Succession Planning

4 Keys to Preserving Families and Perpetuating Farms and Ranches

By Dave Specht, Director

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Once upon a time there lived a family in a small town with dreams of having kids and growing a cattle operation. As the parents aged, they wondered who would take over the operation. Who should own it? Should all the kids own it together? They wanted to be fair to all their children but struggled to know what was best for the family and for the cattle operation. Sound familiar? If so, you are not alone. Agricultural families around the world face similar questions.

The most current USDA data from 2020 indicates that family farms account for 99% of U.S. farms and 87% of production[1]. Furthermore, the principal operators and their relatives (by blood or marriage) own more than half of the business assets. In short, a family owns and operates the farm[1]. It goes without saying that the majority of agribusinesses have a generational impact on the family, since most of the family's assets and wealth are tied to the business. Agribusinesses may also provide employment stability in more rural areas, thus affecting the community in which they are located.

As with other types of businesses, there eventually comes a time when agribusiness founders and owners are ready to step back and hand over the reins. Yet, with so much dependent on the success of the business, too many operations find themselves woefully unprepared for generational succession. This leads to several business and personal risks for the owners.

Tarnished Family Name

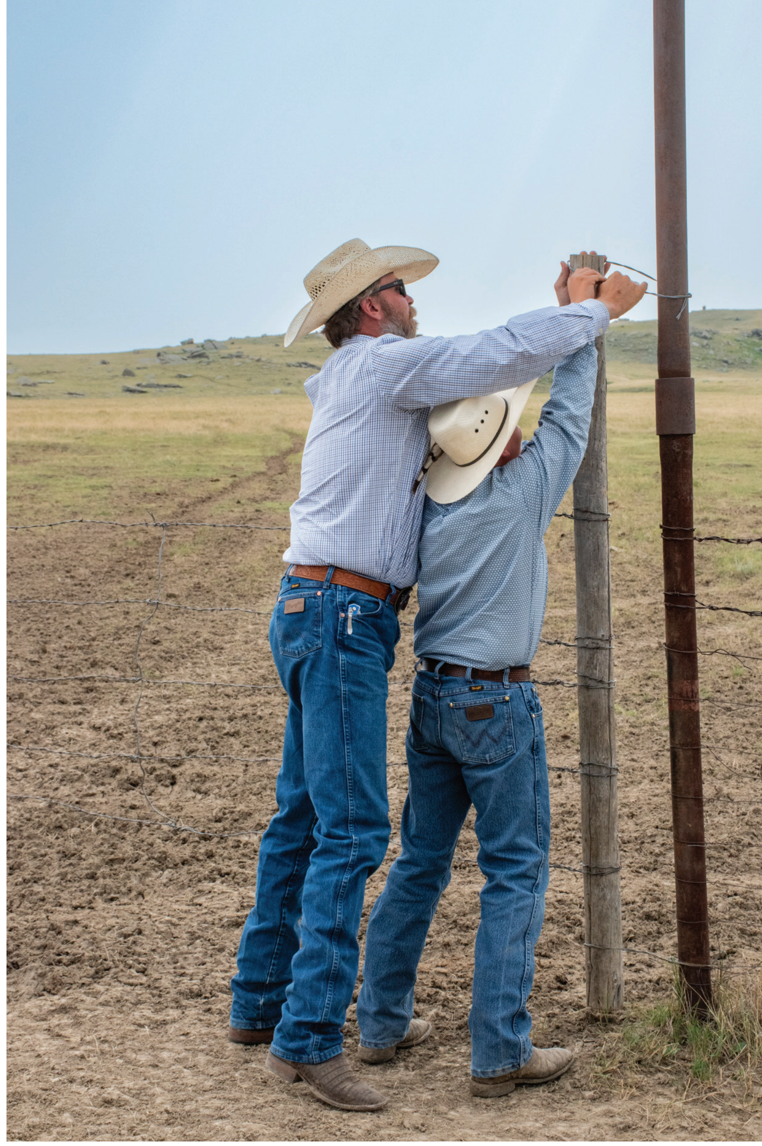
Family-owned agribusiness operations typically carry the family name, and those that have been in existence for a long time have preserved a legacy that translates to a perception within the industry and the community. Therefore, mismanagement of ownership transition can not only hurt the operation but also tarnish the family name.

Damaged Family Relationships

Misinterpretations, inequities and poor communication can fracture family interpersonal relationships and stifle an agribusiness operation, either by setting the business back or keeping it from evolving and innovating.

Diminished Family Wealth

Unplanned or uncommunicated transitions can quickly erode accumulated family wealth. Whether through paying unnecessary taxes, having to buy out non-operating shareholders, or selling important assets in order to pay an estate tax bill, the cost and consequences of this oversight may prove too much for the business to weather.



