

Succession

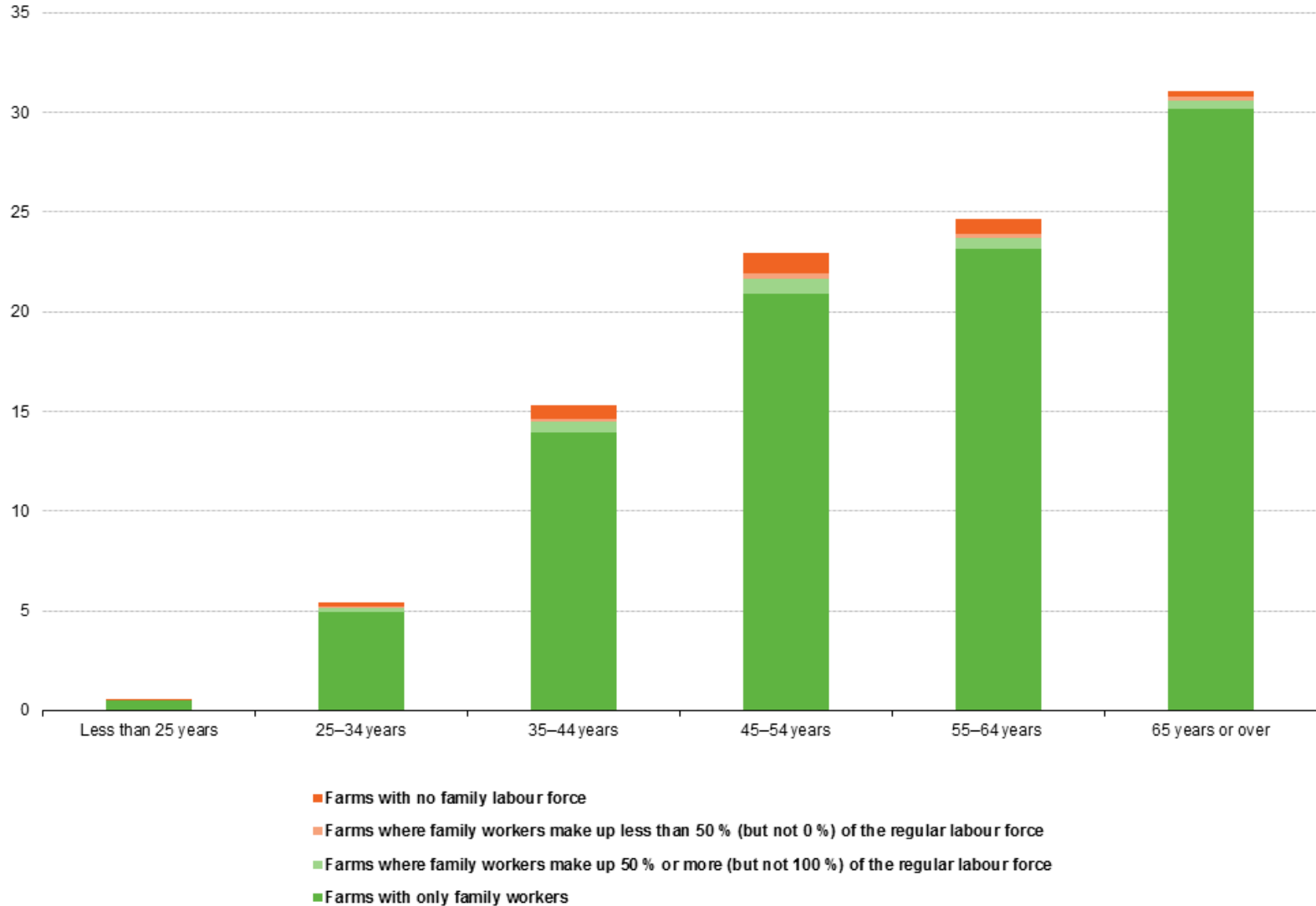
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Farm Economics

Succession

- Distinction between business succession planning and estate planning
- Business succession - transfers management of the business
 - Successors take over management
- Estate planning – transfers assets
 - Heirs take on ownership of assets
- Successors and heirs can be the same people, but not necessarily

Europe's Ageing Farm Managers



UK agricultural holding managers

- 13% are 45 years or younger
 - 3% under 35 years
- 34% are 65 years or older

Why age matters?

