

Succession strategy honed thanks to hindsight and forward-thinking

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After experiencing the trials and tribulations of succession planning across four generations, the Baldock family's most recent transition was a carefully planned and constructed affair.

Baldocks have been farming at Buckleboo, on SA's Eyre Peninsula, for more than 70 years, with four generations embracing farming life.

But the transition between generations hasn't always run smoothly, with a tragic accident forcing the first succession and economic instability and climate hardships impacting on another.

The family has learnt from these lessons of the past and set out to ensure smooth transition between the current two working generations; a process that has led to formation of a new business partnership involving Graeme and Heather Baldock with their son Tristan and his wife Lisa.

This new partnership was formed in August last year, after a two-year trial 'back on the farm' as workers confirmed to Tristan and Lisa that their future lies in farming.

The new entity operates Karinya Ag, a 5,700ha cropping operation at Buckelboo, 38 kilometres northwest of Kimba. The family own 3,800ha and lease 1,900ha.

The Baldock farm was established in 1938, when Graeme's grandfather Cecil bought 2,169ha of arable land where the home farm Karinya is today.

Less than 10 years later, succession was forced on the family in tragic circumstances when Cecil was killed in an on-farm horse accident. It was a traumatic time for the Baldocks, amplified by the impending marriage of Graeme's parents. "We weren't told much about what happened during that time, but we know that they were well-supported by neighbours," said Graeme. The tragedy left Graeme's father Hurtle in charge of the land at 26 years of age.

As the Baldocks see it now, there are two ways to go about succession, either from the back end, when there is little or no planning and someone leaves the business, as in Cecil and Hurtle's case, or from the front end, where there is time for plenty of planning and consideration.



TRISTAN AND GRAEME BALDOCK HAVE NO DOUBT THAT PLANNED 'FRONT END' SUCCESSION IS FAR BETTER THAN FORCED 'BACK END' SUCCESSION.

"We've learnt that it's very important to plan for succession so you can ensure that it happens at the front end rather than the back end," said Tristan. "Back-end succession is where someone generally leaves the business, and is often associated with tragic circumstances' Front-end succession is where it is planned for and someone enters the business. I think it's really important that if you want succession to go well, you start planning for it early."

All of the structure and policies around farming are documented and reviewed annually.

The next change in the Baldocks' business structure came in the 1970s, when Graeme left school and he and his older brother Reg joined their parents, Hurtle and Beth, in the business, with the land remaining in Hurtle's name. This arrangement was dissolved a few years later when Reg and his wife bought his grandfather's farm closer to Kimba.

Another partnership was formed after Graeme married Heather in 1977 and his younger brother Jeff left school with a desire to farm. This partnership, which comprised Hurtle and Beth together with Graeme and Jeff and their wives, existed until 1987, when the decision was made to divide the land between the two brothers. Hurtle and Beth were no longer active in the business but continued to live on the farm until 2005.

Graeme admits this transition lacked planning, but explains that the situation was compounded by economic and climate difficulties.

"There wasn't a lot of planning to it and it was a very difficult time for a number of other reasons, including high interest rates and a drought," he said.

"We borrowed a fair bit of money to buy the farm, when interest rates were 12 to 13%. Within four years they had increased to 22 to 23%, so that really put the pressure on.

"Also, in that transition we split up the plant. Heather and I took one tractor and that blew a motor straight away, so that just added to it. And in the first and

second years after the division – 1987 and 1988 – we had a severe drought.

“As it turned out, we went for broke in 1989 and if we hadn’t got crop that year, we probably wouldn’t be addressing the topic of succession today. But it worked out for us.”

The saying, ‘what doesn’t kill you makes your stronger’, or at least smarter, is apt for the Baldocks, who not only survived but learnt from the tough times during the 1980s.

“We became a lot savvier about business and what the climate can do for us and against us,” said Graeme. “We did some careful deliberation and set some goals and practices in motion to make the next generational change happen more smoothly.”

The main change was to place the property in a family trust, to insulate it from the peaks and troughs of the business. They also converted their lease from marginal perpetual to freehold and set up an off-farm portfolio to provide income during poor seasons and a stable superannuation scheme. “Twenty to 25 years later we can see the benefits of those decisions,” said Graeme.

These measures meant the family was well-placed to embark on the latest succession, from Graeme and Heather to Tristan and Lisa, who returned to Buckleboo from Port Lincoln, where Tristan was a senior agronomist with Cleve Rural Traders and Lisa a manager with the Health Department.

“We came to the farm in 2013 with a pre-determined arrangement that we’d be employees,” said Tristan. “We’d be nothing more than ‘nine to fivers’ and wouldn’t get too involved in the business.”

Tristan saw these two years as a probationary period; a trial that would allow the couple, particularly Lisa, to test the farming waters.

“We had to work out whether we actually wanted to be farmers,” he said. “I’ve always been interested in farming, but a big consideration for me was how Lisa might find living and working on the farm, particularly where it is located.

“We both had quite comfortable careers, so it was big step to leave our life of crayfish and fine wines in Port Lincoln and actually come out to the land and get our hands dirty.”

