment party needs to sell out.
- Ensuring there is a universal agreement about how dividends will be paid out or whether they will be reinvested and how more capital will be funded if a deficit occurs.
- If one party is going to run the management side of the business, it is crucial that a separate agreement is drawn up with a clear process of how reporting and performance will be assessed.
- Having a reward-based system that incentivises performance and allows greater earnings beyond a salary cap.

Equity partnerships do not need to be in the whole farm and can be one area, like a finishing block. This allows a foot in the door for a young manager who can have a bigger share in one area of farming rather than a minor one in the whole operation. There is also opportunity for the farm owner to back a manager into a higher equity share by providing their farm or other assets as security via a form of guarantee from their business.

To ensure equity partnerships are successful, there needs to be a focus on agreed profit and cashflow objectives, rather than relying on the potential for capital gain. Having the right people with similar farming philosophies and values is key to making progress. There also needs to always be good communication with a clear understanding of the business goals, management plan and measures of success for the business.

Only one dairy farm owner (Person B) was currently in an equity partnership. The reason for this was to give them access to a larger scale operation and the ability to employ higher level staff, enabling them to have regular time off and achieve a work life balance. Two other farm owners (Person D and F) started in equity partnerships, which allowed them to reduce their risk and also grow the business quicker than if they had tried to do it on their own. Once they had enough equity, they were able to sell some of the shares in the business and purchase a farm of their own. Two other dairy farm owners (Person A and C) had decided not to go down the equity pathway, as they felt they would not have full control and wanted a place where their children could safely be a part of their working environment.

13.6 Farm Diversification

When people invest in multiple things, they look to spread the risk and not have all their eggs in one basket. Although someone may have purchased a farm and have all their savings in one property, they can still have a diverse farming operation to reduce seasonality and market risk. Most farms in New Zealand nowadays tend to focus on one main source of income, instead of incorporating different sectors into the farm. Every sector has its good and bad years and sometimes they can carry on for more than one year. By having an area of land that is used for something different than the main source of income, this can remove yearly fluctuations and provide a more consistent return over the long term. This can be extremely helpful for young farm owners who need cashflow security to make debt repayments every year, as its often difficult to achieve a profit in the first year and sometimes not in the financial position to leverage a poor year on their equity.

In today's market, banks require a lot more information when requesting new funding. They want to see good history of performance, strategies in place, environmental and social impacts, not just the numbers. Banks have been required to hold more capital aside for its agricultural lending and this has resulted in it becoming harder to obtain finance (Weitenberg. M, 2020). The farm business needs to be returning enough cash to afford capital development and meet regulatory change going forward. There are plenty of opportunities to drive a higher cashflow by diversifying and working with other parties.

Diversification ideas include:

- Working with bee keepers to have hive placements and planting manuka in marginal areas to generate income.
- Multiple stock classes, sheep, beef, deer and dairy grazing.
- Combining mixed cropping with dairy for pastural renewal or supplement security
- Planting a small orchard that suits the environment.
- Reallocating marginal stock land to forestry.

Diversification does not need to cost a lot of capital to set up, if you can partner with other parties that are keen to use the land and work with you. If cashflow is tight and needs to be reliable, then this can be an option to help provide some financial security.

Only one dairy farm owner (Person C) is diversifying their operation with a non-dairy farming alternative. This is not purely an economic decision, but the need to carry on the family tradition with this class of stock.

13.7 Livestock

Building equity through livestock has always been a great way to grow investment due to the natural cycle of having offspring each year. Farm owners have traditionally seen this as a great way for young farmers wanting to grow equity without the major outlays. There are plenty of ways to incorporate livestock alongside a job, providing the farm owner embraces it on their property.

Rearing surplus heifers/ewe lambs can be a good way to get a quality animal that can be sold as pregnant just before pre-birth. This has been a good model over the last 10-15 years with increasing dairy conversions throughout New Zealand. However, with bank lending tightening up, limited conversions happening and farmers moving to a closed herd to avoid diseases, selling these animals pre-birth could be a bit harder nowadays.