Risk Management Tools

The National Cattlemen's Beef Association has partnered with the Extension for Risk Management Education funded by USDA NIFA to create risk management content and promote current risk management tools and resources for cattle producers. The program's goal is to educate cattle producers on the full range of risk management strategies. There are resources available on:

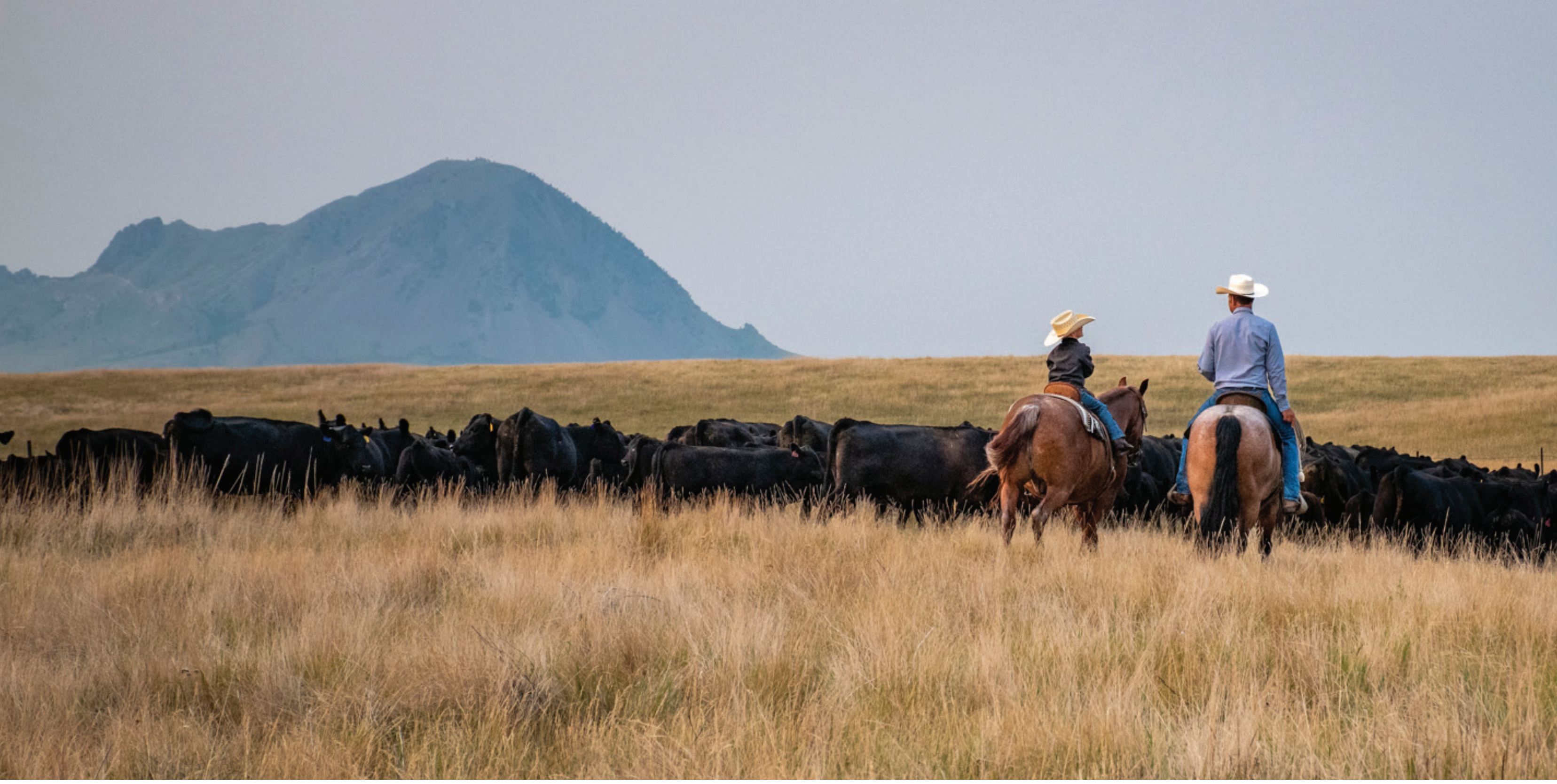
- Employee Safety Training
- Improving Efficiencies
- Putting the Focus on Profitability
- Risk Management Tools
- Software Application Resources for the Feedyard
- Succession Planning

NORTH CENTRAL EXTENSION RISK MANAGEMENT EDUCATION

SOUTHERN EXTENSION RISK MANAGEMENT EDUCATION

USDA National Institute of Food and Agriculture
U.S. DEPARTMENT OF AGRICULTURE

For additional resources visit *NCBA.org/producers/risk-management*



Strategic Planning for Business Continuity

Given the family ownership of most agribusinesses, it is understandable that agribusiness owners view their tenure as a temporary stewardship and hope to pass the business and its legacy on to their children and grandchildren. Thus, one of the most important goals of agricultural producers is farm/business continuity to ensure this vision is realized.

