

# Ownership / Career Paths In The Dry Stock Industry – Do They Exist?

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## Table of Contents

Executive Summary .....	3
Introduction .....	9
Purpose .....	10
Methodology .....	11
General findings.....	11
What does farm ownership of the future look like? .....	12
Managers views .....	12
Ageing owner views.....	12
Those who have achieved tenure views.....	13
Industry advisor views .....	13
Is there the ability for a young manager to gain a form of tenure or should they just concentrate on a management career?.....	14
Manager views.....	14
Ageing owner views.....	16
Those that have achieved tenure views .....	17
Industry advisors views.....	19
Ageing owner succession plans .....	21
Consideration of bringing a skilled young person into business .....	21
What skills / types of people does the industry require .....	22
What skills do managers and owners need to learn .....	24
Those that have achieved tenure – what was their path? .....	27
What were your biggest learning’s and/or what would you have done different.....	30
Tenure / Professional management opportunities .....	31
Advice for all wanting a career path in the industry – managing or a form of tenure.....	32
Critical success factors in any ownership model .....	34
What managers and owners wanted from any ownership models .....	35
Ownership structures / models. ....	36
Equity Partnership’s via operating side of business .....	37
Equity Partnership in total business – Land, Stock and Plant.....	39
Leasing .....	41
Management options .....	42
What the industry needs to do to show a path.....	42
Who should facilitate.....	43

Why dairy works other than cash flow.....	44
What the dry stock industry has that dairy does not .....	45
Conclusion .....	46
Recommendation .....	49
Further work and additional questions .....	50
Annexure 1.....	51
Scoping Document.....	51
Annexure 2.....	54
Questions.....	54
Farm Manager Questions .....	54
Farm Owner Questions.....	54
Existing farmer owners who started with nothing .....	54
Advisor questions .....	55
Acknowledgements .....	56
References .....	56
Bibliography.....	56

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## **Executive Summary**

### Purpose

The purpose of this report was to look at opportunities for young managers within the dry stock industry and to determine in my opinion whether there is a clear career path or not. And if there is a path, what does the young manager and the industry as a whole, have to do to ensure the path is visible? To me the future of the dry stock industry (like any industry) is reliant upon attracting and retaining energetic, enthusiastic, passionate and skilled young people.

Low cash returns relative to the capital required for farm ownership, and the restrictions of accessing that capital (bank or other), make it a challenge to attract equity investors. The industry needs to attract / find / retain people from within who are genuinely passionate. Young people who are able to embrace innovation, technology, sustainability and treat farming like a business are the key. They in turn will contribute to the growing wealth of the industry and ultimately New Zealand.

### Why

Many people with passion for the dry stock industry lack sufficient capital to gain a form of tenure, meaning that many opt to enter the dairy or rural professional industries with the view of saving capital to return back. However, the transition back to the dry stock industry rarely occurs, as the desire to return is often overridden by their existing position of strong cash flows. Combine this with the fact that the management techniques, and the skill set required, has often progressed by the time the decision is made to return, adding another impediment.

There is a perception that many existing managers within the industry question their careers, given the lower salaries and opportunities or likelihood of ever owning a farm. This is backed by reports from the likes of the NZ Institute of Economic Research; ("Rural areas" 2012) "Rural New Zealand is likely to disproportionately suffer the consequences of the country's ageing population and outward migration through a loss of skilled and innovative labour". There is a strong argument that this is occurring already. As the KPMG Agribusiness Agenda (2012) argues, "the generation of farmers that created New Zealand's competitive advantage in pastoral agriculture are starting to retire".

### Problem

In order to retain and attract young people, they need to be able to see a future within the industry. They need to be able to see a path where they can create value, wealth and have a sense of ownership or tenure for themselves and all stake holders. At present, without family money or other forms of concessional capital, ownership opportunity(s) are seen as very difficult, if not impossible. The current dry stock industry succession path has evolved from the oldest son taking over the family farm as matter of course, to now succeeding a share and buying other family members out. Outside of a family farm there is no clear succession plan for others. Articles frequently published on succession planning talk about how to succeed the family farm which can be de-motivating for the young person outside of a family farm and with limited capital.

### Opportunities

The ability for young people to get a start in farm ownership or tenure has been, and will continue to be, a problem in the dry stock industry (or any industry for that matter) for generations to come. Achieving ownership has always been difficult – but under the right guidance and administration there should be potential; arguably more options are presenting themselves nowadays given the ageing population (average dry stock farmer age is approximately 59 years old). It would be fair to say that the best working years are behind some of these owner/operators. Many appear to be operating 'with the throttle wound back', hence there are dry stock farms idling at around 70 – 80% of productive capability.

For me this posed the following questions:

Is there the potential to lift productivity, with the aid of a young person who poses the right skills and motivation?

If so:

What skill set does that person(s) require?

And:

Do retiring farmers, and future owners, understand how to structure a proposal which will allow a young, proven manager (from outside the family) to enter the business, whilst at the same time satisfying viability? If not, how can they be educated?

Drawing a conclusion for what the future of farm ownership looks like, this also adds opportunity for tenure and/or a clear management career within the industry. Add to this that rural land is considered a great storer of wealth and the highest possible return on investment is not necessarily so attractive these days (after the Global Financial Crisis). Future owners are going to be more business savvy, they will be able to see the advantage of attracting and retaining skilled people, i.e. as investors they will not necessarily have the skills required and/or the desire to run the property themselves, hence require the confidence in longevity of management. Given their business savviness they would be happy to look for a win/win structure and/or management incentive to attract and retain the highest skill set.

### Response from ageing owners interviewed

Many ageing owners found the subject or forms of succession extremely hard to talk about, mainly due to the lack of future planning within their own business (industry reports show that only approximately 10% of the industry has a succession plan). Many owners did not even think of bringing someone into the operating part of their business (even those that had robust succession plans), however, when talked over, they were very keen to learn more, warming to the possibilities.

All ageing owners agreed the industry needs to find and show a path. They were all of the view that young skilled managers have the ability to increase the productivity of their property largely due to energy levels, modern farming techniques and the ability to embrace technology. The potential of

having a young family enter the district was also regarded as an added advantage, with obvious benefits to the community.

#### Response from managers interviewed

Managers had mixed thoughts initially on whether they could achieve a form of tenure. There was a trend that most only had a modest idea of how to obtain a form of tenure and/or a rewarding management career. They did not know where to start and/or the steps to take. Hence they believed there was no path. After a few positive open ended questions and discussions around what future farm ownership looked like to me, their thought processes changed. Barriers were brought down as they stopped thinking about the idea of full property ownership, recognising that it is possible and viable to own a small share of a large scale property rather than a large share of small property (i.e. own 20% of 10,000 stock units rather than 2,000 stock units on own).

#### Response from those interviewed that have followed a path

The ability to achieve ownership tenure and/or a clear management career within the industry was backed up by those who have succeeded in such. Their firm view was that opportunities still exist, subject to those involved being absolutely committed and having the ability to overlook barriers. Opportunities were recognised in share farming, equity partnership(s) or tenure via the operating side of business, this being largely due to the fact that there are some properties not running at full capacity, for varying reasons. Prudent operators would improve productivity, with owners seeing minimal impact to their bottom line.

Success came down to understanding business models, not being afraid to ask questions and having sound networks (given most opportunities are by word of mouth). They had a firm belief that you are in control of your own destiny and can achieve what you want. This sentiment was backed by one ageing owner in my sample with multiple properties who believed a form of tenure and/or management career can be achieved saying, "There are winners and losers in life – it is up to you to choose what you want to be".

#### Response from Industry advisors interviewed

Industry advisors also believe there are lots of opportunities, but see the main challenge as selling ownership structures/ideas to ageing farmers. What makes this challenging is that the large numbers of farms idling at 80% are fairly well reflected in the ageing farmer bracket. As the majority of these farmers have low debt levels the drive and/or the need to operate at full potential, may not be there and these owners rarely attend discussion groups, seminars and/or conferences if at all. The challenge here is selling the idea of getting the best possible people running their farms which will in turn improve the properties productivity. A fair assumption is that these owners income will largely remain unchanged, i.e. one plus one equals three ( $1 + 1 = 3$ ), but their workload and ties to the farm will lighten.

### What needs to happen to educate industry stakeholders?

For owners and managers to realise the potential in themselves and their properties certain things need to become more common practise.

It was clear that managers / entrants need to begin building capital as early as possible, develop their ability to think outside the square (finding a mentor could aid this), network with successful people and ask questions. They need to learn business skills (farming is a business), how to market themselves and how to partner (you should not just ask someone to be part of your business just because they have the money and you the skills, a relationship needs to be established).

Owners need to also open their mindset and learn new skills. They need to think long term (be in control of their own future and not run the risk of this being dictated) and develop a succession plan / continually reassess their business (for example it might be prudent to sell a portion of their business now, rather than being forced at a later date). It is important that they have the courage to make changes and do not live to regret not doing it.

If ownership structures could be understood it would dispel the adverse thoughts to bringing a skilled young operator into their business, especially if it gives the ageing owner longevity.

### Paths do exist

In my opinion, and as my research suggests, ownership / career paths within the dry stock industry do exist and 100% ownership will not be common as it will be very hard to achieve with limited capital.

There is an achievable ownership path with varying levels of tenure, in the form of a percentage shareholding in equity partnerships, in either the operating side of the business (stock and plant) or total business, as well as a clear career as a professional manager. Both avenues will provide the challenges, financial reward and growth opportunities for any skilled, motivated and passionate young person. There are people within the industry doing it and there are ageing owners who have it sorted. This is because they understand business models and have gone out there and identified the best managers and given them tenure opportunities.

Although achievable paths exist, it is unlikely that these paths will be clear for some time. Largely due to the fact that the dry stock industry is not known to embrace change and sharing of knowledge is limited among farm owners, hence the risks or perceived problems get in the way of exploring opportunities.

The industry is in relatively good heart in terms of the quality of people that want a career within it. The current economic climate and the ability to obtain a challenging and rewarding job within the corporate space will see young educated people look towards the dry stock industry earlier than anticipated. It is an opportune time to promote paths.

Opportunities will present themselves with the increasing number of ageing owners. There will be a number who do not want to sell their property but want to increase their longevity or provide a legacy. They will start to realise that it will be best to be proactive and develop a succession plan now, rather than get to the point where they have the decision taken out of their hands. Also opportunities are going to exist with likely internal and external future owners who are business savvy – they see and understand the benefits of attracting and keeping the highest skill set.

#### So what does the industry need to do?

To help promote and develop ownership and/or management paths the industry needs to have the courage to make and adapt to changes. “Seeds need to be sown” to the industry by having more publicity, help and guidance on business structures and ownership paths. This can be achieved via written media, given it was found that most people educate themselves via reading. There is a need for more articles to be published that illustrate what those without family farms are doing to succeed, not just family succession articles. This will stimulate thinking and/or willingness to act.

To get ageing owners on board these articles need to demonstrate how an ageing owner’s income will potentially remain unchanged by bringing a skilled person into their business (1 + 1 = 3 scenario). Productivity increases will be accompanied by adaptation to technology, embracing change and reduced workloads.

Given there are approximately only six field representatives within the dry stock industry versus say 42 within the dairy industry, there is the need for self appointed leaders who will lead change. There are a lot of very skilled and passionate people within the industry who are willing to share their stories. They just need to be encouraged to do this as these people are typically quiet achievers and their nature is to not share their successes without being led or prompted. Individuals and/or groups within the industry should take a leadership role and not wait for someone else to sell the vision.

