How to Ruin a Family Dinner in 4 Easy Steps
“So, Ma & Pa, what do I get in your will?”

“So, M&P, when do I get to be a full partner?”

“So, M&P, why does your will split the farm assets equally between all of us kids when I’m the only one interested in the farm?”

“So, M&P, are you going to retire soon so I can take over?”

So, when can I actually see “the books”?
“Gee, Pa, I think we should invest in new equipment.”

“Gee, Ma, we could really improve things if we made some changes in the operation.”

“Gee, Pa, you’re looking poorly. Maybe you should retire soon…”

“Gee, M&P, I think we need to put our plans in writing. Let’s go see the lawyer ASAP.”
Step 3: Act Like a Typical Family

- Don’t talk about the future
- Don’t make plans for transition of the farm ownership and management
- Assume that everyone is on the same page
- Don’t have regular business meetings
- Do things without telling others
- Don’t discuss your estate plan
- Don’t share “the books”
“No sense in changing. **We’ve always done it this way.**”

“We can’t to that. **We’ve never done it that way.**”

“We’ve done okay so far. **No need to change.**”

“We’ll talk about that later. **I have more important things to do right now.**”
Thank You

- Are there any questions?
Terminology for Today

Sr = the older generation(s) (no gender references)

Jr = the younger generation(s) (no gender references) or owners

Ownership
- Ownership of assets, or
- Interest (%) in the business

Management
- Decision making responsibilities
- Authority to make decisions
Family Business Transition

- Transfer to the next generation or owners
  - Ownership **AND** management responsibility
  - **Leadership development & mentoring for Jr**
  - **Before death** ("warm hand")
    - Gifting, purchase, co-ownership, sweat equity
  - **After death** ("cold hand")
    - Will, estate planning tools, “forced” sale
Ownership vs Management

- There is a BIG difference!!

Owners do **NOT** have to be involved in management

- Many times they shouldn’t be involved!

Managers do **NOT** need to be owners

Have a formal written management structure

- Including job responsibilities (for everyone!!)
Family Business Transition

- Very emotional issue
  - Sr. faces losing some control, being less involved
  - Jr. faces increased responsibility, time constraints, and high debt loads
- Taken more seriously after someone dies
  - Usually too late
  - Many decisions based on emotions
    - May have drastic implications
If you had $250,000:
- Would you make plans on how to use it?
- Would you discuss your plans with your family?
- Would you get outside help?
  - Tax management
  - Estate planning – passing it to your heirs

FYI – 50 acres @ ave. PA farm land value $5,000/acre
- Yes, I know that Christmas trees are on lower value land… 😊
Family Business Transition

- Only 30% of family businesses make it to the 2\textsuperscript{nd} generation (Family Business Institute)

- Only 12% make it to the 3\textsuperscript{rd} generation

- Only 4% get to the 4\textsuperscript{th} generation

- It takes planning, patience, & professionals
POISON
- Procrastinate
- Overlook
- Ignore (because we’re family, you should know…)
- Silence
- Out-of-Date
- Not Profitable
Let’s make the transition from Douglas Firs to Fraser Firs

Easy enough, right?
Transition & Christmas Trees

- It doesn’t happen overnight – it takes time
- It requires forward planning
- It needs to match the business’ goals
- It takes work & team work
- It could use some help from professionals
- It needs to be nurtured
  - Fertilization, training/trimming, weeding/culling
- It takes patience
- And it takes some good luck
Family Farm Transition Options

- Keep the farm in the family
  - Maintain ownership
- Keep the family on that farm
  - Whether it’s profitable or not
- Keep the family in farming
  - Farm here or somewhere else
- Keep the family from farming
  - “Treat everyone equally”
- Sell the farm
What is Involved?

- Goals
- Analysis of current situation
- Transfer of ownership
- Transfer of management responsibilities
- Tax management (Income, gift & estate)
- Living arrangements & income needs
- Estate planning
- Contingency planning (the “what ifs”)
Transition Planning Procedure

1. Be proactive
   - Don’t wait for a traumatic event to start
   - The earlier you start, the more tools you have available to use

2. Clearly define your goals
   - What do you want your future to look like?
     - Personal & Family
     - Business
3. Develop a Transition Management Team

- Facilitator
- Attorney
- Accountant
- Business partners
- Spouses, in-laws, non-farm kids – as necessary

- Meet as a group
  - Keep minutes of the meeting!!
4. Gather the necessary information

- Farm resource inventory
  - Quantity, condition, ownership
- Farm financial statements
- Legal documents
  - Deeds, titles
  - By-laws, articles of incorporation, partnership agreements
- Wills, trusts, POAs, AMDs
Transition Procedure

5. Develop a timeline for transition
   - Ownership AND responsibility
   - Doesn’t have to occur overnight
   - Include a “trial period”

6. Put the plan in writing, keep minutes
   - Avoid confusion
   - Avoid “selective memory loss”
   - Keeps everyone on the same page
Transition Procedure

7. On-going process
   - Revise and update as “life events” occur
     - Marriage, divorce, death, birth, disability
   - Regulatory Changes
     - Tax laws, estate planning, etc.
Step 1. Be Proactive