Leasing first or second calving/lambing animals to owners that need extra stock but do not have the capital to purchase, is another option for growing young stock, especially if planning on buying a herd of animals in the near future. Most contracts allow for an in-calf animal back and a lease payment, with deaths or empties being replaced for a similar value animal. Leasing can be seen as a low risk option as the lessee takes most of the risk. However, there are still risks to consider for the lessor, with diseases, like Mycoplasma Bovis, stock body condition, and financial issues with the lessee.

Rearing Friesian heifers for export can be beneficial if the demand exists. Obtaining young surplus young stock that are able to be exported as 1-year old's is very lucrative as grazing is only required for less than 12 months. Caution needs to be given to the vulnerability in markets and also government regulations which can derail export opportunities overnight.

Growing equity through livestock has worked for lots of people over the last 10-15 years as there has always been a market for them. With the majority of herds closed to protect against unwanted diseases, it is important to work with the farm owner to see if they can use the extra stock within their business in case they are unable to be sold in the required timeframe.

All three dairy farm owners had used livestock to grow their equity over the last 10 years to enable them to get into farm ownership. Dairy farm owner (Person A) said "if they had their time again, they would find it a lot harder to repeat what they had done, as now people are moving towards a closed herd and dairy conversions are not happening to the same extent." However, the rural coach and accountant believed there are still opportunities to use livestock to grow equity. The best opportunity they saw was working with the owner to incorporate the manager's livestock into the current farming system.

14. Conclusions

New Zealand farmers are well known for their “kiwi ingenuity” and the challenge of getting into farm ownership from nothing, is just another hurdle that can be overcome with creative thinking and diverse pathways to farm ownership. Farmers need to avoid being narrow minded and think outside the square to resolve problems quickly before other people outside the industry start to buy farms. We want farmland to stay in New Zealand hands, so it is important to work with young people and give them a vote of confidence, guidance and financial backing to keep them persisting through tough and volatile times.

The farming industry needs to embrace generational changes and attitudes, and work with them to create individual solutions that work for both parties, not just blanket structures. The definition of security for Generation Z can be completely different to past generations who saw fixed assets as security. This generation may see security as job reliability, fixed income or continual growth of skills. It is important that personal goals are set and revisited regularly so aspirations are achieved and values are not compromised.

To make real headway with farm ownership in New Zealand, we need to create a vibrant agricultural industry where financial and human capital is combined to create an innovative market. In order for the agricultural industry to achieve this, the general public need to have confidence that farmers are taking the right steps to improve the animal welfare, environment and social standards on farm. By achieving this, it fosters opportunities to bring in a variety of business partners who offer different perspectives and skills that will build value and continue to drive improvements in an everchanging industry.

Farming is not just a lifestyle, but a business, and risk mitigation is key to this being successful. Diversification through physical activities on farm to capture different markets is important to minimise the cyclical nature of commodity markets. Investors in businesses aim to create a balanced portfolio to reduce risk. However, the more traditional view farmers have that they need to own their farm, puts “all their eggs in one basket”. Using external investors to take a share of risk can be beneficial for the business and may result in higher equity growth for the farmer if they invest something in other industries as well.

15. Recommendations

There is no silver bullet for getting the next generation into farm ownership. There is no doubt it takes hard work, technical skill, perseverance, and financial competence. The problem is that the capital cost of a farm has gone from nearly eight times the gross stock turnover in 2000 to over 12 times gross stock turnover in less than 20 years (Pinckney, 2016). The agricultural industry in New Zealand is facing two major issues. The first is, there are a lot of farmers getting closer to retirement who will be wanting to sell their farm, but will struggle to get a reasonable price due to restrictions with overseas investment and limited funds from New Zealanders. The second issue is, this generation has woken up to the idea of working tirelessly and not make any headway with farm ownership. They want a work-life balance in a dynamic industry that looks after people, animals and the environment. Solving this complex problem requires collaborating within the industry as a whole, to help develop and attract young people while financially rewarding those who dedicate their lives and run profitable enterprises.