#### Industry advisors role(s)

As a lot of the ageing owners have little or no debt they are not well known to people such as bankers, consultants, and at times, their lawyers. The majority rarely attend discussion group’s seminars and/or conferences. Therein lies a challenge, to expose and sell the benefits of different ownership models to them. However, given they have to complete financial statements annually, their accountants know who they are. On this basis, accountants, as well as all other industry advisors, need to play a pivotal role in guiding and leading their clients to see the positives and not just the risks of change/succession. By working together and publicising successful models the idea of change will be more readily accepted.

#### Summary

The dry stock industry has some key elements that other industries do not. In many opinions there is no one more passionate about pastoral farming than dry stock farmers. Whilst it can be argued that there are passionate farmers within the dairy industry, more are passionate about making money

(largely why they went into dairy), a dry stock farmer's passion lies with land and varying classes of stock.

All owners have to make a conscious effort to give young people a go and make them look past big salaries, show what other things can be offered, sell the long term vision and make sure a win/win scenario is delivered.

There are many skilled and passionate people out there within the dry stock industry who would happily work for a salary of say \$50,000 to \$70,000 if they knew their equity was growing over time and they had a sense of ownership. The dry stock industry should be using this passion to their advantage by focusing on and selling the key differences that exist between dry stock farming versus dairy farming. By doing this the mind-set would change to thinking about the simple things that can be put in place, drawing focus away from the obvious financial barriers.

There are many young people out there who have the skill, enthusiasm and passion. Likewise there are many passionate ageing owners who would buy into this; they just have to be shown that there are a lot more positives rather than negatives in doing so. The industry is in a very exciting space given ageing owners combined with a subdued corporate employment market. Ownership / Career Paths within the dry stock industry do clearly exist, however they are never going to be clearly defined given the makeup of the industry. It is up to the industry as a whole to promote, but ultimately it is up to skilled young people to drive their own career. There are many people out there to help.

"You can't just sit and wait for people to give you that golden dream. You've got to get out there and make it happen for yourself."

Anonymous

## Introduction

As a Rural Banker, combined with my passion and networks within the dry stock industry, I believe career/ownership paths are possible/do exist for young people who are able to embrace innovation, technology, sustainability and have the ability to treat farming as a business. This in turn will contribute to the growing wealth of the industry and ultimately New Zealand. In order to hold and attract these people, they need to be able to see a future within. They need to be able to see a path where they can create value, wealth and a sense of ownership or tenure for themselves and all stake holders. At present without family money, or other forms of concessional capital, this is normally seen as very difficult, if not impossible.

Frequently published articles on succession planning mainly talk about how to succeed the family farm with family members (as succession usually involves handing the farm to a son/daughter, not a young manager or anyone else outside of the family). This can be fairly de-motivating for the young person outside of a farming family with limited capital. Many people with passion for the dry stock industry lack sufficient capital to gain a form of tenure, meaning that many opt to enter the dairy or rural professional industries with the view of saving capital to return back. However, the transition back to the dry stock industry rarely occurs, as the desire to return is often overridden by their position of strong cash flow. Combine this with the fact that management techniques, and the skill set required, has often progressed by the time the decision is made to return, adding another impediment.

It is an opportune time to promote a path within the industry given the current economic climate, reflecting high paying professional jobs for young people being few and far between. Combine this with the increasing average age of the industries owner / operators there have to be openings. There must be multiple options out there, so what are they? Is there a way / path that can be shown which will attract and retain skilled management to avoid them taking on other challenges?

Given that the average age of the dry stock farmer is nearer to 60 years it would be fair to say that the best working years are behind these owner/operators. Many appear to be operating 'with the throttle wound back'; hence there are dry stock farms idling at around 70 – 80% of productive capability. This poses the questions, "Is there the potential to lift this productivity, with the aid of a young person who possesses the right skills and motivation?" If so, "What skill set does that person(s) require?" And, "Do retiring farmers, and future owners, understand how to structure a proposal which will allow a young, proven manager (from outside the family) to enter the business, whilst at the same time satisfying viability?" If not, how do we educate them?

Among my research I came across a definition of succession in Wikipedia that I found very thought provoking: "A form of family business succession as defined from Wikipedia is 'Openness' – when members of the next generation are numerous, and among them it is not possible to identify a person who possesses the characteristics necessary to assume leadership positions with expertise in the family business, we have the scenario that we call Open. The strategy here is to shift some

capital to others who can provide not only management skills but also liquidity for family members. This will succeed in securing the future of the business, creating more value for society and retention of jobs for their employees, rather than to please the family, getting access to inheritance money and potentially avoiding future complications”.

The above definition provides food for thought for the question; “If your children were not family, would you employ them and / or give them the reins of your business”?

### *Example*

A farming family, with the main operator(s) in their mid 60’s, who are very capable and successful farmers in their own right. Their children are either not willing to, or not capable of, taking over the farm. The farm is idling at 80% productivity (has operated at what is considered greater than 100% productivity in the past) and they do not want to sell the farm as it is their passion (they have significantly developed / broken in the property in overtime). They have mentioned they would love to mentor a young person, as they have seen what increased enthusiasm some of their friends have gained with their children returning home. They also appreciate increased productivity is largely going to come from energy, embracing technology and trying new things. Therefore the future is with the younger generation.

To test my theory I first had to look at what ownership in the future looks like – who is / are going to own dry stock properties moving forward. What is actually happening out there? What are young and older people thinking? What are advisors saying? How are they going to do it? What do young people need to learn / drive to make this happen – do they understand structures, how to network and can it all be commonly shared? All had to be looked into. Or, given the trend of more corporate ownership, should young managers forget about any sort of tenure and grow their skills to aim towards a career as a professional manager?

Ultimately answering the question, “Is there the ability for the enthusiastic, energetic and skilled young person with limited financial capital, to gain some form of tenure within the industry”? If so, what do they need to do?

## **Purpose**

This report has been prepared for phase 2 of the Kellogg Rural Leaders Programme 2012. The purpose of this report is to provide a thought provoking document for all those within the dry stock industry who are questioning career paths and/or exit options to refer to.

This report is ‘opinion only’ to stimulate readers thought process and not intended to provide any firm answers or ‘blue prints’.

## **Methodology**

With the previous questions in mind, I surveyed / talked to a sample of 35 people within the industry. Each survey ranged from 35 minutes to 1 ½ hours, a combination of face to face and phone interviews. Participants were a combination of:

- Current farm managers;
- Farm owners;
- People who have achieved total ownership or a form of tenure and;
- Industry advisors.

A solid cross section was gained throughout the country by utilising my personal network. They provided me with their thoughts and put me in contact with suitable candidates from their own network. All names and details have been treated in confidence. A thought provoking scoping document (annexure 1) which summarised the perceived problem, was then e-mailed to most candidates to illustrate what I was endeavouring to achieve. Specific role base questions were then raised (annexure 2).

## **General findings**

The first comments from most I talked to were along the lines that I had an interesting and challenging topic. On completion of interviews all requested a copy of my final report. On this basis, most, if not all people, were very accommodating to talk about the subject and more than happy to refer me to others to talk to. However, I also found some ageing owners found this subject extremely hard to talk about, it raised apprehension, and it seemed by not talking about it meant they did not have to deal with it. In these cases I had to change my approach. I reverted to asking more open ended questions to create discussion - 'sowing seeds'. I found this approach worked better and generated lively conversation with managers also.

Over the course of the discussion most that I talked to believed that there is potential for a young manager to gain a form of tenure, however the path is not clear. The high capital value of land causes a barrier to entry for young people with minimal capital – so they need to look at other avenues of tenure as targeting owning 100% of a property may not be the best option. There also was, and is, a general trend in the industry as a whole, that at times is to focus on the risks and/or problems rather than the positives.

With these trends earlier on, I focused on a form of tenure rather than 100% ownership and focused more on the positives rather than the negatives, as it was clear very early on that 100% ownership is very hard to achieve, if at all.

## **What does farm ownership of the future look like?**

To be able to see an ownership / tenure path I discussed what the future of farm ownership will look like and who the likely owners of dry stock properties are going to be moving forward.

During initial discussions managers weren't overly optimistic about the future and how they fit in. However as the discussion progressed they began to see opportunities. Those that had already achieved a form of tenure were very optimistic and could see great opportunities in both the management and tenure spaces given the likely future ownership structures.

Responses were as follows:

### **Managers views**

- Absentee owners.
- Corporates, being Maori Trusts and Equity Partnerships.
- The bigger will continue to get bigger. Established businesses will continue to grow due to size and scale.
- Established farming families who have debt under control will grow.
- Corporates and foreign ownership; so we are competing against these guys. Their strength will see them getting bigger. However, in saying this, it could create lots of opportunity for equity partnerships and/or management incentives.
- Ownership looks real grim for us, as we will be taken over by corporates and overseas money. In saying this, I am very happy about that, as it will provide more management options.

### **Ageing owner views**

- Outside professionals investing - such as doctors, lawyers, ex bankers (possibly some that have gone out and come back in);
  - Rural land is considered a great storer of wealth and the highest possible return on investment is not necessarily so attractive these days (after the Global Financial Crisis). So we will see more of the Queen Street farmer types with boards who are very happy to invest given the storer of wealth. Rural land also gives them a place of solace (place to go camping, hunting etc).
- Cosmopolitan/urban based boards running farms - type of people who are just as comfortable in a suit sitting around a board table as they are running farms.
- Older people with capital to invest in farms, given farm land is a very good storer of wealth.
- Successful family farms and corporates, Maori Trusts and people who treat farming as a business. They will continue to get bigger.
- One or two owner/operators from hard work. Young person who has worked hard and achieved ownership and a few via the dairy route – selling dairy stock and/or land to purchase a dry stock property. Rest being corporates and people who will treat farming like a business.

## Those who have achieved tenure views

- More room for corporate structures, with skilled managers having a stake within the business and a path of longevity;
  - Given land is a great storer of wealth, these investors will want confidence in longevity of management, and as they understand business models, will be happy to look for a win/win scenarios and structures
  - Also, as some corporates are happy to pay larger salaries, I am sure they will be willing to look at equity managers, especially if this means keeping a skilled manager long term. These seeds need to be sown.
- More equity partnerships, share farming options or lease land with owners owning land as well as percentage of the operating side of business (stock and plant).
- Don't really know, possibly older people to leave some money in and form equity partnerships – until this happens owners will be overseas investors.
- I am not really sure; however I do not think we are going to see too many family ownership structures, given returns versus price – we have to pay for land.
- The big will get bigger as have a good base to start with (economies of scale).
- Corporates such as Lonestar, Landcorp, Brownriggs and the like, will continue to get bigger;
  - This is an exciting space for a manager to be in. Plenty of opportunities for a young manager to increase performance / production and prove themselves. Smart managers will know how to negotiate lucrative remuneration packages by incorporating performance incentives and corporates will understand the importance of win/win structures.

## Industry advisor views

- Corporates, larger established families and Maori Trusts who will all have better/sound governance structures with boards.
- Farm land is a great storer of wealth;
  - We will have more corporates and wealthy people investing – these people will need a skilled manager and especially a management structure that has long term vision.
- Corporate structures with scale will influence (bearing in mind that a good manager can handle approximately 10,000 stock units and a great manager 20,000 to 25,000 stock units).
- Smarter structures i.e. flat / finishing property incorporated with a hill country property.
- Be easier to say corporates, potentially be Maori Trusts. We won't see the equivalent to Ag Invest dominating largely due to return on investment. May see Super Funds given their long term view;
  - They all need managers and will want long term highly skilled operators.
- Maybe inter-generational wealth (families) who don't need to or want to farm the land, only own it;
  - Opportunities will exist to lease land and form long term business arrangements.

- We won't see situations like in the dairy industry, i.e. an industry based succession plan, due to concepts of tenure. Dry stock farmers are far too traditionally engrained– settlement farmers, grandfathers, uncles etc, big tie to land.
  - Dairy farmers more emotive about farming and making a profit. Dry stock farmers more about land.