- Older tend to be risk adverse
- Older tend not to change
- Older tend not to be innovative
- Older tend not to adopt new ideas and technology

“Farms run by young people are, on average, more profitable, and young farmers are more willing to adopt innovative solutions, use environment-friendly farming methods and adjust to market requirements.” (Vealdi, 2008)

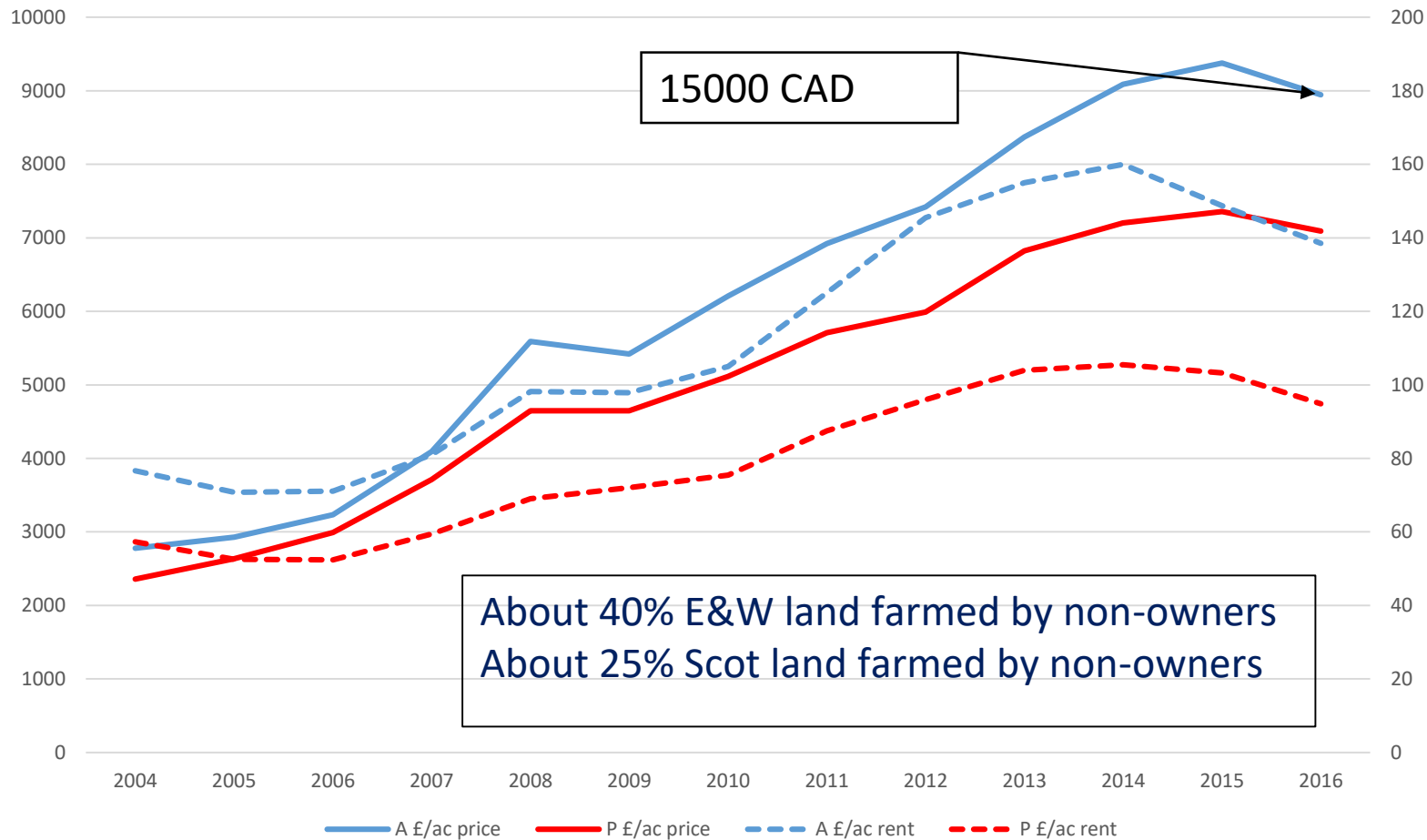
UK business managers – comparison between sectors

| UK sector | % over 55 years of age |
|---------------------|---------------------------|
| Agriculture | Over 50% |
| Rural self-employed | 27% |
| Urban businesses | 22% |
| Entrepreneurs | 17% |