15.1 Creating a vibrant industry

As the urban population grows in New Zealand, we only have to go back one generation to find everyone had a connection with a farm. Nowadays, some urban children have no idea where their food comes from or how it is produced. For the first time, there is starting to be a disconnect between young people leaving school and wanting to make a career in the agricultural industry. Gone are the days where you worked from dawn to dusk and only had a couple days off in the quiet season. They want regular time off to explore opportunities and socialise with friends and family. Technology advancements will be easily adopted and enhanced to drive further progression in the agricultural industry. Creating teams that are diverse and allowing opportunities to experiment will unlock ingenuity to make the industry a world leader. By creating a vibrant agricultural industry, it will have a flow on effect of attracting more New Zealanders to invest in farms and restore some of those connections that we had to a farm, just a generation ago. It will also attract the next generation to consider an agricultural career that can be hugely rewarding and always in high demand as the world population continues to grow.

15.2 Progression within the farm

The acceleration of business growth can be promoted by utilising the team that is already involved in the business. Creating opportunities for staff to step up and progress, drives their passion and commitment to the farm, and enhances the value to the business. Generation Z are about discovering what skills they can learn on the job and how they can use them to transfer to other areas so they are not confined to one career pathway. Creating variety and allowing them the freedom to experiment is a great way to retain people. Generation Z are also about security and stability, so providing them with career paths that allow them to call a place home for a number of years gives them the reliability that they require.

15.3 Rewarding operational shareholders within an equity partnership

Equity partnerships are a good vehicle to allow people to progress in large scale business as it allows people to grow their skill base and maintain their lifestyle, which particularly suits Generation Y and Z. No one knows their business better than the operators. Giving these people a shareholding in the business means they will be prepared to go the extra yards when times get tough and know what is going to be the best for the farm in the long run. It is crucial for the long term success of the faming business that operational shareholders, especially if they have a minority share, are rewarded to either capitalise on growth or increase share opportunities. The impact of managers leaving the business can affect the profitability for the next 3-5 years. Allowing them to grow their equity may cost the business slightly, but with the right manager, the long term profitability will outweigh the cost.

