

Woodbury: Farm Family Business Tight Margins, Tighter Family



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Bio

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As we head into a season of lower commodity prices for grain producers, concerns about financial margins can cause stress among owners in a closely held business. A seemingly endless list of issues emerges: determining financial priorities; challenging one another's assumptions about what the business really needs; understanding the risks associated with certain growth opportunities; communicating with nervous lenders, vendors or landowners; responding to employee's requests for additional compensation and more. The impact of all these, and others, can result in a feeling of being overwhelmed. And when people feel overwhelmed, they tend to lash out at those to whom they feel closest, which often means their family members.

To combat the tendency to beat up on your business partners, consider the following three strategies for your family business meetings. Implementing these ideas doesn't mean you will avoid differences of opinion, but it can turn the contention into consensus. The resulting plan can help you weather the financial turbulence you might experience.

COME WITH GOOD INFORMATION

Utilize historical data and financial projections to prevent conflict that originates in false assumptions. I remember one family that was upset about the general level of compensation paid to employees, but when we looked at the actual numbers and the suggested increases in pay, the effect was not a significant factor to the business. In another case, family members assumed the family living draws didn't amount to much (they withdrew only what they thought they needed), but when we added them up, we discovered that they placed the business under significant financial pressure. When talking about margins, expenses, investments or projections, having accurate numbers to frame the discussion is important. Use your CPA or have someone spend time generating good data for the discussion. Doing so begins to move the discussion beyond opinions and assumptions to scenarios and plans and decisions.

COME PREPARED TO DISCUSS PRIORITIES

Even with tighter margins, you will still need to invest in your business. The question is where. What areas of your company are critical to your short- and long-term success? Fertility may be top of the list, but a new sprayer may not be. Investments in people are important to your effective operation, and may warrant investment even in a down year if it helps you take on more acreage or business opportunities. Discussing rents with certain landowners may be a necessity in some people's minds, and talking through that strategy in a still-competitive market is critical to its implementation. The point is, have each person think through what's most important, so the discussion has some depth and rationality when negotiating with family members about where to invest.

DEVELOP CONTINGENCY PLANS TOGETHER

Years ago, with a family business in a different industry, we spent time talking through "what-if" scenarios around a declining market. Within a year, the market did indeed begin to decline and, because of our discussions, we had most of the game plan figured out. As a group, the family had worked through some of the tough decisions prior to their actual need, and as a result they were able to execute quickly. From an agricultural standpoint, you can develop plans for equipment, land improvements, marketing, overhead expenses, employee changes, and less-profitable ground before the actual need to cut is upon you. You can also spend time brainstorming revenue



Leaner profits can lead to stressful reactions in any family business. Compiling good financials, prioritizing and developing contingency plans can lessen problems. (DTN photo illustration by Nick Scalise)



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generating ideas that may prove valuable.

When family members are stressed, they tend either to shut down or explode. Communicate more often by committing to regular "check-in" discussions, which can provide a relief valve for the anxiety that builds when margins are tight. Yes, it takes time to communicate and can at times feel inefficient, but the dividends can be seen in more consensus, less conflict, quicker decisions when critical issues emerge and ultimately a tighter family unit.

Editor's Note: Lance Woodbury writes for both DTN and our sister publication, The Progressive Farmer. He is a Garden City, Kan., author, consultant and professional mediator specializing in agriculture and closely-held businesses. Over his two-decade career, he has guided many families through inter-generational farm transfers as well as mentored successors. Contact him at lance@lancewoodbury.com

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