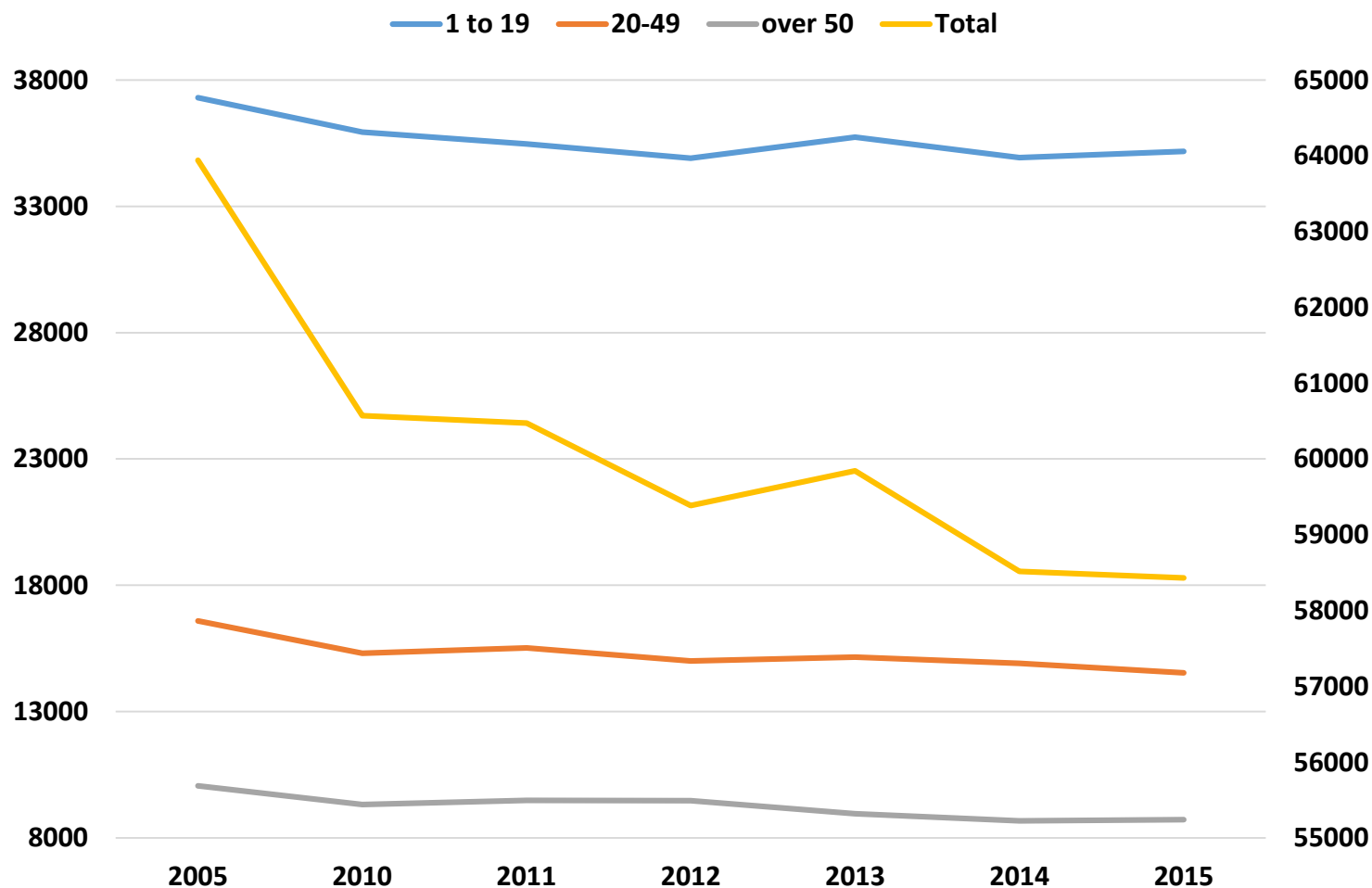
Source: M Mack, Nuffield Scholar

Land prices and rents

(England and Wales)



Number of beef cow holdings



UK challenges to new entrants

- Price, availability, competition for land
- Tenancy agreement restrictions
- Tenant farms brought back “in hand”
- Tenancy competition (neighbours; splitting bare land and house)
- Selling of county council holdings
- Farm size not able to support multiple families
- Planning restrictions (additional housing)
- Tax frameworks (often advantageous to move assets on death)
- Capital investment
- No clear career path / development of skills / mentoring
- Markets and Broader horizon experience (staying in farming environment throughout education and experience)

Alternatives for new entrants

- Succession on family farm
- Standard Tenancy (but fierce competition)
- Joint ventures; Share farming
- Contract farming
- Employed farm manager
- Part-time with off-farm income
- Establish business on underused land
- Grazier (often sheep lowest cost of entry)
- Think outside the box; niche markets
- Acquiring management skills in other industries

Challenges for successful succession

- No obvious successor
- Fear – family discussions; confrontations; lose of status or power or way of life; successor failure
- Not involving everyone affected
- Protracted discussions and no decisions
- Equal is not the same as fair (insisting on equal can overburden a business)
- Skills (including “Farm Boy” syndrome)
- Lack of regular reviews
- Lack of up-to-date paperwork – who owns what assets; who shares in the business; wills; powers of attorney
- Lack of written business agreements (e.g. partnership documentation)

Successful succession planning

- Communication, communication, communication
- Timely, open, transparent, honest discussions – always ongoing
- Initiated and lead by older generation
- Identify family values and business objectives
- All affected should be involved in the process (avoids misunderstandings)
- All should feel free to voice their opinions and show respect for others
- Establish the current state of the business
- Identify any business improvements and/or skill gaps
- Cover death, mental incapacity, illness, long-term care, bankruptcy, retirement
- Conflict and dispute solutions in place (third-party facilitation?)
- Agreed timescales



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