

Business Of Farming: The Next Generation

It is not the situation but what you do about it that determines the future

By S. D. Parsons

In my previous article I touched on the horrific consequences of buying fixed assets (machinery, buildings, irrigation systems, breeding stock – and of course toys like SUVs, boats etc) on overdraft. I come across many farmers who now find themselves in trouble because they are unable to reduce the overdraft – not an overdraft incurred on current crop expenditures but on fixed asset purchases made in months and years past. In most cases they are good technical farmers who made some poor financial decisions.

The banks that sanctioned those purchases must carry their share of the blame for this sorry state of affairs, as must the accountants who recommended capital purchases as way of minimising tax burdens. I trust they are prepared to stand up and be counted now that their clients are in deep trouble. The problem as I see it, and I hasten to add that it is not one peculiar to this country, is that our financial advisors do not take into account the whole picture and therefore the potential consequences of their advice.

There is no such thing as a piece of advice affecting only one aspect of the business. Inevitably every management decision has multiple consequences. We see this over and over again. In North America a decision to start calving earlier in the year sounds reasonable from an animal husbandry perspective but has a disastrous impact on overheads. Building a dam to minimise the impact of drought has brought more than one farm in Zimbabwe to its knees. The list is endless. A bit like a waterbed - pressure on one spot results in eruptions elsewhere.

One of those eruptions could well be the business survival of the next generation. I am aware of several young people who are keen to join the family business despite the current problems. However, the caveat is that they should not be expected to start with the enormous millstone of Dad's debts around their necks. One of the dubious advantages of the times Zimbabweans are experiencing now is that this is a good time to learn the basics of running a successful business. If they make it under these conditions they will succeed anywhere. I am impressed that many of the 20-year olds that I meet are more concerned about learning how to run a business than how to grow crops. However, there is a limit to how high the hurdle should be. If there is no conceivable way that the business will make it for heaven's sake don't saddle the kid with the impossible. This is a tough call for parent and offspring alike, but let's be realistic.

This would be a good time for both generations to do the sums and plan the future. First step; is the existing business economically viable? That is, are the gross margins positive and big enough to cover the overheads? Secondly, is the business financially viable? In its simplest form this means that the business must be able to pay back loans as they come due.

Thirdly, and by no means least, is there an organisational structure that permits the training and orderly transfer of decision making authority from the older generation to the younger? Inevitably "Dad" (he's the one that wears the pants around here), is reluctant to let go. After all he has done an outstanding job and is not about to see the kids spend him out on to the street. So he hangs on as "the boss" subjecting the member of the lucky sperm club (the chosen one from the next generation who will take over the business) to a life of servitude with admonition, "that it will all be yours - one day." Great sentiment, but therein lie the seeds of destruction, family disunity and possible break-up of the business.

When I touched on this subject a few weeks ago I asked for comment from the readers of The Farmer. The replies are trickling in and will be the subject of my next article. Till then please think carefully about whether you are doing the kids a favour in bringing them back to the farm. How should one go about this delicate operation to achieve success for all concerned? Send me your thoughts.

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