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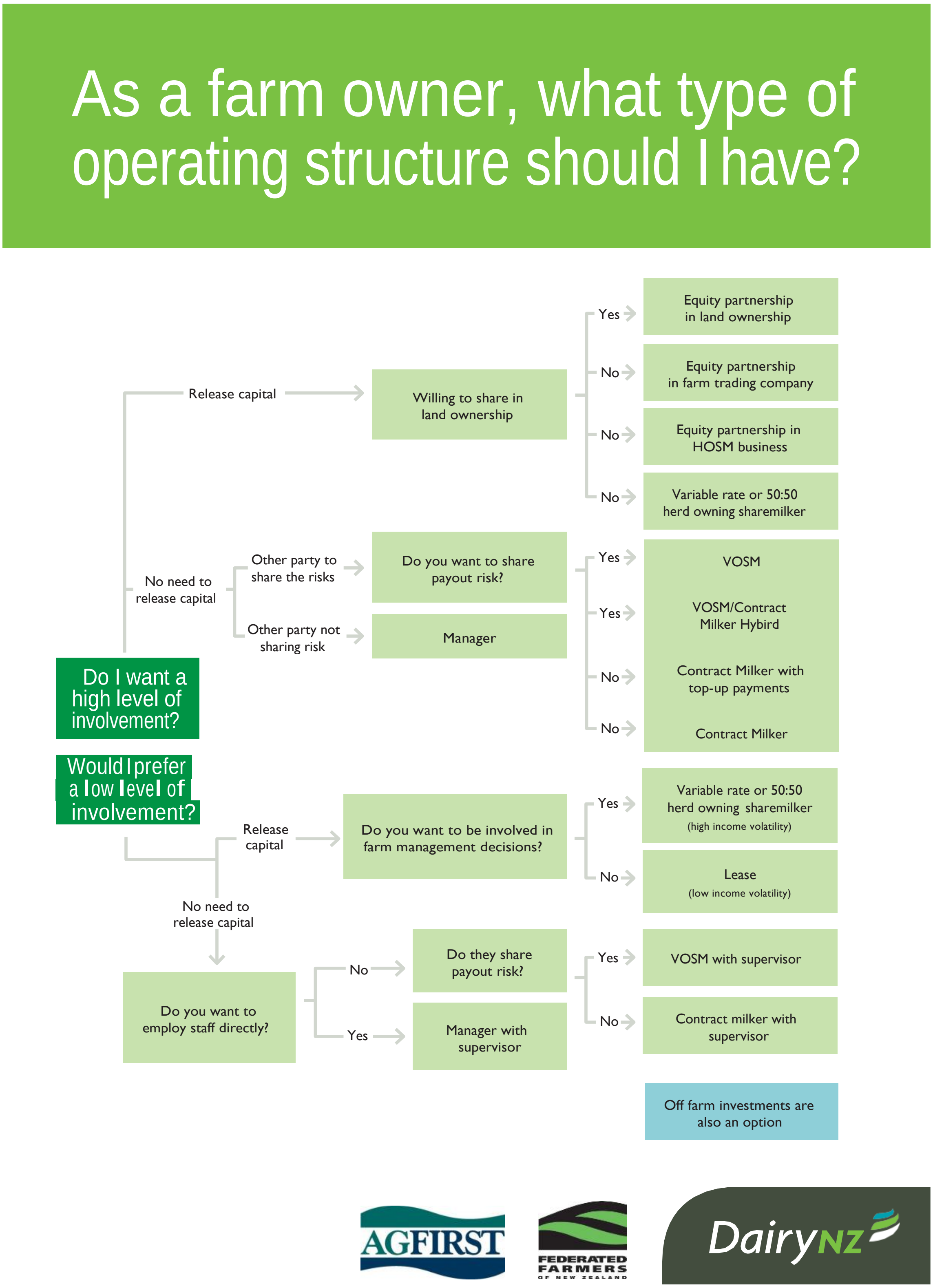
Personal Communication/ Interviews

Person A. Dairy Farm Owner 200 cows, Personal communication March 2020
Person B. Dairy Farm Owner 1000 cows, Personal communication April 2020
Person C. Dairy Farm Owner 350 cows, Personal communication March 2020
Person D. Chicken Farm Owner and Managing director of Agribusiness investment company, Personal communication March 2020
Person E. Beef Farm Owner and Operations Director of a farming fund, Personal communication March 2020
Person F. Sheep and Beef Farm Owner and operator of agribusiness enterprises, Personal communication March 2020
Person G. Rural Coach, Personal communication March 2020
Person H. Agri-accountant, Personal communication March 2020
Person I. Agri-lawyer, Personal communication March 2020
Person J. Farm consultant, Personal communication March 2020
Person K. Rural Banker, Personal communication October 2020
Person L. Supermarket store owner, Personal communication August 2020
Ian Harvey, Personal communication March 2020
Mel Weitenberg, Personal communication September 2020
Peter Reidie, Personal communication January 2020

