FACTSHEET

Share farming

Definition

Share farming is a system of farming where two parties (the landowner and share farmer) each provide a differing level of asset and labour to a farming business and derive a differing level of return.

The idea is that each party contributes something that complements the other. Typically the land owner provides the infrastructure (the land, buildings etc.) and the share farmer provides livestock, plant, and labour. However each situation can be tailored to meet the needs of the parties involved.

Share farming operates two separate businesses within one farming operation. This means individual finances remain separate but requires a contractual agreement.

Benefits

Flexible
- A share farming agreement can be tailored to meet the specific needs of the parties involved.

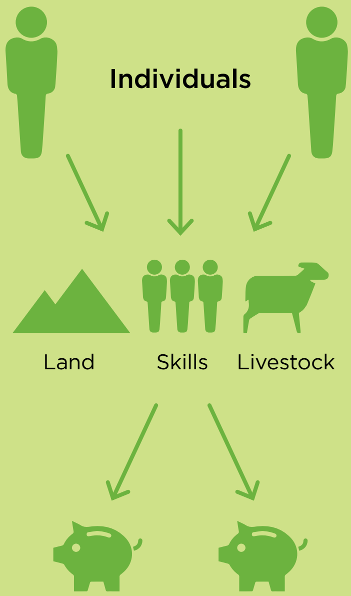
Landowner
- Helps secure and retain high quality labour.
- Increase farm performance.
- Release capital from the farming business.
- Reduce or remove involvement in farm operations and/or management.
- Able to retain some management control depending on the agreement.

Share farmer
- Pathway for increased investment in farming over time.
- Able to get additional financial reward for high performance.
- Grow management and governance capability.
- Potential mentoring from landowner to accelerate development.
- High return on equity.
- Share the risk of a bad season.

Elements needed for success

- Compatible people – will require a strong working relationship.
- Sound understanding of the existing performance of the business and historical returns.
- A formal agreement understood by all parties that sets the terms of engagement.
- Agreed strategy for the property for the term of the agreement.
- Seek independent advice for setting up the agreement and monitoring adherence to the agreement.
- Have a clear exit strategy right from the start – start with the end in mind!

Model diagram



Who could use this option

- A competent farm manager with capital to invest in farming.
- A landowner wanting to reduce their involvement on farm.
- A landowner wanting to provide a stepping stone or incentive for a proven high quality staff member.
- A family looking to transfer roles within the business as part of a succession plan.

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Case study

Bill and Mary O'Connell have been farming for 30 years and through shearing and leasing have worked their way to farm ownership. They employed labour five years ago to step back from the day to day work on the farm. This was a good move and by doing this, have built up a number of interests off farm. They now find themselves wanting to have more time to pursue these interests. Bill and Mary want to find a way for the farm to continue to be well managed and cared for without being fully responsible.

They have two children now in their 30's but neither has any desire to be farming. Their current employee – George Martin has been with them for 3 years and has demonstrated a strong work ethic. He is a very capable farmer with aspirations of progressing through the industry and if possible to farm ownership. Bill recognises the opportunities that were provided to him in his younger days and sees an opportunity for both parties in working together at their different stages of life.

Leasing the farm feels like a step too far so Bill and Mary decide to offer George a share farming proposal. This means they will still have involvement in the business especially relating to the farm and they will share the risk and rewards of the farming market and climate.

After an initial discussion with George, a farm consultant is employed to help work through the detail and ensure that the business can meet the needs of both parties. Financially the O'Connell's are a little worse off than they have been but this is recognised as the additional reward being paid to George for the responsibility and risk that he is taking on. Further, they know George has the potential to lift production.

The key points of the share farming agreement are worked through with George purchasing the livestock and having an income and cost split that equates to 50/50. A 5 year term with right of renewal is agreed. To maintain good communication a monthly report will be provided by George and a combined meeting with the consultant every quarter to ensure performance is on track.

These draft points in a template agreement are then discussed by each party with their bank, accountant and lawyer to work it through to a final agreement.

Challenges

The key challenges in a share farming arrangement are:
1. Relationship – you must be compatible. It doesn't mean you will always agree but you must be able to work through the difficult situations and communicate – much like a marriage.
2. Poor performance – When performance is below expectation it costs both parties money. Early identification of the issue is important and is best done through monitoring and reporting against key performance indicators, joint farm walks at an agreed frequency, and the use of a farm consultant at key times.
3. Entry and exit – investing time and money into a formal agreement when entering a sharefarming arrangement will ensure a smoother journey and eventual exit. Make sure your agreement is plain English so you understand it and can use it along the way.
4. Agree on the profit sharing – there is no standard way to do this so you will need to negotiate with a win-win mindset.
5. Ensure your establishment documentation outlines entry and exit strategies clearly.

Steps

Land owner

- Build a plan – What are you trying to achieve? Goals and objectives. Financially what do you need from the business?
- Understand the existing business – Production, cost structure, EFS, farm strengths, weaknesses, and development required.
- Identify a trusted advisor with the skills to help you through the process.
- Define the role and person you are looking for – advertise and/or network.

Share farmer

- Set your goals and objectives – define where do you want to be in 5-10 years.
- Identify where you are now – equity position, skills, what you have to offer.
- Identify areas that need further development and how you will address these.
- Network – talk with farmers, professionals, friends and make them aware of your plans.
- Work hard and make sure you are doing the best you can in your current role – this is your CV.

Further resources:

www.knowledgehub.co.nz – Farm Ownership and Transition Workshop Resource Booklet