The evolution of succession and governance for a NZ dairy business - a case study

M.C Pangborn
A.R. Pangborn
The business

- Started in 1987 as 50-50 sharemilkers with 450 cows
- Currently own or lease 550 hectares
- Two dairy farms and three support blocks
- 680 cows milked by 50-50 sharemilker
- 520 cows milked by contract milker
- Production should be 590,000 kg ms, 480 kg ms/cow and 1,775/ha in current season
- Land owned by a family trust
- Cattle, shares & machinery owned by company (owned by trust)
Succession sensitization

• Started thinking about the subject around the age of 60
• Number of key informants, but most important was Van der Hoeven, who wrote that the keys to successful succession are:
  • Clear vision and profitable business
  • Strive to be fair rather than equal
  • Be aware that motivation may be about more than money
  • Willingness to trust and support farm successors
  • Good communication and working partnership between generations
  • Considerations of the needs of retiring generation
  • The business structures used reflect the circumstances
Governance sensitization

• Initially from DairyNZ seminars – Van Bysterveldt
• From IOD
  • Good governance is about insight, oversight and foresight
  • Important to separate governance and management
• From Business Torque
  • Governance body must work in the best interests of the company, not individuals
  • The management dilemma is moving the business forward while maintaining prudent control
  • Meetings must be a safe zone
  • Must establish a purpose, mission, values and develop strategies
The process

• Motivated by a health event

• Found a facilitator
  • Decision made to include partners
  • Facilitator prepared business background
  • All members met with facilitator and completed survey of personal values (some were uncomfortable)

• Family meeting
  • Values discussed, business discussed
  • Alternatives evaluated (from selling all or part to retaining)
  • Decision made to retain assets, but use financial strength to allow successors to grow their own businesses
Implementation

• Educated family members on business - accountant
• Developed a purpose
• Developed a plan
• Agreed on a governance structure
  • Family advisory board with company accountant involved
  • Has become a management group of the men
  • May someday involve an independent director
• Established a reporting method
To operate a sustainable and diversified business that expands the opportunities of family members

**Mission**
Core strategies
How we will do it.
(KPI’s) How we will measure it

**Operational Excellence**
high performance
- knowledge & expertise
- early adopters
- continuous improvement

**Superior Financial Performance**
achieve financial goals
- focus on low cost production & cost management

**Maintain License to Farm**
all consents & plans in place
- monitor all compliance requirements

**Business Sustainability**
develop long term business
- invest in new enterprises
- good governance
- risk identification

**Continuous Improvement**
continuous improvement culture
- lean management
- real time reporting systems
- benchmarking

**People**
take care of our people
- be a preferred employer
- provide family opportunities

- housing
- training initiatives
- goal setting with staff
- low turnover
- exit interviews
- education of next generation

**KPI’s**
- 1750 kg/ha
- 500 kg/cow
- 75% 6 week I.C.
- <8% empties
- <2% Deaths
- 5% R.O.A.
- 10% N.W. Growth
- Int. Coverage > 2
- Free Cash > $500,000
- <1.35 int. / kg Ms (adj)
- pass all audits:
  - effluent
  - H & S Audit
  - FEP Audit
- no water issues
- env. plantings
- animal welfare
- debt to equity <40%
- >2% of net worth diversified p.a.
- Interest Rates Fixed
- Implement futures policy
- Insurance
- procurement contracts
Outcomes

• One family couple now sharemilk/contract milk the dairy farms
  • Much negotiation
    • Guarantees
    • Concession on price of cows
    • Acceptance of variable rate by 50-50 sharemilker (48% at moment)
    • Acceptance by group that 50-50 situation reduces farm profitability

• Business purchase assistance for other couple
  • Loan to purchase crop loss assessment business
  • Farm invested in couple’s kiwifruit orchard
Suggestions from our experience

• Before starting the process
  • Gain understanding of succession and governance principles
  • Important to involve a facilitator

• The process
  • Prepare a plan (involve all members)
  • Establish a governance structure
  • Constantly review plan
  • Establish a culture of learning

• Considerations
  • Results are not instant
  • Be prepared for changing family dynamics
  • Helpful if some members are passionate about core business
Challenges

• Cost
• Goals are often conflicting (current farm growth vs family member business growth vs needs of founders
• Potential cash flow and debt effects on business
• Can make the businesses more difficult to benchmark – there is no one exactly like us in DairyBase
• Important that at least one member is willing to drive the process
• The business has more risky
Last word

• My caveats:
  
  • Jane and I will do whatever we want (they need to trust us)
  
  • If they ever get in a fight over money – I will haunt them from the grave
  
  • There is no expense to be spared on the grandchildren’s education