17. Appendices

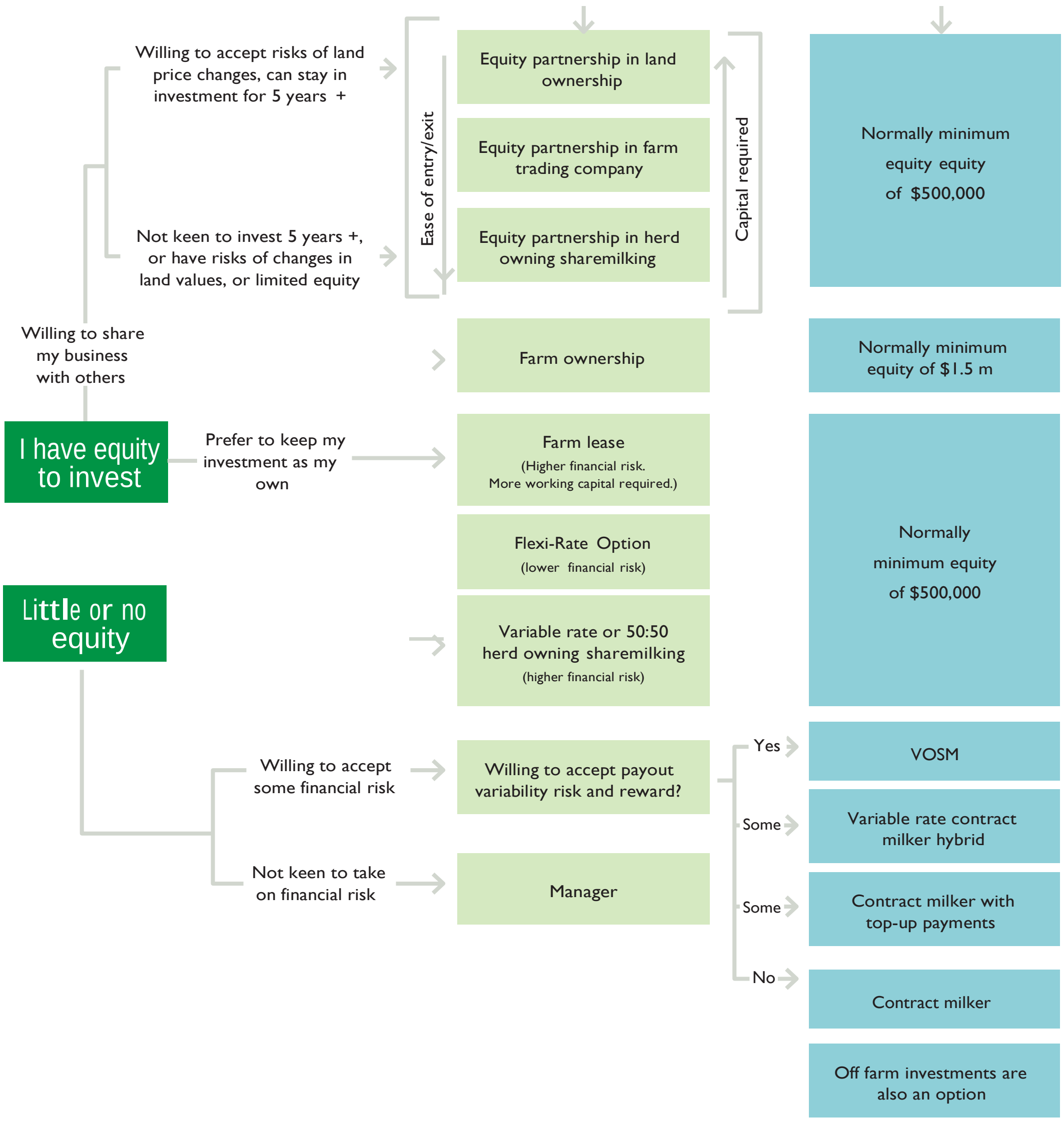
Appendix 1 As a Farm Owner, what type of operating structure should I have?



(Dairy NZ, 2020)

Appendix 2 What type of operating structure should I pursue for progression?