- If your family is important to you, act now
  - Devote time to planning for the future
    - Yes, this means putting off some production activities
  - What’s more important to you?
    - The future of your family & your business, or
    - Fixing the tractor, scouting the trees,....
  - The earlier you start, the better
Step 2. Goals

- Determine what is important to you
  - Personally
  - Family
  - Business

- Goals will help you reach your desired lifestyle
  - They provide direction
  - They help you prioritize
  - They keep you on task
Step 2. Goals

- Start with your longer term goals
  - Set shorter term goals to move you towards the long term goals

- Make your goals:
  - Specific
    - What do you want to do
  - Measurable
    - Dollars, acres, actions, etc.
  - Timed
    - Years, months, etc.
Goals

- Have everyone involved set goals
  - Personal, family, & business
- Compare their goals
  - Look for similarities and conflicts

THERE WILL BE CONFLICTS!!
- Sr – status quo, less aggressive = less risk
- JR – wants change, more aggressive = more risk

- Compromise, patience, communication
  - Repeat as necessary!
Step 3. Advisory Team

- Get the help you need
  - At least get ideas from some experts

- Have 1–2 meetings with the group
  - Make sure all are on the same page
  - Keep minutes
  - Yes, it may cost something
    - Think of it as an investment in your family & future
    - Yes, it’s a business expense!
Step 4. Gather Information

- Key issue in transition planning:
  - Finding & sharing valuable information!!
  - Especially in the case of a death

- Have you ever had these conversations?
  - Who was Dad’s lawyer?
  - I didn’t know Mom & Dad had a will…
  - Whose trees (or cows) are those?
  - Is that owned by the LLC or by Pat….
  - Does anyone know Grandma’s Social Security number?
Step 4. Gather Information

- Helps you see:
  - Your resources
    - How many, condition, who owns them
    - A great help in planning how to distribute them
  - Your suppliers & contacts
    - Who is the loan officer...?
  - Location of key documents
    - Is there a safe or a safe deposit box?
      - Who has access to the safe deposit box?!
      - Who knows the combination to the safe?
Gathering Information

- A few drafts of resources:
  - Resource Inventory
  - Key Suppliers Worksheet
  - Location of Documents Worksheet

Would love your feedback
- How to improve?
- What is missing? What else would help you?
Step 5. Develop a Timeline

- Keeps you on track!
- Don’t try to do it all at once
  - Attack one aspect at a time
    - Management responsibilities
    - Transfer of ownership
    - Legal organization
    - Retirement & estate planning, etc.
- Have regular meetings
  - Keep minutes
Step 6. Put It In Writing

- Keep minutes of your meetings
  - Protect your liability status (LLC, corps)

- Have a transition planning notebook
  - Consolidate all of your work
  - Organize into the appropriate sections
  - Work towards creating your business plan!
    - Bring it out for every business meeting
Step 7. On–Going Process

- Life happens, goals change
  - Births, deaths
  - Marriages, divorces
  - Economic change
  - Regulatory change….

- Review your goals and your plan regularly
  - Annual meeting (at least)
  - Keep it visible
  - Remember, “it’s a living, breathing document”
Communication is Critical!

- There’s no substitute for good communication
- Must discuss:
  - Goals, concerns, issues, "the books"
- Don’t forget the spouse(s) & in-laws
  - Include them as appropriate
  - Invite them to participate in certain meetings
    - Leave it up to them
- Someone has to ask the tough questions
  - I’ve listed some tough questions at the end
Doc White’s Tips

- Communication
  - Have regular business meetings
    - Keep minutes
      - Stay legal (LLC…) and avoid selective memory
    - Have an agenda – focus on 1–2 main items
      - Don’t try to solve everything at one meeting
      - Invite professionals/others – learn from them
    - Have the meetings on “neutral territory”
    - Invite in-laws, “non-farm kids” as appropriate
      - Doesn’t have to be for every meeting!
Nurture the relationship!!

Sr – teach, coach, mentor Jr, respect Jr
  ◦ And vice versa
Jr – listen to, learn from, respect Sr
  ◦ And vice versa!

Sr – gradually turn control over to Jr
  ◦ By enterprise, by mgt function
  ◦ Jr must have the authority to make decisions!
  ◦ Jr – don’t be in too big of a rush
    • Remember, Sr built the farm – it’s tough to give it up
Doc White’s Tips

Communication

◦ Strongly suggest using personality profiles
  • DISC© is a very good, usable system
    • https://www.123test.com/disc-personality-test/
  • True Colors©, Myers–Briggs MTBI©

◦ “Generation Gap”
  • Different language/terms
  • Different communication process
    • Text, email, etc.

◦ Be patient & teach each other!!
4 Main Personality Styles

- **Result-oriented**
  - “I don’t care how you do it, just get it done”

- **Relationship-oriented**
  - “I really like working with you”

- **Status Quo-oriented**
  - “Gimme the usual” or “If it ain’t broke, don’t fix it”

- **Process-oriented**
  - “Exactly how does this work? Can you give me more information…”
DISC Personality Styles

**D** - Task Oriented
- Systematic
- Organized
- Orderly

**I** - People Oriented
- Talkative
- Loyal
- Good Listener
- Dependable

**S** - Passive & Reserved
- Peaceful
- