Farm Family Business

A Parent's Guide for Handing Off the Farm

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Bio

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Consider some of the following trends in the agriculture industry. First, most of the agriculture producers in the country are family-owned businesses who have to deal with succession. Second, the retirement of the baby boomer generation is beginning and the average age of the U.S. farmer is in the upper 50s, so succession is relatively close at hand. Third, the migration of younger generations to urban areas far outpaces the return of the next generation to the farm and rural community. While off-farm employment provides valuable experience, successors who return at age 35 or 40 are abbreviating their farm apprenticeships.

If you are thinking about retirement or stepping away from day-to-day operations, here are few tips for making the transition more effective:

Sharing decision-making is key to preparing the next generation for ownership. (DTN photo by Elaine Shein)

PUT YOUR TRANSITION IN THE CONTEXT OF A LONGER-TERM VISION

When people think of retirement, the emphasis is often on "stopping" or "slowing down." While that is certainly a major dynamic in the transition, I find it helpful if the retiring generation articulates what their vision is for their role beyond the farm. What are you moving toward? This emphasizes that not only is the transition from one generation to the next, but that the transition is also from the farm *to* something else. Traveling, church or charitable work, a new business venture, or the development of a new hobby are just a few of the things that put the focus on what's next. One producer I know wants to help raise money for charities and make connections between people in his network. Another wants to serve on several boards, while another intends to get more politically active. The commonality is that they have something that compels them to make the transition.

INVOLVE OTHERS IN DECISIONS AND ARTICULATE YOUR CORE BUSINESS PRINCIPLES

I'm often reminded of the cowboy saying that "most good judgment comes from experience, and most experience comes from bad judgment." One of the concerns I hear about the younger generation is that they may not "be ready" to take on the management of the business. To that issue, I ask, "What are you doing to help them get ready?"

In today's large farming or ranching business, effective management decisions are critical to success, and those decisions are often informed by your core business principles. Such principles might be centered on your financial position and address your level of debt or working capital position, or the information you share with your lender; your employee relations including compensation, benefits, and the general treatment of staff and their families; family involvement including communication and the involvement of in-laws/spouses; landowner relationship development and the communication, education and in-kind services you provide to them. Other principles probably exist around land stewardship, animal husbandry, equipment maintenance, vendor relationships, marketing, and crop planning, to name a few.

After you've identified your core business principles, the best way to teach them to the next generation is to include them in the decisions that exemplify those principles. Take your son or daughter to the meeting with the banker. Put them in the lead position with your vendors. Ask for their input on employee policies and situations. Ask them to take a first run at your crop plan. Have them with you when you stop to see land owners so they can see your interaction first-hand. Your experience, coupled with the fact you are still

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involved in the operation, offers an opportunity for the next generation to see your business principles in action and an opportunity for you to see if they can operate according the principles that have made you successful.

CONDUCT THE NECESSARY FINANCIAL PLANNING NOW

Suggestions so far have centered on some of the "softer" transition issues: inclusion, principles, and ideas about what's next. A huge part of the transition, however, has to do with how financially prepared the senior generation is to step away.

If all of your retirement income is tied to the business and the land, there will be a tendency to stay too connected and possibly smother the next generation with oversight. And while most operations want to achieve some balance with the senior generation's involvement (they do have all of that experience, remember?), a source of retirement funds disconnected from the operation can offer a peace of mind that makes the transition easier. And, there are potential -- and possibly significant -- tax consequences in a transition, which can often be minimized with an appropriate amount of preparation time. Talk with your CPA and financial adviser about retirement plans, alternative investments and tax strategies at least five years ahead of when you plan to step away, so that you have plenty of time for implementation.

In my personal observation, agriculture businesses -- because of their strong generational orientation and the tie to the land -- often beat the odds of general family business succession statistics. However, as size and complexity increase, maintaining success during succession will require a more focused planning effort.

EDITOR'S NOTE: Lance Woodbury works as a consultant to family owned and closely held businesses in Garden City, Kan., with a special emphasis on business planning, mediation and conflict resolution. He also maintains an interest in his family's western Kansas ranch. E-mail comments or suggestions for this column to lance@lancewoodbury.com.

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