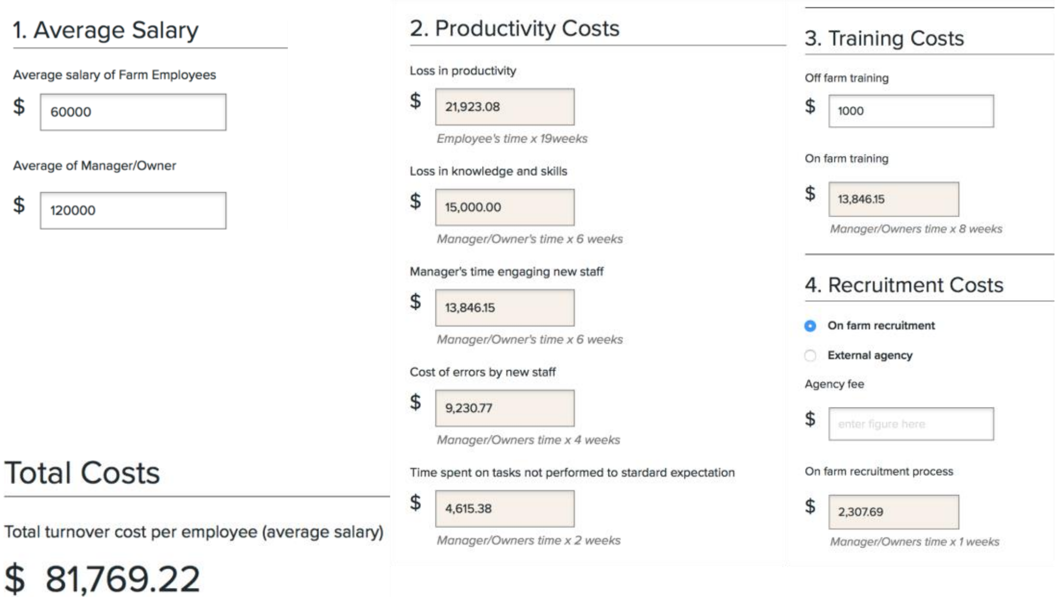
What type of operating structure should I pursue for progression?



(Dairy NZ, 2020)

Appendix 3 Dairy NZ staff turnover calculator

Based on an average Canterbury dairy farm



1. Average Salary

Average salary of Farm Employees

$ 60000

Average of Manager/Owner

$ 120000

2. Productivity Costs

Loss in productivity

$ 21,923.08

Employee's time x 19weeks

Loss in knowledge and skills

$ 15,000.00

Manager/Owner's time x 6 weeks

Manager's time engaging new staff

$ 13,846.15

Manager/Owner's time x 6 weeks

Cost of errors by new staff

$ 9,230.77

Manager/Owners time x 4 weeks

Time spent on tasks not performed to stardard expectation

$ 4,615.38

Manager/Owners time x 2 weeks

3. Training Costs

Off farm training

$ 1000

On farm training

$ 13,846.15

Manager/Owners time x 8 weeks

4. Recruitment Costs

On farm recruitment

External agency

Agency fee

$ enter figure here

On farm recruitment process

$ 2,307.69

Manager/Owners time x 1 weeks

Total Costs

Total turnover cost per employee (average salary)

$ 81,769.22

(Dairy NZ, 2020)

Appendix 4 Interview Questions

Interview questions for Farmers owning land

Introductory Overview

1. Brief history about myself.
2. Want to ask a few questions and that no numbers (financials) are being requested. It's mainly the processes and thinking that interest me.
3. Ask the respondent if they are willing to do this. Check they have the time. How long will each one take?
4. They can pull out at any stage of the session.
5. The responses are anonymous and that no names or other identifiers will be mentioned in the report.
6. Confirm data security arrangements
7. Recap traditional pathways of farm ownership and now trying to find a different way for employers to reward employees and allow growth within their business.

Introductory questions

1. Role on farm. Farm area, stock classes and numbers, time on the property, ownership structure

Lead in questions.

2. What does farm ownership mean for you?
3. When and why did you decide you wanted to own a farm?
4. How would you define farm ownership? Outright? Family farm? Percentage Equity?

Pathway

Your pathway

1. Did you have a clear plan on how to get to farm ownership? If yes what was it? If no why not?
2. What could have helped you to achieve your goals quicker?
3. Did you seek advice from anyone about the best way to get to farm ownership? If yes who?
4. Do you believe your pathway to ownership can still be implemented today? If yes would you change anything? If no why not?
5. If you had your time again what would you do differently?