There are never any guarantees regarding long-term agribusiness success due to inherent industry variables like weather, disease, technology, legislation, regulation and international trade, but there are ways of ensuring business continuity and minimizing risks tied to business transition. Let's examine the four C's of business continuity.

1. Cash Flow

Cash flow clarity is key. It is crucial that every agribusiness operator has a clear understanding of the business cash flow. Furthermore, it is important to "stress test" the operation to see what types of shocks specific to input costs or prices it can withstand. Besides the cash flow of the business, the operation needs to consider the cash flow needs and sources for the retiring generation. If retiring owners do not have assets accumulated outside the operation, then their retirement would logically be funded through the successful operation of the enterprise.

2. Contingency Plans for Management and Ownership

Every agribusiness operation needs to have a documented, communicated, and frequently re-visited contingency plan for both management and ownership.

- *A management contingency plan* looks at the people in the operation and identifies the duties and decisions made solely by one individual. When single individuals make purchasing, marketing, and other decisions by themselves, risk is created and continuity is jeopardized if they become incapacitated, die or leave the business. Therefore, each agribusiness operation should identify these risks and train back-up personnel on how to minimize them.
- *An ownership contingency plan* provides and establishes clarity regarding the flow of assets should any owner pass away, become disabled or retire. Although it sounds like a simple and logical expectation, few operations have a clearly documented and communicated plan in place.

3. Compensation

Often overlooked, but always present is the question of how people are compensated. As an agriculture enterprise invites a member of the rising generation back, it is crucial that there is clarity around how they will be compensated. Connected with that compensation conversation is the clear need for expectation creation around a path to ownership. Questions of how and when ownership will be a possibility are often the unanswered questions that lead to conflict and disharmony.

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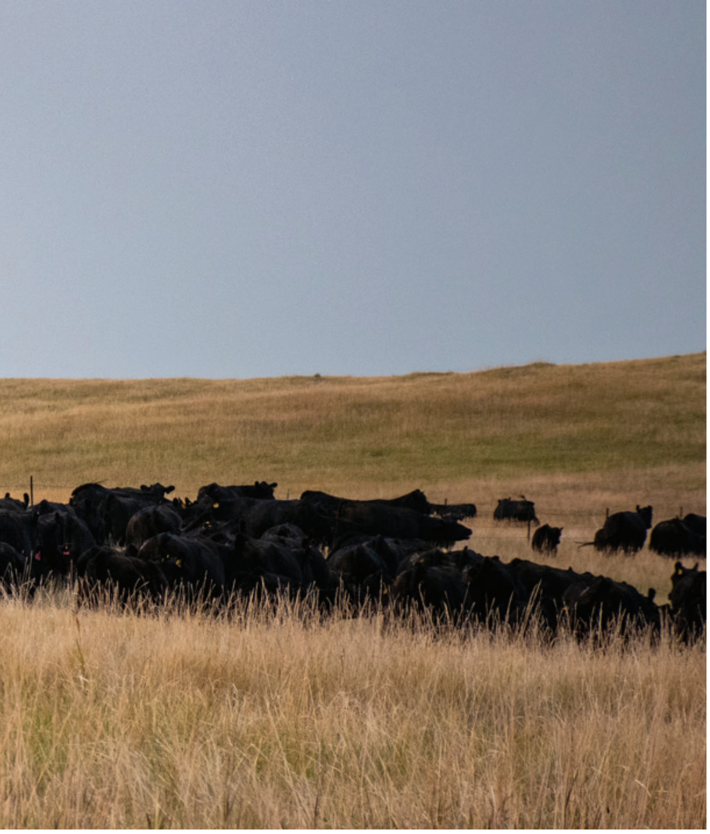

4. Communication

Successful enterprises create structures and expectations for how shareholders and the families that control the operation communicate; however, this is where many agribusinesses fall short. It is crucial that a regular pattern for communication be established to keep shareholders informed, provide a venue for questions, and establish an environment of transparency and trust.

Conclusion

Ultimately, success in succession planning is accomplished when family relationships are preserved, and business continuity is accomplished across generations. Risk assessment planning is not easy but is well worth the effort when the time for transition comes.

Dave Specht is the Director of the Drucker School Global Family Business Institute. He is the author of The Farm Whisperer and speaks on topics relating to farm succession, leadership development, shared ownership and family business governance. He is the father of six children and lives in Basin City, Washington.

1. *https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/farming-and-farm-income/*