By looking at what future ownership looks like there has to be ample opportunity for tenure / management structures. This is largely due to the fact that a good portion of future owners are going to be very business savvy and will understand the importance of attracting and retaining the highest quality people to manage / run their properties.

Picking up on the fact that land is a great storer of wealth, I see this space growing especially since the Global Financial Crisis where a large number of investors have learnt that “it is the return of their capital and not necessary the return on it” that matters. Land purchased at the right price, and with adequate debt loading, can still provide a 4% return if you have a highly skilled management team in place that are capable of running the farm like a business.

### **Is there the ability for a young manager to gain a form of tenure or should they just concentrate on a management career?**

After looking at what the future ownership looked like all were then asked whether they thought farm ownership / tenure was a reality for young managers with limited capital, or should they just concentrate on a professional management career?

At first there were some fixed views on this on both sides being yes and no. Once seeds were sown on how a form of tenure could be achieved, there was a shift from being pessimistic to optimistic in terms of the future ability to be involved in either having a form of tenure, a professional management career, or both.

### **Manager views**

Thoughts around this question were mixed largely due to having minimal idea of what they needed to do to achieve a form of tenure.

#### Optimistic thoughts

- Yes but it comes down to capital.
- I'd like to think so, people who own property should release capital to give a young person the ability to take a stake and get started.
- I see opportunities with ageing owners; however they have to see opportunities with us.
- Yes, but we need to be skilled and need opportunities along the way;
  - Some owners need to recognise this and help / hand opportunities.
- To own a property straight via farming you cannot build / generate cash to get anything of scale;

- Better to own a small share of a property with scale, rather a big share of small property (i.e. own 20% of 10,000 stock units rather than 2,000 stock units on own).
- Might look at a stake in someone else's business.
- Prove they can do the job first, and save. They have to prove they can make a business tick.

### Pessimistic thoughts

- Possibly, however you want / need to be 120% committed. It will be very, very hard, so don't really think so.
- I have been put off ownership by people who have had a go and lost everything;
  - They have worked too hard and did not have time to spend with family etc and in the end lost everything as got 'screwed' by owners.
- Personally written off ownership due to returns;
  - There are good wages and perks so why risk everything – given future ownership great opportunities within the management space
  - No, I am a professional manager, not at all interested in owning a farm due to return on equity and scale.
- Currently opportunities are few and far between.

### Stick to managing?

- Should concentrate on both, as things can change
- Operation manager's roles look good, but have to be highly skilled and well proven.
- Definitely, however most good jobs are few and far between - need a point of difference.
- If managing appeals to you, but might not appeal to everyone;
  - In my view you should put yourself in a position where you can weigh up the odds of doing either or both.
- Do both. I really thought I was destined to be a manager. However, after speaking with you I can see real opportunity to do both (hedge my bets).
- Yes, huge opportunity for skilled managers given likely future owners.
- Cannot rule both out as there are, and will be more, very good packages – wages and perks (vehicle, fuel, bread, milk, internet, schooling, meat, lifestyle). Ability to see and spend time with children.
- Can do it –if you don't have the drive to own a farm and if you want to stay on \$65k, then I would question how good a manager you would be;
  - If you put yourself in a position of being a sought after manager you will have the skills to build/work within your own or someone else's business - as being a sought after manager will mean you have a firm understanding of how to operate and drive a business (business skills).

## Ageing owner views

### Optimistic thoughts

- If someone is absolutely committed focused and courageous they will get there;
  - Capital needs to be raised via other areas such as dairy or off farm investment
    - Traditional means of getting there is not there anymore so need to look elsewhere such as a professional career or the dairy industry.
- If they are passionate. Those that do not treat farming solely as a job;
  - Passion with business in mind, then they could look at equity management
- If they have the ability to raise enough capital to finance at least a 3<sup>rd</sup> share of say 8,000 stock units (stock and plant only) – will need at least \$200,000 to \$300,000.
  - If they could bring this level of capital, an ageing owner may consider this.
- Only formula is the dairy path, ultimately going 50/50 then leading to ownership.
- Have to enjoy something and be totally committed to it to do well;
  - However, may have to do something that you may not enjoy and by keeping the passion for the dry stock industry in mind will get you through.
- There will be plenty of opportunities, especially when you look at who the future farm owners are going to be;
  - In life there are winners and losers. Winners will find opportunities and see a path, losers will not, they will continue to blame the system.
- There are older people who will see the merit of incorporating skilled young people with the drive and passion into their business;
  - They will be prepared to help
  - Sometimes you need to fit the person with the property. Establish where there are weak/strong points and work on.

### Pessimistic thoughts

- Very hard without family support. Options such as leasing is too risky.
  - Young people getting a share of business to increase profitability? I can see that potentially happening, however nothing should be a gift – only shareholding potentially.
- No, nothing should be a gift.
- Don't know, I like what some of my friends are doing with their children. Maybe this is something I could look into if I came across the right person.
- Very hard, few and far between. My generation, with minimal family support, carry large debts at older age.

### Stick to managing?

- Possibly, you can then make enough money to buy a lifestyle block to retire / live on.
  - Yes and no. Some have skills and some not. Some cannot carry a mortgage and some can.

- Lots of very good managers out there who cannot carry debt. These guys need to work out who they are and stick to being a highly skilled manager.
- Put themselves in a commanding position and use their salary to invest in the same way a corporate professional would.
- The managers that have the ability to should definitely look at getting a form of tenure, but more should look toward being professional managers given the opportunities.
- Depends very much on the individual. However, relying solely on the management route, managers are not going to be able to get enough capital behind them.
  - Lease land is so competitive and very risky therefore a very challenging way to get farm ownership.
- If people are passionate and don't feel they have enough financial support managing is a good route to take.
  - In the professional management space there are going to be lots of opportunities presenting themselves, (managers are going to have to be highly skilled and have a point of difference to get the good jobs)
    - All my managers get well looked after with a good salary and other perks such as broadband, telephone, Sky TV - Country 99 channel etc.

### **Those that have achieved tenure views**

Given this group had already achieved a form of tenure they were very optimistic about a young manager being able to do so. Their optimism came down to largely knowing what steps to take to be able to achieve.

#### Optimistic thoughts

- Yes, but need to be committed and have the ability to overlook barriers;
  - Managers have to ask themselves what are the five key barriers/risks that young people need to overcome.
- Absolutely. Lots of opportunity in share farming, equity partnership or tenure via operating side of business;
  - Given there are lots of averagely run farms out there, you need to find these as reasonable operators will be able to increase productivity, therefore owners will notice minimal impact to their cash flow.
- Always the potential just have to work "bloody hard";
  - Need to raise capital via fencing, shearing – outside the farm gate on the side
  - I know a few people that are absolutely passionate about owning a dry stock farm so have gone dairy farming with view of raising capital to purchase.
- Yes, by looking at different ways. Share farming with older farmers or leasing;
  - Comes down to your approach. Don't be afraid to ask the question and get your networks going
    - Most opportunities are by word of mouth, they very rarely come to you
    - Have to find a network with the right people, they are out there.

- Yes, we are all in control of our own destiny, therefore can do what we want. But do not rule out being a professional manager.
- Can be done yes, if you get two parties with the desire and the will to do it;
  - If both parties have the same end goal it can be done
  - If the desire is strong enough, it is easy.

#### Pessimistic thoughts

- Difficult due to amount of equity required rather than dairy;
  - Harder to find good managers, as good skilled managers go the rural professional path.
- Very hard as no clear path;
  - Young managers are unsure of what they have to do and end up de-motivated or heading to other agricultural industries.
- Few and far between – hard work.

#### Stick to managing?

- Some should;
  - Guys that are very good and motivated, good at administration and staff management can earn \$100k plus via operational roles – then invest off farm. In saying this, these people will have the opportunity to do both
  - Some people like to be led by owners or boards so are not self driven enough to be able to work for themselves (as soon as they work for themselves all motivation goes).
- Definitely a big opening, if you are happy doing so. Use income to invest off farm;
  - Managers need to be good and have a point of difference to get the high paying jobs.
- Do both, depends what you want to do, work for yourself or someone else.
- Under corporate farming you can be a better manager/farmer as they have money to invest in development, rather than trying to farm with limited capital;
  - Ability to invest capital into things such as development plans
  - Readily available capital can be exciting for managers, ability to get development or a project completed quicker.
- Comes down to what individuals want. Either are not bad options;
  - If you don't get an opportunity, nothing wrong with a good managers job
  - If you have the ability to own and run your own business you are going to be a fairly good and sought after manager, so you have to weigh it up when the time comes.
- To some degree if you don't want debt, business is in the livestock as far as leasing goes. If you have a very good manager's job and are looked after why don't you stay there, or buy a share of the business – there are lots of different structures available.
- Day is coming for this, big companies will look to do both to help retain and attract the highest skill set;

- Companies want to retain good people and they understand that managers want to grow. They are open to and understand differing ownership structures/models to help this occur
- Companies are happy to pay the best for running their properties, who are skilled in:
  - Business plans
  - Ability to treat a farm like a business
  - Benchmarking
  - Communication
  - Networking
  - Negotiating
  - Staff management.
- Yes and no. Debt in industry can be a hindrance. Just don't have the cash flow to deal with debt. As a rule, level of capital/debt required versus income is out of proportion.

### **Industry advisors views**

Industry advisors generally were very optimistic with the main questions mark around how a path can be sold to ageing owners so they can play their part.

#### Optimistic thoughts

- Lots of opportunity. The challenge though is selling ownership structures/ideas to ageing farmers;
  - There are a large number of farms idling at 80% which are fairly well reflected in the ageing farmer bracket. The idea needs to be sold to them of getting the best people running farms to lift productivity
    - Owner's income will largely remain unchanged i.e.  $1 + 1 = 3$ , but their workload and tie to the farm will reduce.
    - The challenge is that the majority of these farmers do not attend discussion groups, so how do we sell this to them?
- Managers need to generate capital and minimise paying tax by putting cash into appreciating assets – run something alongside their salary that generates income.
- Good managers can return +4.00% for a business. So need to find good managers who can do this, then sell this to an ageing owner.
- There is, but we all need to think differently;
  - Look for partners who have a great vision. Partners that are absolutely committed to growing a business and treat farming like a business.
- Investment threshold is high, work really hard and make 2%. However, there are many other reasons why you farm though, with money at times not being the main driver.
- Plenty of opportunity, especially if you have cash of say \$300,000;
  - Ability to say here's \$300,000 I want 40% of your business then I will buy the rest over time
  - I can show you how  $1 + 1 = 3$  in terms of productivity.

### Pessimistic thoughts

- Cannot do anything until owners are prepared to give something away. All coming down to money.
- Very hard if you do not have at least \$200,000 to \$300,000.
- There are pathways, but constrained due to lack of profitability, limited by cash flow to share income;
  - No easy answers, cannot think of many examples of who has achieved
  - Biggest challenge about getting young people into the industry is the lack of profitability. Given the average return on investment is 1.5%.
- It is really easy to take an average performing dairy business and take it from 1% to 8%. A lot harder in the dry stock business to do this. Need really good people to do this;
  - Simplistically, all good dairy farmers only need to worry about is, 'have they got enough feed' Whereas dry stock farmers have to manage multiple classes of stock, then what market do they want to be in and the timing of and so on;
  - Lots of guys, who are capable, go into the dairy business with view of coming back, but they never do
  - Poor farmers in dry stock industry stay on, and then it is hard to get them moved on. Industry has a problem with these types of people. Not enough incentive even to be an equity partner due to low returns.