Other peoples' pathway

6. Do you think there are other ways out there that can help young people get into farm ownership? If yes what? If no why not?

Current situation

Business structure

1. How would you classify your position on the farm? Owners, Equity managers etc
2. What is the structure of your business? Company trust etc?
3. Why has it been set up like this?

Tax

4. Do tax payments play a factor in your business set up or growth options?
5. If yes what have you done to reduce the amount of tax paid to increase your growth?

Debt

6. What are your sources of debt?
7. If not bank, do you pay market rates? And is there any special payback requirements on this debt?

Equity

8. Is there equity growth within the property? If yes what is it or how will you do this? If no why not?
9. Is there a clear pathway to release some equity or sell out all together? What does this look like?
10. How does your return on equity compare with other investment opportunities?

Current market ideas

11. What are your thoughts on the commodity prices for agricultural products in comparison to land value and having to operate a financially feasible business? Are they keeping up? Is it sustainable?
12. What are your thoughts around leasing for farm owners and young people?

Future

Personal future

1. What are your financial goals for the property? Full ownership? Stepping stone? Or if not, what are you setting in place?
2. Where do you see yourself going in the future with farming and land ownership?
3. What are your plans for future generations within your family? If any? Succession planning?

Next generations farming future

4. What challenges do you see future generations having in order to get to farm ownership?
5. Where do you see farm ownership in NZ going in the next 10-20 years?
6. Where do you see land values going over the next 20 years?
7. Looking at other industries. What models/concepts/ideas do you think could work in NZ to assist the next generation of farmers buying a farm?

8. Do you have any other comments to add?

Interview questions for Rural Professionals

Introductory Overview

Brief history about myself. Outline reasons for questionnaire. Recap traditional pathways of farm ownership and now trying to find a different way for employers to reward employees and allow growth within their business.

Introductory questions

1. Brief history about myself.
2. Want to ask a few questions and that no numbers (financials) are being requested. It's mainly the processes and thinking that interest me.
3. Ask the respondent if they are willing to do this. Check they have the time. How long will each one take?
4. They can pull out at any stage of the session.
5. The responses are anonymous and that no names or other identifiers will be mentioned in the report.
6. Confirm data security arrangements
7. Recap traditional pathways of farm ownership and now trying to find a different way for employers to reward employees and allow growth within their business.
8. Tell me about your background in the agricultural industry.
9. How did you get into the industry you're in today?

Lead in questions.

1. How would you define farm ownership? Outright? Family farm? Percentage Equity?
2. Where do you see farm ownership going in New Zealand?
3. Where do you see land values going over the next 20 years?

Pathway

Planning for ownership

1. What would be your key points for someone looking at getting into farm ownership?
2. For people getting into farm ownership, what pathways have you seen be successful? Why did those pathways work?
3. What pathways have you seen that don't work well?
4. Who would you advise farmers seek advice from about the best way to get to farm ownership? Why is that?

Still a current pathway?

5. Do you believe there is a pathway to farm ownership that can still be implemented today? If yes why? If no why not?
6. Do you think there are other ways that you have not seen out there that can help young people get into farm ownership? If yes what? If no why not?
7. What are your thoughts on leverage like wages to earn extra money without having to do the work? What else do you think could be levered off?

Owning a farm

Business structure

1. For farmers owning a farm, what ownership structure have you seen that work best? Full ownership, Equity managers, family farms etc
2. Considering different farm ownership structures. What type of business structure would you recommend for the different ownership structures? Company, Trust etc? Why is this? What advice would you suggest to avoid the amount of depreciation when trying to grow your business? Does this influence the business structure?

Tax

3. If considering tax in business structures. Would this change your opinions on the previous question when factoring in business set up or growth options?
4. If yes what would you do to reduce the amount of tax paid to increase your growth?