FIVE KEY STRATEGIES FOR SUCCESSION SUCCESS

ENGAGE A SUCCESSION FACILITATOR

Tristan believes Judy Wilkinson’s role as a succession facilitator was key to the farm’s smooth transition. “We all use agronomists, accountants and financial planners in our farm businesses. Something as important as succession definitely warrants the services of a facilitator,” he said.

CONTINUE TO COMMUNICATE

Schedule regular meetings to ensure communication continues to flow and all partners have the opportunity to speak their mind without feeling criticised or alienated.

UNDERSTAND GENERATIONAL DIFFERENCES

Each generation thinks and acts a little differently to the one before it. Tristan believes these differences can be overcome as long as they are understood and valued. “The generation before us have seen and experienced quite a bit, so their opinions are highly valuable. The new generation brings new skills and perhaps new opportunities. It’s important to address these differences before it gets to the point of throwing spanners across the workshop.”

INVOLVE ACCOUNTANTS AND LAWYERS

Accountants and lawyers are trained to help clients avoid taxation and fiscal problems during the succession process. According to Tristan, it’s helpful to seek different professional opinions to gain a broader perspective and understanding of the situation. “At the end of the day, you’re only going to do this once per generation, so you want to get it right,” he said.

DOCUMENT AGREEMENTS AND POLICIES

“It’s easy to agree on things and then forget what was said later on,” said Tristan. “We often refer to our policies and we continue to refine them. At the moment we’re reviewing them on a six-monthly basis and then we’ll do it annually.” He also recommends revisiting life, sickness and accident insurance policies.

The idea of raising their family on the farm sealed the deal for the couple and in August 2014 they set succession plans in motion.

“We knew Mum and Dad had seen some pretty awful outcomes of succession in the past and many of those resulted in failed businesses. As the young ones on the block we had our own observations too,” said Tristan. “Through my work as an agronomist I’ve seen both sides, where succession has worked quite well and the devastating effects when it hasn’t worked.”

Both couples were determined to tackle succession from the ‘front end’, taking a carefully planned approach and ensuring the process was completely transparent for Tristan’s two sisters, who live elsewhere but still ‘call the farm home’.

To get the ball rolling the family attended a one-day succession planning workshop,

funded by AgriFoods Skills, in Cleve in September 2014. They found the presentations by accountants, financial planners, lawyers, agronomists and other farmers constructive but the turning point was meeting family farm succession facilitator Judy Wilkinson.

The Baldocks engaged Judy to facilitate a family succession planning meeting, which was held in neutral territory, the Kimba council chambers. According to Tristan, the meeting proved key to the success of the plan.

In the meeting Judy guided the family members through discussions about each individual’s expectations of the succession plan and the day-to-day running of the business. “Importantly, we were all given our time without interruption to lay our cards on the table and get everything out in the open,” said Tristan. “Then we talked about goals and objectives and the

nitty gritty stuff, like personal drawings and expenses, who lives where, what happens with maintenance of the house, what happens with the machinery and the land and how we adequately remunerate the former partnership.”

Judy also helped them explore the topic of their individual wills and discuss off-farm work; an issue that was particularly important for the Baldocks, as each of the four partners has off-farm employment: Tristan as an agronomist, Lisa at BankSA, Graeme with local government and Heather with the local Natural Resources Management Board. “It was important that we discussed how working off farm would affect the business and we wrote that into the agreement,” said Tristan.

In addition to Judy, the family sought advice from an accountant, lawyer and agronomist, who all helped in various aspects of the planning phase, with the financial and legal advice helping them avoid unnecessary tax penalties and stamp duties.

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The result is Karinya Ag, a new business entity that leases the land owned by the Baldock Family Trust. The machinery is also leased, from the former partnership of GJ & HL Baldock, at a commercial rate to offset tax penalties.

And Karinya Ag has implemented formal management and administrative procedures, including documenting policies and holding regular meetings, to ensure the continued smooth operation of the business.



HARVEST TIME ON THE BALDOCKS' PROPERTY AT BUCKLEBOO. TRISTAN EXPECTS THE NEXT 40 YEARS OF FARMING TO BE 'PRETTY EXCITING'.

“All of the structure and policies around farming are documented and reviewed annually,” said Tristan. “I think that’s really important because even when we started this process there were little agreements made. Judy pointed out that these can be forgotten or misinterpreted down the track, so we made sure we wrote everything down and we’ll review that on an annual basis.”

Operational and budget meetings are also held regularly, which keeps everyone updated on what’s happening in the paddock and behind the scenes. “We cover day to day operations, as well as financial and strategic decisions,” said Tristan. “Plus it provides a platform to air any grievances. I don’t know too many businesses, let alone family businesses, that don’t have grievances. These meetings,

coupled with the policy and structure agreements, allow transparency in the process and ensure my sisters can see what’s going on.”

While it is early days in terms of the family’s latest succession, the Baldocks are optimistic about their future on the farm. “I think we can safely say at this point in time that all the partners in the business are quite satisfied with how the process is going,” said Tristan. “Plus Mum and Dad are very mindful that my sisters are part of the process, and that they have to be treated fairly in any transition of the farm and family home.

“The past 77 years of farming at Karinya have seen some pretty amazing changes and I think the next 40 years of my farming life will be pretty exciting.” 

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