### Stick to managing?

- Yes and no, can head to this but if a manager is really skilled they should get a structured incentive;
  - Owners, no matter who they are, need to look at this to hold good managers.
- Is an option but they have to rule out ownership so they fully focus on managing and grow equity for retirement the same way as someone in town would.
- Yes some individuals should definitely – i.e. managers who cannot handle money.
- Some real good managers may be able to show skills / make a difference by managing a property that is not short of capital.
- Yes and no. For some it might be more than money, it is about pleasure, lifestyle and not being answerable to anybody.
- For people who want to attract and hold good managers they need to look at incentive management models such as bonuses and share options;
  - So if you want to stick to being a great manager, managers need to look at and understand bonus structures - % of EFS or something similar.
- Stick to managing providing you are getting paid enough;
  - An economic unit of 600ha to 700ha, if still has an owner on and he/she draws from this business, limits what a manager can be paid
  - If you are capable of managing more than 1,500ha owners will want to keep you, meaning opportunities exist for bonus structures.

- Industry as a whole lacks very capable managers. Some businesses are prepared to over pay in labour as they are more concerned about the well being of property and not necessary the highest possible return that falls out the bottom;
  - Opportunities exist here for managers to show them what they can do / bring to the business. Therefore they may have the ability to design a management contract.

### **Ageing owner succession plans**

My findings back that of the many industry reports which conclude that only approximately 10% of the industry has a succession plan and/or the correct ownership structure. Some ageing owners that I talked too, believed by just having a family trust, that they had a plan. When talked about who was going to run/manage their properties some had minimal ideas and no answers.

- One owner could not answer my questions – he had read my scoping document a number of times and said it was just too hard, was too hard hitting, asked too many hard questions and he could not help me. He admitted that his property was idling at 80% productivity largely due to the reduced spring in his step and not keeping up with modern management techniques;
  - When we talked over some possible ideas such as bringing in a young skilled manager in he said “I need to sit down with you and talk over some ideas! When can you do that”?
  - So he went from being totally scared and not wanting to talk about it, to very open and interested to hear more.

There were some very well thought out plans, these owners immediately saw how and what a highly skilled manager could bring to their business and already have the structure to enable someone to invest in the operating side of the business whilst the land and buildings were held in a family trust.

- I have very open communication with family members. Ensuring that children are educating themselves in the areas of governance and running/treating farming like a business.
- We have set up the business so that it can tick over with a manager when I am not there and to be able to retain ownership with a skilled manager;
  - I had to double size to do this, due to economies of scale.
- Have invested off farm – which provides future options.

### **Consideration of bringing a skilled young person into business**

The question was put to all ageing owners if they would consider bringing in a skilled young person into the operating side of the business if that meant getting the right skills to take the business forward.

- All said that they had not thought about it.
- All then said they would not be adverse to it at all;

- Open to it if right person comes along and can show they can bring a point of difference to their business.
- As mentioned, above owners that had a structured succession plan, could immediately see merit in bringing someone into the operating side of the business should their children either have no desire and/or skills to run the business;
  - This could also provide longevity if children were skilled in governance and business management. Therefore do not have to be skilled in the practical side.
- Owners who had no succession plan, once ideas were sown; they could start to see merit but had minimal idea of how it could be done.

In drawing a conclusion for what the future of farm ownership looks like there is vast opportunity for both ownership tenure and a clear management career within the industry. As future owners are going to be more business savvy they will be able to see the advantage of attracting and retaining skilled people. Also ageing owners, if they can see and understand structures are not adverse to bringing a skilled young operator into their business, especially if it provides longevity. All agree the industry needs to find and show a path and are all of the view that young skilled managers undoubtedly have the ability to increase productivity of their property.

Highly skilled and passionate people have the ability to put themselves in a commanding position – so what do they need to do or bring to the table?

## **What skills / types of people does the industry require**

Below are a summary of the required skills that were considered to be “hard decks” for anyone building towards a form of tenure over and above any capital. It must be understood, that just because you have capital, does not mean you can and/or have the ability to be part of someone’s business and make it successful. Chances are that if you do not have the below skills, the business will not be as successful as it possibly can, or even fail.

### Business

- People who understand and treat farming like a business;
  - Need to have sound business skills.
- Understands a business plan.
- Ability to analyse and bench mark;
  - Have to have the ability to compare with others within the industry to constantly improve.
- Don’t get emotional about land, get emotional about farming;
  - If a particular block of land is not performing, and is unlikely to, sell it and purchase a block that will.
- Finance Skills;
  - Proven track record of managing money, how to look after it, know the value of a dollar and what it is like to lose

- If people have a proven savings record (saved, bought a house etc) they will understand the value of a dollar and have skills to get over this hurdle
- Understand and be able to manage a budget.
- Reputation will take you a long way in a small world;
  - Ensure this is intact and you can learn from mistakes.

### Practical

- Pasture management and feed.
- Ability to handle and keep up with technology.
- Be ready to accept changes and try new things;
  - Ability to lead and adopt change.
- Proven practical experience and up to date with modern practices.

### Team / Support

- Husband / wife / partner on the same page – share the same goals and dreams;
  - Husband / wife / partner need to be aligned in what they do - give and take
  - Need to give an owner comfort that both are a team and both share and have ability to reach the dream
  - Have own areas of responsibility
    - Show complementary skills.
- As farming can be a long and sometimes lonely job, you need to be best mates with your partner. If you can present this to a farm owner / business partners this will give them great confidence that the business relationship will have longevity.

### Communication

- Whatever skills are brought to the table all have to be underpinned with sound communication;
  - Gives confidence to all that you have the ability to communicate in good times and bad
  - Should business go wrong, or has challenges, all have the ability to work through a process where all parties still talk at the end
  - Does not blame circumstances – fronts up.
- Know how to partner with people.
- Be able to understand someone at the age of 60 might be set in their ways so young person needs the ability to sow seeds and lead change.
- Ability to look for win/win solutions.

### Passion / Other

Passion was the most talked about and mentioned.

- Enthusiasm and passion that is second to none;
  - If not passionate forget about it and find something else to do

- Highly motivated.
- Not closed minded and has the ability to learn.
- Have very high standards and unquestioned integrity.
- Comes down to the husband and wife sharing the same dream and work together and not worry about what their friends have got;
  - Have to have long term dreams and goals.

### Education

Mixed thoughts around education. In most cases managers needed to show they have the ability to learn.

- If need be, be prepared to further educate.
- Running a farm is a business so need a degree of education to handle. Definitely solid secondary school education, preferably tertiary, studying along with working shows you are dedicated.

### Experience

- Experience plays a big part and only comes with time in the seat;
  - Learn how to handle pressure, stress, juggle things and manage through.
- Ability to handle projects and multiple contractors.
- Have a long term view of a farming business so can build over time;
  - Get a good understanding of what can be done, i.e. don't need to rush to do things
  - Don't have to take risks.
- Sometimes a manager can get a bad reputation as they want to change everything straight away to prove themselves;
  - Can come across as they don't have a long term view. If they went to a property knowing they are going to be there for a long time, easier to adapt a long term view and make subtle changes along the way.

## **What skills do managers and owners need to learn**

Whilst managers and owners displayed some of the below skills, there was a general trend that some of these skill sets were lacking. If they had them, they were not aware of how particularly important they were.

### Managers

- Learn how to network;
  - Most managers think they have a network, however it is very confined. This needs to be expanded and be lifted to higher levels
  - Network outside square – professionals, bank managers
  - Network in owners circle and with successful people
  - Attend discussion groups or gatherings of similar nature outside of your area.
- Communication skills;

- It was evident that some managers were not entirely confident communicating.
- Have to be comfortable communicating with staff and contractors, as well as presenting farm reports in a boardroom
- Farming is a very personable thing; you have to have the skills to get on with everyone you are working for or with
- Business skills;
  - Have to learn how to treat farming like a business
  - Learn how to drive cash from a business and the value of a dollar
  - Learn and understand different ownership and legal structures
  - Learn how to handle debt
  - Able to analyse business KPI's / benchmarking
  - Able to adapt to change / embrace new ideas.
- Budgeting;
  - Take ownership of budget where you are working
  - If a corporate, try and have some input with the accountant or whoever compiles the budget.
- Learn how to partner;
  - You cannot just ask someone to be part of your business just because you have the money and/or skills. A relationship needs to be built over time
  - Come with ideas and prove you can be part of someone's business. Be employed as a manager for the first 12-24 months, to see how all get on.
- Learn how to market yourself;
  - When looking at a manager's job sell / negotiate idea that if we get on is there opportunity to buy into the business. If not look for another job
    - If you have the skills, there will be opportunities, but you have to sell yourself(s).
  - Opportunities will rarely come and present themselves to you. Learn to be proactive and go looking and have a business plan together
    - There was a trend that managers would look at all options should someone phone them
    - You sow the seeds and prove you can do it
    - Comes down to the quote "there are winners and losers in life – you chose what you want to be".
- Business plan;
  - Understand business plans and how to goal set.
    - Most managers did not have a business plan, they knew how to goal set but these were limited to physical KPI's such as hogget weight, ewe to ram weights etc.
    - Most had plans of working for higher salaries but not business.
  - Most had good goals of working from a shepherd to head shepherd to manager – but stopped there

- Trend that most managers got to a manager's position ahead of time and
    - Trend that managers wished they understood business plans earlier and got a mentor / someone to help them earlier.
  - Managers need to assess what their goals and objectives are and whether they want to go beyond a manager's role.
    - A business plan will help them do this
    - A business plan will also help a manager take some calculated risks in order to progress.
- Start building capital early;
  - Have to get started as soon as they can.
  - Husband and wife potentially putting money into a business on the side that has tax deductibility
  - Money into a small block that can improve in value by being tidied up by fencing, water and development
    - Work on weekends or after work.
  - Managers need to change mentally from being just an employee. Potentially start being a contractor.
    - i.e. buy a small block where they can base themselves / dogs / vehicle, then will have an element of tax deductibility and GST registered.
  - This will also teach you how to handle borrowing money and develop / improve financial and analytical skills.
- Get a Mentor;
  - Find a respected person in the industry and ask them to mentor you. Someone who is successful and who has proved they can move with the times and learn
    - Most people are more than happy to help and pass knowledge and experience on.
- Education;
  - Continue to further educate, the above points will provide a good starting point. Most said the only education they do is reading – which they do a lot of.
    - Some said if someone suggested something that I should educate myself on I would look into it.
    - Key here is that you don't need high level degrees, just be skilled in all the above.

### Owners

- Need to learn the ability to think long term;
  - It might be better to sell a portion of the property / business now and have a clear plan rather than be forced to sell it
    - Forced to sell it via health and/or financial issues and/or by having no immediate succession plan as children may not have the desire or skills to continue farming.

- Control your own future, do not let it be dictated by something / or someone else;
  - Chances are that if you are forced to sell your property it is not going to be worth what you think it is.
  - Understand the value of your farm
    - It is not usually worth as much as you think it is.
  - There are too many older guys that lack the courage to make the changes (and they will live to regret it)
    - They just do not want to talk about succession
    - However some ageing owners do open up when seeds are sown – so maybe the industry needs to take the lead here.
- Owners have to learn to plan early;
  - Succession plan whether there is family involved or not – get the structure right and get your head around it all
    - Most owners who don't are scared and have minimal answers and ideas now.
- Understand the advantages of working with a highly skilled, passionate and motivated young person who has the ability and that wants to stay for the long term as;
  - Managers want to prove the world in a couple of years and will take risks that may not be aligned with the owners. An equity manager takes a much longer view and makes calculated decisions over time that are more likely to pay off.
  - Understand win/win.
- Understand tenure agreements and governance;
  - Understand shareholders agreements and ownership structures
  - Understand that there are good entry and exit agreements and if set up correctly with the right governance in place, the property will not have to be sold if the venture does not work.

#### Both Owners & Managers

- Everything has sacrifices with it. It is important to focus on what you can get, not what you feel you can lose. People often tend to look at how I am losing in a situation, not winning;
  - Major trend of the dry stock industry is that the industry as a whole is too quick to focus on the negatives rather than the positives.