Equity

5. Looking at equity growth within the property. Have you seen farmers be able to increase equity within the farming operation? If yes what have you seen be done to do this? If no why not?
6. Considering equity growth has been mainly from increase in land value over the last 20 years. Have you seen other ways farmers can grow equity within the business without relying on capital gain from land? If yes what are they?
7. Equity farmers wanting to release some equity or sell out altogether. Have you seen clear structures to do this? What does this look like along with a reasonable timeframe?
8. How does return on equity for farmers compare with other investment opportunities outside the agricultural industry?
9. What do you believe the returns would be like excluding capital gain from land?

Current market ideas

10. What are your thoughts on the commodity prices for agricultural products in comparison to land value and having to operate a financially feasible business? Are they keeping up? Is it sustainable?

Future

Next generations farming future

1. Where do you see farm ownership in NZ going in the next 10-20 years?
2. What challenges do you see future generations having in order to get to farm ownership?
3. Do you think the current farm ownership model of farmers owning land and production side is sustainable in the future? If yes why? If no why not?

Future scenarios within farming

4. For farmers wanting to step back but still be involved in the farm at a lower level what options have you seen been undertaken to provide opportunities to someone coming through the industry? For example contract milking 50/50 etc. How do these options work for both parties?
5. For family farms passing them down to the next generation, what have you seen that works well to ensure the next generation is not heavily debted but also provides a return to retiring family?
6. For farmers wanting to retire and sell their farm with no family to pass on to, what options would you suggest to them so they can still achieve a good price?

Scenarios outside agricultural industry

7. Looking at other industries. What models/concepts/ideas do you think could work in NZ to assist the next generation of farmers buying a farm?

8. Do you have any other comments to add?

Interview questions for Business owners outside the agricultural industry

Introductory Overview

1. Brief history about myself.
2. Want to ask a few questions and that no numbers (financials) are being requested. It's mainly the processes and thinking that interest me.
3. Ask the respondent if they are willing to do this. Check they have the time. How long will each one take?
4. They can pull out at any stage of the session.
5. The responses are anonymous and that no names or other identifiers will be mentioned in the report.
6. Confirm data security arrangements
7. Recap traditional pathways of farm ownership and now trying to find a different way for employers to reward employees and allow growth within their business.

Introductory questions

1. Tell me about your background and how you got into the industry you're in today?
2. Current Role in business, staff employed, time in the business, ownership structure
3. Where do you want to be in the next 10 years?

Lead in questions.

1. What does business ownership mean for you?
2. Why did you want to become a business owner?
3. Where do you see your business heading over the next 20 years?

Pathway

4. What would be your key points for someone looking at getting into business ownership?
5. For people getting into business ownership, what pathways have you seen be successful? Why did those pathways work?
6. What pathways have you seen that don't work well?
7. Who would advise people seek advice from about the best way to get to business ownership? Why is that?
8. Do you believe there is a pathway to business ownership that can be implemented today? If yes what? If no why not?
9. How are you rewarded for looking after the business assets?

Owning a business

10. What brand support do you get compared to be on your own?
11. For business owners, what ownership structure have you seen that work best? Franchise owner operator etc?
12. If considering tax in business structures. Would this change your opinions on the previous question when factoring in business set up or growth options?
13. If yes what would you do to reduce the amount of tax paid to increase your growth?
14. Looking at equity growth within the business. Have you been able to increase equity within the business operation? If yes how? If no why not?
15. When wanting to release equity or sell the business. Do you have clear structures to do this? What does this look like along with a reasonable timeframes?
16. How does return on equity for your business compare with other investment opportunities outside your industry?

Future

17. What challenges do you see your business facing in NZ over the next 10-20years?
18. What challenges do you see the next generation having in order to get into business ownership?
19. Would you change anything about the current business model set up or operation? If yes why? If no why not?
20. If you wanted to pass on your business in 10 years to an employee coming through the ranks. What systems would you implement to allow them to be physically capable and also financially stable so that you don't have to compromise the value of your asset and ensure it can continue to grow in the future?
21. Looking at other industries. Whatmodels/concepts/ideas do you think could work in NZ to assist the next generation in purchasing a large asset?

22. Do you have any other comments to add?