

Summary - Case Study 8: Sigma Family

Business continuing

“Our fathers bought it, but we have to pay it off”.

Their grandfather set up the two brothers. The brothers just kept buying more land. Their sons, this generation, then had to pay for it. More expansion, poor prices and some droughts didn't help.

Succession to this generation was dictatorial but it worked, although leaving a legacy of huge debt. Succession from this to the next is very consultative with professional assistance. This generation will also hand on some debt to the next but it will be more manageable.

The Sigma story is a great one with some important lessons:

1. In generation 2, two brothers realising that the farm wasn't going to be big enough when they both had families, managed to get a farm each. The present generation is benefiting from the start provided by their grandfather.
2. In generation 3, two brothers David and George decided that the business had to be corporatised.
3. David and George purchased land at such a frenetic pace that equity was low, and as a result, the business almost failed.
4. Borrowing off shore was a significant contributor to the near failure.
5. In Generation 4, five sons started out working together. One brother, when he realised that the burden of debt was too great for him, was able to exit. The remaining four have been able to carry on the business through drought, the Swiss franc affair, the wool crash and low cattle prices and have effectively had to buy a significant proportion of the land that they now farm.
6. The remaining four have agreed on the big picture for the future:
 - a. They will lease the farms to the business on favourable terms.
 - b. They will put money aside in good years to ensure that a dividend can be paid in bad years.
 - c. They will start to involve the next generation in what is, effectively, a family forum, bringing the whole family together, providing them with opportunity to understand what working in your own business really means. This will give them then the opportunity to decide if they want to be part of the business, either working directly on farm, or in an associated business.
 - d. They will be using the principles outlined in the 'Family in Business' model.
7. They have also worked out how the next generation can have input into the Board.
8. Effectively, they have appointed a family forum and a family council.
9. They will develop a Shareholder Agreement and what is effectively a Buy-Sell agreement for the next generation.

With all of the steps that they have put in place there is every reason to anticipate that the business will carry on until the next generation have children who would want to be involved in a senior management level. This is probably 30 years from now. In preparation for those circumstances, the process will need to start again in a few years.

It is a good story.