#### **Those that have achieved tenure – what was their path?**

All those that have achieved tenure were extremely passionate about what they had done and their thoughts of what they believe can be done. They were also very willing and open to talk about their paths, their successes, their learning's and what they would do different if they had their time again.

#### Plan

Did they have a plan of how they were going to reach a form of tenure or did it happen by chance? These plans were very mixed from formal to informal:

- I always wanted to own land. Although I had no formal plan I had an idea in my mind which was largely focused on buying land to build equity;
  - Stretched myself with 10% equity to buy a place which I ran on the weekends (sold ute to do so). I had some luck with capital gain
  - Continued with management roles
  - Given I knew what it was like to manage my own business (albeit a small property) I bought into the business where I am. Initially bought 20%, now up to 30% - along with cash owners who were/are happy to provide a supported guarantee
    - I managed the property for twelve months before buying into it which proved we could get on.
- Left school started working on a farm, worked my way to manager positions;
  - No set plan just took advantage of opportunities as they presented themselves
  - I guess I proved myself and kept my nose clean
  - Got a manager's job next to a sizable forestry block which I secured the lease of and ran beef cattle
  - Bought a small block along the way, then sold that and bought a bigger one. Now own as well as lease and run own scanning / tailing business.
- Long term we knew that we wanted to own a farm;
  - Leased blocks to build equity
  - We (husband and wife) had/have the same goal
  - Helped that people you work for understand your goals
    - So share them, if they don't understand and don't want to help you – don't work for them.
  - Now own and lease property – always looking. Have bought property we have leased.
- Had a plan in mind, however mainly in management roles. Property I was working on was converted to dairy which I did not want to be part of;
  - So did a bit of work with an HR consultant in search of a new manager's job
  - HR consultant knew of someone putting together an Equity Partnership (EP)
    - I was looking at another management role and this EP role came up
    - Injected our capital and the business provides a supported guarantee to fund our shareholding which gave us the ability to take a higher stake
    - Service the additional borrowings from salary.
- Had a plan which involved contracting, then share farming (operating part of business), then changed to leasing;
  - Purchased a development block on boundary in own names.
  - Really struggled with scale
    - However, we both really wanted to make it work so we made it work – give and take. Wife worked off farm
    - We are on the same page and want the same things.
- Had a rough plan, mainly back of the envelope stuff;

- But I understood this well and had ability to change if needed.
- Had informal plans that I learnt at AgITO;
  - I sit down with pen, piece of paper and calculator
  - Be fairly conservative.
- Plan was to buy and sell land that had potential;
  - Bought a rundown place and put all my wages into this
  - Always did budgets to see how things would work, nothing formal
  - If cash was not there we did not proceed
  - Got to have debt, but not too big otherwise it will swallow you up, needs to be manageable.

### What help did they get?

Again, all were very open and appreciative to what help they received and by whom they got their help from, with examples as below:

- To start with I had no financial help so I needed an experienced bank manager who believed in what I was doing;
  - I had to sell myself and story to him.
    - Have since got financial help from business partners via a supported guarantee, to help me to purchase additional shares in the business, but this was after I had proved myself.
- Had a friend who was on the same page;
  - Pooled funds together and brought a block.
- No financial help;
  - Just lots of good advice from people that have done it
  - Had owners that were very supportive and let us build up a few cattle numbers
    - By buying cattle made you learn to save to buy another cow and to grow your numbers
    - When we left had 20/hd so along with saving, had enough to buy 20 acres and a house, which gave us a base to start leasing from.
  - We got, and still get, opportunities by having very good networks.
- Family - father had 200ha so had a small foot in;
  - We would be a mile behind if I did not have a kick start
    - Father set this up well, as when he brought the property he said it was only a start – “don’t get emotional about it, sell it if you need to”, to be able to move into something else that will make you money if this does not.
  - While I was casual mustering my wife ran farm with not many days off
    - You have to be a reasonable farmer to do both though, given there is minimal time off.
- No real help – we just had the desire;

- However, we had other forms of help such as my mother looked after our children, you cannot put a value on that.
- Business partners;
  - People who we have gone into business with are/were very supportive.
- Family – not financial;
  - Family labour when away working / contracting
    - Helping out with children
    - Doing the small but important jobs such as shifting stock and opening gates.

**What were your biggest learning's and/or what would you have done different**

Again all those who have achieved a form of tenure were more than willing to share their learning's, particularly what they would do differently if they had their time again:

- Communication / compatibility;
  - Have a farm consultant involved within the business from the outset as this gives an independent or “go between” for all involved
    - Consultant can also challenge you all on why you are doing things.
  - Need to work on different ways to get my point across
    - Needed to understand the ability to ‘sow seed’ and see things from owners point of view
    - Needed to understand how to lead change and make subtle changes.
  - It is all about the people who you go into partnership with, you have to like each other and most importantly get on
    - Understand everyone’s goals and what success looks like for all involved
    - Ensure this is all on the table and discussed at the outset.
  - Employ / work for someone first and have a good look at each other to ensure you can work together long term;
    - Just because you have capital to invest does not automatically mean you have the right to be part of a business or that it will be successful. Take time to ensure the compatibility is right first.
- Learn how to handle money;
  - Could not initially handle debt and manage cash flows as when managing had a fortnightly wage and the owners / accountant / consultant took care of all the budgets
    - Coming from a corporate farming world, did not have to worry about the true value of a dollar.
    - Had to learn real fast about cash flows and how on farm decisions affect the timing of this and the ramifications of
    - Now have to be accountable for every dollar and cent. Plus a share is ours.
- Analyse;
  - Had to really learn how to analyse situations, pro’s and con’s of

- I was offered several jobs / positions so had to work out which stacked up.
- Strengths of a group;
  - Bringing in other party(s) gives the business real strength
    - Different skill sets which can turn into revenue opportunities, e.g. contracting, tourism
    - Understand how to synergise and the importance of synergising within a group.
- Business Plans;
  - Make sure you have everything in writing, set in place and go in with your eyes wide open
    - Needed to do more planning and move cautiously, as got caught up in opportunities, moved to quick and lost the detail
    - Had lots of verbal stuff and nothing on paper, no real business plans.
- Business / ownership structures;
  - Have a better understanding
    - We did not have the structure within the group for both ourselves and the group to grow
    - Now by having a business plan really feel the group, the business and ourselves are growing and moving forward.
- Independent;
  - All equity partnership arrangements should have an independent, with their key role being to challenge the people within the business on “why we do things and/or is there a better option/way?”
    - As soon as we brought an independent in, everything became clearer and we all understood each other better
    - It is money well spent, as a skilled independent will always pay for themselves.
- General;
  - Equity partnership was not for us, as did not like working for / with a large number of people. We then stayed in it for wrong reasons, as wanted to stay in the district.
  - When buying property, look for locations where you can expand and/or look at resale options. Spend more time on looking for the right property.
  - Would have been better to have waited a year or two and raised/saved more capital to put into business.

Compatibility, having the right structure, understanding everyone’s goals / direction and bringing an independent into the business were the learning’s most focused on.

## **Tenure / Professional management opportunities**

As my report suggests there is clearly a career path in either a form of tenure or as a professional manager within the industry. Both avenues will provide the challenges, financial reward and growth

opportunities for any skilled, motivated and passionate young person. It is well known these paths are not clear, largely due to the lack of promotion of successful examples. It is also my view that paths will remain less clear than that say of the dairy industry. In saying this, I believe over time more and more opportunities will continue to present themselves for the following reasons:

- Ageing owners who do not want to sell their property and want to increase their longevity;
  - Ageing owners will start to realise that it will be best to be proactive and have a succession plan early, rather than potentially be forced to sell the property or have the decision of such taken out of their hands at a later time.
- Future owners, being the more educated and corporate structures, will understand the benefits of attracting and retaining the highest possible skill set.
- Land being considered a safe storer of wealth;
  - Highest possible return on investment will not be the main driver, hence longevity of management will. These owners will be open to / understand win/win scenarios.

#### 100% Ownership

As concluded early on, owning a property 100% outright with minimal capital is not necessarily the best option to focus on as this is going to be more than challenging. Success stories of this are and will continue to be very few and far between given:

- Debt loading – inability of the industry to service high debt;
  - Those that have achieved 100% ownership are still carrying very high debts at older ages.
- Quality of land – good dry stock land is always going to be in competition with the dairy industry, therefore expensive.

As 100% ownership of any scale is going to be virtually unachievable, opportunities in equity management roles and/or management contracts are going to become more common.

### **Advice for all wanting a career path in the industry – managing or a form of tenure**

All participants were asked their views on what advice they would give young managers looking at either a professional management career or a form of tenure (on top of basic skill set);

- Develop very good relationship(s) with as many people as you can within the industry;
  - Key is to develop relationships with ageing farmers, especially with no family coming through.
- Reputation, make sure this is right first and stays right;
  - We live in both a small industry and world. “You cannot talk yourself out of a situation you have acted your way into”, G. Murdoch.
- Look at having the opportunity of bonus arrangements within you salary;

- This helps keep staff and keeps them motivated
- Also helps them understand the business and value of things such as inputs / livestock versus dead stock.
- Knuckle down and take opportunities;
  - First \$20,000 is the hardest to make.
    - Once you make say \$20,000 you can then borrow a bit.
  - Think about how you can get capital together, i.e. shearing (400 a day) on weekend or days off, purchase house
  - Look where you can build equity. You create your own opportunities.
- Have a go, but don't be too silly, but at same time don't be scared of failure;
  - Better to have a go rather than say I should have.
- Learn how to handle cash flows;
  - Or you will have to learn in a hurry.
- Make sure you have good stock sense and know how to manage;
  - This is a must if you are working off farm.
- Learn how to handle debt and prove you can;
  - Start with 15/ha then grow
  - Lease more land, assets over time grow in value.
- Don't get hung up on a particular area;
  - Find the right property and business opportunity.
- Don't get stuck in the daily grind of just managing a property;
  - Need to understand how to manage a farm from a business perspective
    - You don't want to go into an equity partnership and learn this. Got to know all this before you go.
    - Run the properties budget – you work on it and drive it.
- Unless you have family land; don't be in too much of a rush to own land;
  - Great opportunities with corporates and management roles, where capital is not lacking, therefore you can prove yourself.
- Don't get too emotive about land, if it is not working sell and buy something that works;
  - Look at the dairy industry; they do not get too emotive about land. If the land is not right they will sell it and buy something that does work (within reason).
- Ensure you have a real and genuine passion for what and where you want to be;
  - Whatever you have passion for you will do well
  - If you don't have passion you will get found out and you won't succeed.

### Keys

Below are the key areas of advice that most had on the top of their list. They felt anyone capable in these areas would have the ability to be successful.

- Be a sponge for knowledge;
  - Get a solid network to help you with this.

- Get a Mentor;
  - Someone who has been there and done that and is/are very highly skilled in business, no matter what that business is.
- Always look to further educate;
  - Does not have to be high powered education, just in modern systems and the like.
- Be prepared to listen.
- Develop an ability to think outside the square to get ahead;
  - Get your hands on something as soon as you can to build capital.
- Learn from yours and other peoples mistakes, learn what not to do;
  - Farming has got so technical; it is not only the good things you learn but also the bad things
- Develop a sound business plan and have clear written goals;
  - As soon as you have this, you will be well on your way.

