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Devise Your Exit Strategy

Marcia Zarley Taylor DTN Executive Editor

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MIAMI (DTN) -- At 52, youthful Jeff Topp and wife Jan prepare for a surprising second act: Instead of the hectic daily duties managing the family's grain elevator, 19,000 acres, seven crops and commercial and purebred cattle businesses, the couple consciously plans their exit strategy.

Their gradual transition to jobs as advisers and investors is part of a plan to transfer management to their sons Justin, 25, and Jason, 26, while all four are still in their prime. It also leaves room for daughter Jessie, a college senior, to join the operation later at Grace City, N.D.

Too many farm patriarchs err by ruling with an iron grip until death or disability, said Lance Woodbury, a family business adviser from Garden City, Kan. But by then, their adult children may be on Social Security themselves and have missed decades of investment opportunities or even worse -- left the family business disenchanted.

"Turning over responsibility for a complex and established business to 20-somethings takes courage," said Woodbury, who advises the Topps. But at the same time, he believes family business consultants can help by acting as a neutral party to mediate family disputes, honestly assess business skill sets, help write formal job descriptions, and guide successors on a leadership path to fix any deficiencies (see "Hire a Chaperone" sidebar below this story).

"We came from a strong German and Norwegian heritage where we didn't talk to outsiders about our business," Jeff admitted. "But you need someone like a family consultant or an attorney who knows your family's dynamics to lead you through the process."

Jan agreed. "If someone is billing you to make a business plan, you'll get in the room to do it. Otherwise daily life gets in the way -- the irrigation rigs break down, the hired man doesn't show up, or there's a banker dropping by. This is the best thing we ever did."

Too young for permanent retirement to a golf course or beach, Jeff knows his most important task now is making a psychological break from farm operations. "I don't want to keep our boys from the opportunity of soaring," he said.

The Topps recognize that young managers may not make the same decisions an elder would. Some choices may have financial consequences, but Jeff tries to limit his role to preventing catastrophic mistakes, not micromanaging implementation.

"You can lose $50,000 or $100,000 on everyday decisions in agriculture with the dollars it takes to run a business now. You just don't want the risks to be so large that they jeopardize a generational farm," Jeff said.

FAMILY VALUES

Early apprenticeship is a Topp family tradition. Jeff's parents owned a sizable grain elevator, cattle and crop operation, but his father was a diabetic and not expected to live past 50. "He pushed me and my brother hard when we were young, too," Jeff said. "He wanted people in place who knew what they were doing, in case anything happened to him. When neighbors asked, 'Isn't that a little risky for a 16- or 18-year-old?' his response was, 'I taught them the best I could.'"

In the early 1990s, Jeff and his brother decided to sell one of the family's elevators and invest the proceeds by developing a farm on what was then the Brazilian frontier. Jeff's brother, Todd, manages that export fruit and coffee operation today.

When they were 13 and 12, Justin and Jason ran an adult-sized custom harvesting business. Their dad and grandfather had located a used 9600 John Deere combine at an Internet auction for $40,000 under list price, then picked up discounted headers at a dealership's liquidation. Instantly the boys were running their own machine and had money in the bank. By high school they were buying CRP land and by college they had established 10 years of credit history.

"When you give your kids responsibility at such an early age, you can't expect them to wait until they are 35 or 40 to be the decision makers," said Jan.

Like a chairman of the board, Jeff sees his new farm role as increasingly advisory and strategic, not tactical.

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FINANCIAL INDEPENDANCE

Diverse financial plans make it easier for parents to retreat. All Topp family members own land, so the parents have a steady income stream separate from the farm business to secure their retirement.

In his new role, Jeff is using the profits from the sale of Dakota Growers, a farmer-owned durum co-op sale, to build a second portfolio investing in nonfarm ventures such as software companies, banking and real estate. He can also leverage his 18-year experience on the Dakota Growers' board of directors to serve on other philanthropies like the international Farmhouse Foundation and as a state trustee for FFA. He's interested in volunteer work in African agriculture.

"Transitions aren't always easy," said Jan. "But there's no greater honor than to have your kids choose to come back to the farm."

SIDEBAR:

Hire a Transition Chaperone

By Marcia Zarley Taylor

DTN Executive Editor

MIAMI (DTN) -- Financial planner Wayne Johnson of Syverson Strege and Company in West Des Moines, Iowa, knows psychology plays as much a part in cutting the cords to a family business as does a formal estate plan.

"Several years ago we saw a need for the human side of a family transition," he said. "We could write great estate plans or stock buyouts, but if Generation One couldn't execute the plan, it just turned out to be a pretty but academic case study."

One common problem is that workaholic business owners never develop off-farm interests so they lack fulfilling alternatives.

"You can tell you have a problem if dad goes on a two-week vacation and comes back after five days," he said.

On the other hand, parents may resist a handoff to Generation Two because they fear the kids haven't been tested enough or lack critical skills to manage complex or sizable businesses. Family advisers can resolve some of those issues for the senior and junior partners.

Lars Peterson, of West Des Moines-based Transition Point Business Advisors, handles those emotional concerns. "Step one is diagnostic," he said. Interviews are held with parents, children and their spouses to assess roles in the business and where any management gaps might occur. Step two is six months or several years of implementation to set strategy and develop leadership among successors.

"Kids often complain that the senior generation interferes with their management," said Peterson. He encourages families to agree on written job descriptions and set clear ground rules ahead of time to avoid some of that conflict. For example, the retiring generation might agree in advance who can hire. They might not interfere on $5,000 purchases but have a say on the $250,000 decisions.

Parents need to have confidence in their successor's business skills, however. In some cases, that means that Peterson encourages the junior partners to take a finance course at a local university, network inside farm organizations or business groups, find a mentor or even "shadow" another business leader.

"The key is that an outside professional can say things that a family can't together. It's our job to get issues out on the table and ask the penetrating questions," Peterson said.

Editor's Note: DTN's on-going Senior Partners series examines the financial, legal and emotional hurdles families face as they transition farm ownership from the senior to junior partners. To read other features in the package go to our DTN/The Progressive Farmer In-Depth site at http://www.dtn.com/…

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