### **Critical success factors in any ownership model**

Views on critical success factors for any ownership model and/or management contracts were also discussed, with key views being:

- People. Are they the right mix?
  - There needs to be a high level of trust between all people involved and everyone needs to share similar values and integrity
  - All stakeholders need to share common goals and have similar expectations of the business. This needs to be clarified at the outset. Very common reason why ownership models fall over – people not being the right mix
  - There needs to be a working relationship before any business arrangement is entered into and prior to any transfer of assets and/or business control occurs.
    - Work together for 12 months or so under normal employment arrangements and have a good look at each other.
- Has the correct ownership model been adopted at the outset and have other models been explored that suits the goals, desires and directions of all involved?
  - Having the correct structure from the outset will mean the business has a platform to grow. You need to be able to grow outside the farm gate and not just within it. Developing economies of scale.
    - Grow via opportunities such as management contracts for other properties, leasing additional land, bringing in additional partners who bring land to the table.
    - One equity manager I talked to, has a plan within their business that every quarter the equity manager has to present to the board on what opportunities are out there to grow their business. This may be to sell their current property and purchase another (buy and sell on the same market).

They say it keeps their business running well and also challenges it. The group is emotive about farming not necessarily farming a particular property.

- Decision making needs to be fair and equitable, and most importantly, there needs to be a robust / detailed shareholders agreement in place;
  - All parties need to commit to a fixed time period. Farming is a long term investment, as it is harder to get in /out of.
- Managers have to realise that they are in the driver's seat of the business and have to take responsibility for the day to day management of the operation;
  - Regular meetings / governance
  - Need sound communication, one person that is the linkage.

Getting the previous right is why all successful tenure agreements are successful. If a challenge and/or an opportunity presents itself businesses are well equipped to work through these and/or take the opportunity rapidly. The reverse is clearly why others fail.

### **What managers and owners wanted from any ownership models**

With the critical success factors in mind both managers and owners were asked what they would like to see prior to making commitment into any form of ownership tenure and/or management contract. Common responses were:

- Owners / Company / Managers / Investors to have a proven record;
  - Reputable and unblemished name
  - Sound history
  - References from all
    - Owners – to have references from people that have worked for them
    - Managers – work history and references from previous employers
    - Silent investors – also to have references, especially background around business and people skills.
- Correct ownership structures/models, plans and systems;
  - Managers wanted to ensure owner(s) have their head around succession planning and structures early (have had time to fully understand what they are doing)
  - Ensure all goals for all involved line up and they are all in it for the right reasons.
- Understanding of where all see the partnership finishing;
  - How to get to an end point with all parties getting on well.
- Balance, work as a team and to all strengths;
  - Embrace change and be prepared to give new things a go
  - Open communication
  - Regular meetings
  - Performance appraisals.
- Business needs to be profitable;

- Comment – *“I know a couple of mates who have gone into equity farming. One has done well and one has not. They had no real control over the business, they worked very hard for the little bit that drops out the bottom. Great for owners”.*
  - Need to clearly see a way for all to make adequate returns – an Equity Partnership needs to pay.

Prior to any transfer of assets and/or management, along with proven and strong skill sets that will complement the business, all wanted to ensure people are the right mix. Also the venture would need to clearly make money and provide expected returns and have sound entry and exit agreements. All supported by strong and regular communication.

### **Ownership structures / models.**

The aim of my research was to determine if there was the ability for a young skilled manager to have a form of tenure and/or a management career. From my findings I believe it is prudent to comment on the typical types of structures that are being utilised. This will give those considering a form of tenure an idea of a starting point, plus briefly comment on the pros and con’s of differing ownership structures.

In order to ensure that the most appropriate structures/models are applied to best fit the business that is being proposed others within the industry (such as bankers, industry advisors / professionals and/or those who have achieved ownership and/or management contracts) should be consulted. The varied types of properties, goals and directions of all involved need to be taken into account, as will have a big impact on the type of structure best to adopt.

Below are just a few very brief examples of ownership structures. Given the moving target and complexity of the industry there are many new and innovative ways of structuring proposals that are being developed. The Rabobank Equity Partnership team, led by Brent Irving, have examples of innovative models that have been tailored not only to the property but more to the goals and direction of all involved to ensure success is achieved.

Of those surveyed the most common models where: leasing, equity partnership of the whole business and equity partnership within the operating side of business (stock and plant) leasing land off an owner/family trust.

Equity Partnerships within the operating side of the business was the most common model. Most considered this to be the best option, and one I too agree with.

Regardless of the model / structure adopted the following needs to be taken into consideration:

- Owners need to be able to get off farm, so the business needs to have manageable borrowings from the outset. This will enable incoming capital to be invested off farm.

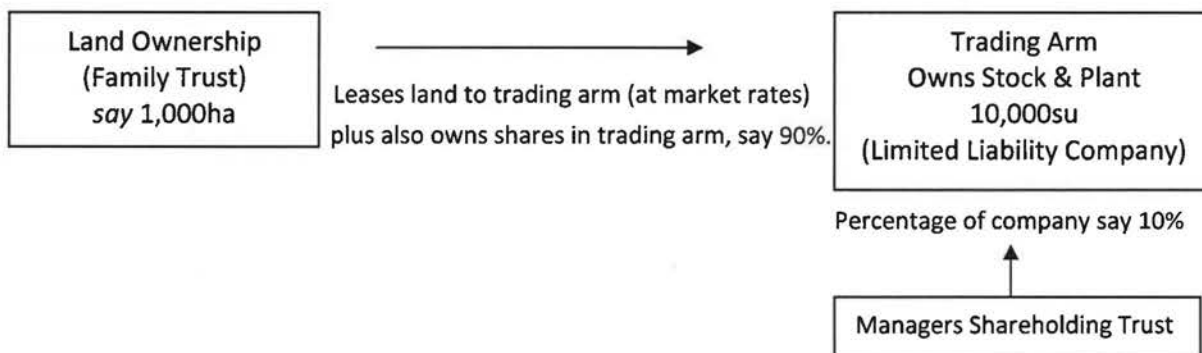
- Any model, before it gets going, needs to have a good plan of how to get out on good terms and all involved still remain friends, or at the very least, remain on talking terms.
  - A plan where no individual can dictate terms (equity managers or investors ) – such as once notice is given, all is independently valued and neither party can delay the process.

As some within the industry tend to look at the negatives rather than the positives, the idea of having a detailed and well understood exit plan by all parties would mean these would be dispelled. Comfort would be provided to owners that if things do go bad, they would not have to sell their farm. It would be as simple as buying an equity manager out of the operating side of the business. Ageing owners especially would then look forward to the positives of introducing experience and youth to their business.

### Equity Partnership's via operating side of business

Given the price of land versus the return on capital, I believe the best structure / model to use for a young person with limited capital to buy into a form of tenure, would be that of shareholding in the operating side of the business.

Owner has land held within a family trust, with a trading company owning stock and plant. The company then leases the land off the family trust at market rates. The equity manager then has shares within the trading arm of business and is paid a market management salary.



Shareholding percentage can vary depending on the capital injection from equity manager. If the trading arm was valued at say \$1,000,000 or \$100/su for the equity manager to have a 10% share they would need to inject \$100,000 of capital. This will be paid to the owner where they can either use this capital to invest off farm or reduce borrowings within the land ownership entity.

Any trading surplus after normal operating expenses (including paying the equity manager a market salary) is paid out as dividends equal to shareholding. The equity manager has option to use their dividends to purchase additional shares within the company and buy fully over time and/or to invest off farm.

Another option, if the owner(s) wanted to help the equity manager, is that they could sell the equity manager an increased shareholding, say 20%, with the additional \$100,000 to be either borrowed

from the Bank and secured via a supported guarantee from the trading arm or a loan from the owner(s). The equity manager then uses their salary and/or dividends to pay principal and interest to either the bank or the owner(s).

Any increase or decrease in the value of stock and plant is split in line with shareholding. This will give the equity manager the incentive to improve the business and increase productivity, especially with a business that is underperforming. Say if the business was idling at 10,000 stock units, with potential to increase to 12,000 stock units, the equity manager's equity would increase in line with shareholding, or dependent on the agreement. Should the manager be the right person, they will naturally increase productivity and owners would not necessarily notice an impact on their own cash flow (1+1=3).

Under this structure, an owner, if they desire, can attract / retain a skilled manager who has limited capital by giving them say a 10% shareholding within this part of the business. The 10% stake (free equity) could be held in a trust until contractual obligations have been reached, such as staying for a minimum time period and/or performance levels are reached. Any less than this then the owner retains full shareholding. The manager would be entitled to dividends equal to their shareholding and has ability to purchase additional shares over time. Common thoughts with regards to this structure were as follows:

- At some point owners may need to take a reduction in their equity to get people in;
  - Give up some perceived value now via equity stakes and not feel it in the cash flow.  
Giving 10% equity (stock and plant only) away does not make a big dent in cash flow
    - If the equity manager is the right person they will potentially increase the productivity of business more than 10%, hence owner(s) would not feel it.
- Owners need to realise the hard reality that all their equity is tied up in an asset. An asset, that is not necessarily easy to realise due to value and/or location;
  - May need to give some away to attract the right person into the business to increase cash flow, minimise workload and aid both personal and business longevity
    - Exceptional managers will want a structure like this or to be paid very well. There is also the risk, given the trend of ageing owner's management where advisory firms might have to oversee management, which can be costly.

As with all structures there are pro's and con's. A pro between both managers and owners is the sharing of the skill base within business (experience combined with youth) – drive each other to grow. A very good way to encourage high performance from both parties.

#### Owners Pro's

- Ability to continue to farm profitability and at full potential despite slowing down physically;
  - Able to continue farming should no family members want to do so and/or be up to it.

- Retain good people within the business and give them an incentive to do so.
- Ability to store wealth in land yet still be involved in management decisions, without having the hassle of day to day running of the property.
- Should the business / relationship sour, do not have to sell the property;
  - Simple process of buying equity manager out of operating side of business.
- Once the operating business is fully owned, the manager can then continue lease;
  - Known quantity.

#### Owners Con's

- Management is taken away.
- Working with an unknown, if manager is not well know with them.

#### Managers Pro's

- Rewarded for all improvements to the stock and plant side of business.
- Gives a form of longevity.
- Invest in the cash flow arm of business and use cash flow to invest off farm in higher yielding investments;
  - Grow asset base over time
    - Increase in stock numbers, reducing borrowing and/or investing off farm via dividends
    - Purchase additional shares over time
    - Given the long term trend that land appreciates over time, need to ensure some sort of land based assets is invested in.
- Business / ownership experience 'part of a team'.

#### Managers Con's

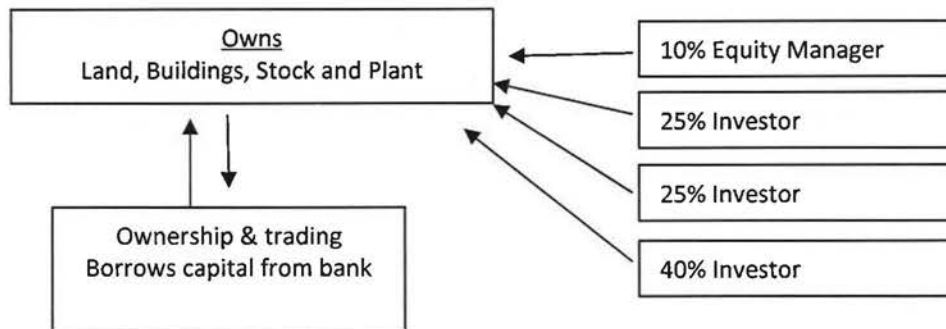
- Risk that family will want to sell the farm;
  - Is a risk, but will also give opportunity to mirror the structure somewhere else as well as having a proven record and should have built more equity.
- No share of land capital growth;
  - Given trend land appreciates over time, need to ensure some sort of land based assets are invested in.

### **Equity Partnership in total business – Land, Stock and Plant**

Equity partnerships are the most common ownership model especially given trend towards larger scale properties and the cost of such. For many, equity partnerships are a viable ownership structure that provide the opportunity(s) to achieve goals of owning land that would not be possible to achieve alone.

Equity partnerships provide opportunities for managers who wish to buy into the entire property / business and farm succession for owners who are wanting to get capital out (but not completely

retire from farming). It is also a vehicle for passive investment for those non farmers wanting to invest in New Zealand agribusiness.



An equity partnership can have two or more shareholders with the equity manager being paid a market salary. Profits from the business are then used to either repay bank borrowings (from the investment) and/or distributed as dividends in line with shareholding. Dependant on the structure the equity manager may have the option to increase their share over time by buying additional shares.

This structure can be an alternative to investing in the operating side of the business with an ageing owner slowly selling more of the total business to the equity manager over time. However given the high capital value of land, returns would be less for this model opposed to that of investing in the operating side only for a young manager. Again the structure is an excellent way to combine skills and if structured right can really push each other to grow. Again, like all models there are pros and cons as follows:

#### Owners Pros

- Most farms are not worth what owners think they are worth;
  - This structure gives an option to sell a percentage of total business now and the balance over time at either a set rate or market rates at the time.
- Attract / retain skills that are focused on land ownership.
- A succession vehicle with a clear plan to sell / reduce involvement in total business.

#### Owners Con's

- Giving land capital growth away.
- If relationship sours may have to sell whole business or raise additional capital to buy investors out, costly if land appreciates.

#### Managers Pros

- Share in land capital growth.
- Longer term view via all involved;
  - Increased longevity.

### Managers Con's

- If investors are other professionals they may tend to spend more time on other peoples businesses rather than their own.
- Lower cash return than investing purely in operating side of business.

### **Leasing**

If you are a very good operator and have a solid capital base you may look at leasing. This needs to be longer term (five + years) to minimise the market risk associated with selling capital stock at the end of the lease. A lease does not want to be taken on when capital stock prices are high, expiring when capital stock prices are low. Leasing requires a long term commitment from all parties involved so that the lessee has time to repay borrowings / capital associated with capital stock and plant. Some of the pros and cons of this model are as follows:

### Lessee Pro's

- Has full autonomy;
  - Full control over management and direction of his/her business.
- Ability to build stock numbers / value.
- Take full value in any movement in annual profits.
- Ability to develop history with potential to expand and take on additional lease blocks.

### Lessee Con's

- Bound by lease agreement – can only operate within terms and conditions;
  - Low income years, costs such as R&M and fertiliser inputs are fixed with minimal ability to defer.
- Short term security (length of lease agreement).
- Capital risk;
  - Timing of selling capital stock when lease agreement ends.
- Capital raising;
  - Need at least 80% capital to purchase stock.

### Lessors Pro's

- Not involved in day to day running of business;
  - No control over management.
- Capital value of stock released.
- Fixed income;
  - Can budget on fixed annual income.
  - Market risk is taken out.
- Ability to move off farm.

### Lessors Con's

- No control over day to day running of property.

- Bound by lease agreement;
  - Has to adhere to terms and conditions.
- Cannot benefit from any upturn in annual income.
- Improvement of property, or lack of, dependant on Lessee.

## **Management options**

If the goal is to stick to management, as capital and/or lack of tenure opportunities dictate, a sound option is to position yourself as one of the best managers within the industry. By having all the skills that would be required to take on more of a tenure role would make one a well sought after manager. By doing this, there is the potential to negotiate varied management / salaried contracts.

I would encourage all to look into and negotiate performance contracts such as receiving a percentage of the Economic Farm Surplus (EFS) above an agreed target. There could also be the ability to contract manage where an owner provides a management salary. This gives the manager a degree of tax deductibility. This structure is less common and a structure that I did not come across during my research, however it was mentioned as an option.

## **What the industry needs to do to show a path**

The industry is in relatively good heart in terms of the quality of people that want a career within it. Given the current economic environment this number should increase as the realisation looms that openings in high paying professional jobs outside of farming are becoming more and more scarce.

To attract / retain skill moving forward a visible path needs to be visible. Most, if not all managers had sound practical skills and a very high level of enthusiasm. What they did not know they were very keen to learn. When ownership was talked about they did not really think it was a viable option. This was basically due to limited knowledge of how to. There were strong thoughts that only families or corporates will own farms as that is what the majority of articles published on the industry focused on. This also can be said for some ageing owners, they really thought that their only option was to sell, which they did not want to talk about. Once they were made aware of possible paths they were very keen to find out more.

So what needs to happen to aid a visible path? Some summarised thoughts below:

- Need to sow seeds to the industry, therefore need more publicity, help and guidance on this issue;
  - Most people educate themselves via reading
    - People like to read and get a basic understanding before they go out and ask questions. Until this point they don't tend to go looking.
    - All people who have achieved a form of tenure, and owners who have helped are very passionate and more than willing to share their stories.
    - Need to get more success stories of how people without family farms are doing it, do not focus just on succession planning of the family farm.

- Industry needs to show owners who are underperforming, or have farms idling at say 80%, that one plus one can potentially equal three.
  - A 10 – 20% equity manager (stock and plant) will increase productivity and the owners profit has the ability to increase yet their workload reduces.
- Banks need to retain experienced Rural Managers
  - Common theme was view on the inexperience of bank managers
    - *“they hit their straps and leave - experienced bankers have seen a lot of businesses and have seen a lot of seasons, and understand varying structures to help lead”*
- Whether it is family owners or corporates they all need to help / show / get staff involved in budgeting so they learn skills in this area.
- The dry stock industry as a whole needs to get the courage to make changes.
  - Introduce awards such as the dairy industry awards – provide something to aspire to.
- Beef and Lamb have approximately six fields reps versus Dairy NZ having approximately 42 reps.
  - The industry needs some self appointed leaders that can share their passion, vision and mentor young people.
  - Sell the half full approach rather than the half empty approach, otherwise things will not change.

## Who should facilitate

As mentioned above all those within the industry should take a leadership role. There are a lot of very skilled and passionate people within the industry who are willing to share their stories, they just need to be encouraged to do this. Given these people are generally the quiet achievers, they are not ones to share their stories without being led or prompted.

A lot of the ageing owners that are idling do not attend discussion groups and/or put themselves out there. They are not going to ask questions because at times they don't know the question. The industry needs facilitators to sow seeds and facilitate. Facilitators can be a combination of the following:

- Banks;
  - Should be doing more to identify young managers and getting them on data base.
  - Encouraging those who have achieved a sound career to spread their story at seminars, via web sites and the like.
  - Working closer with those who have small or no borrowings to help the next generation succeed. Not just concentrate on the son/daughter succession.
- Old school rural professionals such as some accountants and lawyers need to change their mind set and help an ageing owner see;

- An ageing owner is not doing a young manager a favour by helping them in and they are not going to get “screwed” in getting them out if they have the right structure in place
  - It is win / win, will give all longevity.
- Older guys with no debt that are idling present a lot of opportunities for tenure models. They are often not well known to bankers, and at times their lawyer. It is really only their accountant that knows who they are as their financial accounts have to be completed on an annual basis. Therefore accountants need to play a pivotal role;
  - Accountants need to be facilitators and sow seeds to break down barriers to minimise the challenge of linking people up.
  - As structures / models become more common, i.e. one accountant, banker, and lawyer does one deal they then can think of other deals to do. They become more common and accepted.

### **Why dairy works other than cash flow**

The common and obvious reason why the dairy industry has a clear ownership / career path is cash flow. However there are reasons, other than this, why paths exist. There are some adaptations / changes the dry stock industry can make to align with the success of the dairy industry.

- Dry stock industry needs to treat their properties as a business and accept new ideas and embrace change.
- Dry stock farmers are emotional about land and stick with it as granddad developed and farmed it, so family could not possibly sell the farm;
  - Dairy farmers are passionate about farming and are prepared to sell a property if it does not perform and provide a return, or limited expansion opportunities exist
    - There was one example of this during my research where a father told his son “sell the property if need be, as it is a stepping stone”. In doing so aided rapid growth.
- Adopt the can do approach;
  - Even managers that were fully focused on managing could not see themselves doing anything else. When I mentioned increasing productivity of a property that is run by an ageing owner, they got excited and could see the merit in
    - Need to start looking for opportunities.

Overall the dry stock industry as a whole needs to focus on opportunities and embrace change, as opposed to looking at the negatives or risk of doing things.

## **What the dry stock industry has that dairy does not**

In my opinion the dry stock industry has some key elements that the dairy industry does not. I believe there is no one more passionate about farming than most dry stock farmers. Whilst it can be argued that there are passionate farmers within the dairy industry, they appear more passionate about making money – largely why they went into the industry.

There are many skilled and passionate people within the dry stock industry who would happily work for a salary of \$50,000 to \$70,000 if they knew their equity was growing over time and they had a sense of ownership. This is mainly due to a high degree of value being placed on:

- Lifestyle;
  - Ability to manage time.
- Long term view / longevity on a property or within an area;
  - Friends
  - Schooling
  - Generally want to put their roots down.
- Passion for stockmanship over varying classes of stock.
- General challenges that the dry stock industry offers.
- Environmental;
  - Dry stock can be seen as more environmentally friendly which can potentially lead to less compliance costs.

The dry stock industry should be using this passion to their advantage by focusing on / selling the key differences that exist between dry stock farming versus dairy farming. By doing this the mind set would change to thinking about the simple things that can be put in place and not focus on the obvious financial barriers.

All owners have to make a conscious effort to give young people a go and look past big salaries, show what other things they can offer, sell that long term view and make sure a win/win scenario is delivered.

## Conclusion

In my opinion, and as my research suggests, ownership /career paths within the dry stock industry do exist. 100% ownership will not be common and will be very hard to achieve with limited capital.

There is a very achievable ownership path with varying levels of tenure in the form of a percentage shareholding in equity partnerships, in either the operating side of the business (stock and plant) or total business, as well as a clear career as a professional manager.

The future of the dry stock industry is reliant upon attracting and retaining energetic, enthusiastic, passionate and skilled young people. They will be in a very commanding position given the ageing owners and the likely future owners of dry stock land.

Unfortunately, the nature of the industry is to focus on the negatives or risks of change rather than the positives or advantages of change. Clear career paths are going to remain not well defined. It is largely going to be up to individuals to drive their own careers. One very successful owner with multiple properties said “there are winners and losers in life – it is up to the individual as to what they want to be. There are huge opportunities within the industry for winners. They just need to go and make it happen as it won’t come to them”. This quote is for both young and ageing owners.

To achieve a successful career within the industry anyone entering has to start at the bottom or at a level that reflects their technical knowledge and potential worth to the business not just practical experience.

All those wanting to have a successful career need to have and focus on the following skills:

- Business planning and goal setting.
- Relationship skills (networking) – develop this with as many positive and successful people as you can in the industry.
- Reputation, make sure this is right first.
- Learn how to make money and save – need at least \$100,000 capital to get into a form of tenure.
- Knuckle down and take opportunities.
- Learn how to handle cash flows.
- Learn how to handle debt and prove you can.
- Make sure you have real and genuine passion for what and where you want to be;
  - Whatever you have passion for, you will do well.
  - Ensure this passion is a common goal and shared between a husband / wife / partner and prove that you are a genuine team and complement each other.
- Be a sponge for knowledge and always be prepared to listen.
- Get a mentor.
- Develop the ability to think outside the square to get ahead.

- Get your hands on something as soon as you can to build capital.
- Learn from yours and other peoples mistakes;
  - Farming has got so technical – it is not only the good things you learn but also the bad things.

By developing the above skills young entrants will be able to see a path for themselves and not be put off by having no “clear defined blue print path”. They will also realise that there are many people who are willing to share their experiences and advice.

Originally I thought that the path needed to be driven by ageing owners, but it became apparent that the majority of these ageing owners had limited knowledge of how to attract and retain skill set to their business. It was also apparent that a lot of ageing owners had no succession plan and in most cases, do not attend discussion groups, seminars or the like, so the only form of up skilling is via reading and from their professionals and/or industry leaders.

Some ageing owners really struggled to talk about succession and opportunities, especially those that had no family options to succeed too. Once seeds were sown around the opportunities of bringing a young skill set into their business to add value they wanted to know more and they started to look at things more positively. They then started to look at the opportunities rather than problems. Opportunities in the form of;

- Everything has some sacrifices with it, focus on what you can get, not what you feel you will lose. People tend to look at how I am losing in this situation, not winning;
- Learn the ability to think long term and control your own future and do not let it be dictated by something / or someone else;
  - Understand the value of your farm. It is not usually worth as much as you think it is.
    - Chances are that if you are forced to sell your property, it is not going to be worth what you think it is.
    - Forced to sell it via health and/or financial issues.
    - No immediate succession plan as children may not have the desire or skills to continue farming.
  - There are too many older guys that lack the courage to make the changes (and they will live to regret it).
    - They just do not want to talk about succession.
- An ageing owner is not doing a young manager a favour by helping them in and they are not going to get “screwed” by getting them out if they have the right structure in place
  - It is win / win and will give all longevity.

The key here is well known, owners have to start planning early. They need a succession plan with the correct structure(s), whether there is family involved or not. Early planning will allow time for ageing owners to get their heads around it all, so when it comes time it is a simple process.

All involved in my survey agreed that there are plenty of people out there to do tenure agreements' with (and in some cases suggested names of people). The problem is that there is minimal knowledge or no clear blue print on how to do it. There are vast opportunities for both a young entrant and an ageing owner.

There are owners who understand it all. These owners have gone out and got the best managers they can. Once they have worked with them for a period of time and decided they don't want to lose them, have worked an equity stake to retain them. At times this has meant giving a little to do this. These examples are not well publicised as farmers do not like talking about it and there is more focus on family succession.

Given there is no clear blue print on how do this and that clearly both entrants and ageing owners need to learn and understand a lot, the subject needs to be promoted via media. The right promotion will answer the many questions or concerns in the industry, young people will be attracted and retained and ultimately, as a direct result, productivity will be increased.

"Being a winner is never an accident; winning comes about by design, determination and positive action." - Bob Proctor Author and Speaker.

## **Recommendation**

It is easy to say there is no blue print and it is up to new entrants and ageing owners to drive their own business. However, if we leave it to them, nothing will happen and in years to come the industry will still be saying that we have a labour, ageing owner, succession and lack of productivity problem.

I have concluded that the industry is in relatively good heart in terms of the quality of people that want a career within it. These people want to try things, but they don't know how and/or what to do. For change to occur, it is up to the industry as a whole to lead this and continue to convince young people that the industry offers challenging, worthwhile and rewarding careers in either tenure or management careers.

Anyone who makes a living and/or invests in the industry is the industry and we all have a role to play. If we all mentor one young person or an ageing farmer who is scared about the process and cannot see the future any, perceived problems will disappear and only opportunities will be seen.

### Self appointed leaders

The industry needs what I call 'self appointed leaders'. You do not need a title to lead., we can all lead in our own right. So anyone within the industry, and particularly those that have success stories, need to share them with anyone who cares to listen. Also those that can see a path and know what to do need to also share it with anyone who cares to listen.

### Industry advisors

Industry advisors , these being bankers, accountants, farm consultants, solicitors and the like, have a real active role to play, as they touch a lot of people and their opinions are valued. Whilst identifying all risks involved, they need to steer their clients towards the positives of any succession / tenure / management plan.

They all need to help out the younger generation no matter how financial they are and sell the opportunities that the dry stock industry has to offer. Give them guidance / education on what they need to do and how to do it. Think of it as their way of giving back, no matter if there is no financial reward. As if they cannot do this without financial reward, they are in the industry for the wrong reasons.

### Rural Media

As most within the industry educate themselves via reading, there needs to be more articles of success stories and steps of how to do. There needs to be articles on family succession as well as succession when / where no family is involved. By doing so the industry will take some steps that will start to engrain a path and provide confidence for the industry to make / embrace changes and try new things.

## **Further work and additional questions**

For all to see a path and understand how to do it there needs to be more work around the following:

1. Show how in terms of increased productivity and profitability that  $1 + 1 = 3$ .
2. Clear examples of the advantages and disadvantages of differing ownership structures.
3. More work around differing capital input requirements and how to raise this capital for young entrants.
4. Ways to sell ideas of change to ageing owners. Especially those that do not attend discussion groups, seminars and/or conferences.
5. Look at ownership of combining some properties for economies of scale as well as risk management, i.e. join up hill country breeding blocks with finishing country. Businesses could then have a management structure which could also give the ageing owner longevity and a shareholding within business.

## **Annexure 1.**

### **Scoping Document**

#### **Ownership / Career Paths for dry stock managers – Do they exist?**

To me the future of the dry stock industry is reliant upon attracting and retaining energetic, enthusiastic, passionate and skilled young people. Low cash returns relative to the capital required for farm ownership and the restrictions of accessing that capital (bank or other) make it a challenge to attract equity investors. Therefore the industry needs to promote a way attract / find / retain people from within who are genuinely passionate.

Currently many people with passion for the dry stock industry lack sufficient capital required to gain a form of tenure, so they tend to enter the dairy or rural professional industries with the view of saving capital to return back. However, the transition back rarely occurs as the strong cash flow from these other industries usually dictates people remain there, making this transition difficult.

Many existing farm managers within the industry question their careers given the lower salaries and opportunities or likelihood of owning a farm. This is backed by reports from the likes of the NZ Institute of Economic Research; (“Rural areas” 2012) “Rural New Zealand is likely to disproportionately suffer the consequences of the country’s ageing population and outward migration through a loss of skilled and innovative labour”. There is a strong argument that this is occurring already. As the KPMG Agribusiness Agenda (2012) argues that “the generation of farmers that created New Zealand’s competitive advantage in pastoral agriculture are starting to retire. Hence urgent action is needed to provide the industry with the people it requires to achieve its potential”.

Young people who are able to embrace innovation, technology and sustainability, which in turn will contribute to the growing wealth of the industry and ultimately New Zealand, are the key. In order to hold and attract these people, they need to be able to see a future within. They need to be able to see a path where they can create value, wealth and a sense of ownership or tenure for themselves and all stake holders. At present without family money or other forms of concessional capital this is normally seen as very difficult, if not impossible.

To add to this frequently published articles on succession planning mainly talk about how to succeed the family farm. This can be fairly de-motivating for the young person outside of a farming family with limited capital, as succession usually involves handing the farm to a son/daughter, not a young manager or anyone else outside of the family.

The ability for young people to get a start in farm ownership or a form of tenure has been, and will continue to be, a problem in the dry stock industry, or any industry for that matter, for generations

to come. Ownership has always been difficult – but under the right circumstances there is still potential, and arguably there are more options presenting themselves nowadays given the ageing population. Unfortunately these pathways are less defined and less publicised than those in the dairy industry.

A form of family business succession as defined from Wikipedia is 'Openness' – when members of the next generation are numerous, and among them it is not possible to identify a person who possesses the characteristics necessary to assume leadership positions with expertise in family business, we have the scenario that we call Open. The strategy here is to shift some capital to others who can provide not only management skills but also liquidity for family members. This will succeed in securing the future of the business, creating more value for society and retention of jobs for their employees, rather than to please the family, getting access to inheritance money and potentially avoiding future complications.

With the average age of the dry stock farmer nearer to 60 years there appears to be a trend that the best working years are behind these owner/operators. They appear to be operating 'with the throttle wound slightly back'. Therefore there are dry stock farms idling at around 70 – 80% of productive capability (what is this doing to New Zealand's GDP?). This poses the question's "is there the potential to lift this productivity, with the aid of a young person, who poses the right skills and motivation?". If so "what skill set does that young people/person require"?. And, do retiring farmers understand how to structure a proposal which will allow a young, proven manager (from outside the family), to enter the business, whilst at the same time satisfying family needs? If not what do they need to understand?

Example;

A farming family, with the main operator(s) in their mid 60's who are very capable and successful farmers in their own right. Their children are either not willing to, or not capable of taking over the farm. The farm is idling at 80% productivity (has operated at what is considered greater than 100% productivity in the past), and they do not want to sell the farm as it is their passion (they have significantly developed / broken in the property overtime). They have mentioned they would love to mentor a young person through as they have seen what increased enthusiasm some of his friends have gained with their children returning home. They also appreciate increased productivity is largely going to come from energy, embracing technology and trying new things.

All this said there is no land sitting idle in New Zealand or around the world for that matter and the topic of succession has been researched and talked about for some time, so something must be working.

So what is it, or what are the issues?

- What is actually happening out there? What are young and older people thinking? What are they doing? How are they going to do it?

- What do young people need to learn / drive to make this happen – understand structures, networking?
- Can it be commonly shared?
- Or, given the trend of more corporate ownership, should young managers forget about any sort of tenure and grow their skills to aim towards a career as a professional manager?

Along with the above what I want to look at is:

- a. What does ownership of the future look like – what factors may influence future structures?
- b. What are the current ownership and management structures? What structures are working out there and learning's / pitfalls of them?
- c. Is there the ability for the enthusiastic, energetic and skilled young person with limited financial capital to gain some form of tenure within the industry? If so, what do they need to do?
- d. What do farm owners think? What do they need to do? What knowledge extension do they require?
- e. What do those advising farm owners think?

To look in detail, I propose to survey:

- young people entering into the industry;
- current farm managers;
- farm owners and;
- those people who have achieved total ownership or a form of equity investment (active and passive).

All names and details will be treated in the strictest confidence.

To do this I would be very appreciative if you could provide me with not only your view points but also with names of others that you believe would be valuable for me to survey. It would be of particular interest to talk to anyone who has achieved ownership and current owners who do not have siblings and/or have siblings that are not interested in farming.

## Annexure 2

### Questions

#### Farm Manager Questions

1. Do you have a plan for farm ownership?  
If so how many years do you think this will take?
2. Is farm ownership a reality for you? If so, what is your plan to do it?
3. Do you have a goal other than 100% farm ownership?  
If so when do you plan to get there?
4. What do you need to learn and who are you going to get help from?
5. What capital do you have available – now/in the future?  
How is this capital made up – guarantees, family cash, inheritance, other.
6. What experience have you had with goal setting and compilation of business plans? If very little, have you considered this as part of your planning?

#### Farm Owner Questions

1. What are you planning to do for succession / retirement?  
Do you have a plan?
2. Where do you think the future farm owners are going to come from?
3. Is it possible for the younger generation with no family support to own a farm?
4. If so, what is the likely path and skills needed?
5. If you were to bring in a young person into your business what type(s) of people would you consider? What would you require them to bring to the table?
6. What skills, education would you like them to have?
7. Are there opportunities for farm ownership for young people with limited capital?
8. Who are you going to for advice on farm succession?

#### Existing farmer owners who started with nothing

1. What was your path? Did you have a plan?
2. What thoughts did you have?
3. What were you motivated by?
4. What help did you get?
5. What did you need to know?
6. What options did you have?
7. What were the biggest learning's?
8. What would you do different if you had your time again?
9. What is the best thing(s) about a form of ownership?
10. Where do you think the future farm owners are going to come from?
11. Is it possible for the younger generation with no family support to own a farm?
12. Advice for others who wish to achieve similar goals?

**Advisor questions**

1. Is there the ability for the enthusiastic, energetic and skilled young person with limited financial capital to gain some form of tenure within the industry?
2. Or, given the trend of more corporate ownership, should young managers forget about any sort of tenure and grow their skills as a professional manager?
3. What are the types of ownership structures used.
4. What do young people need to do / learn?
5. What to farm owners need to do to enable young people to get a form of tenure.

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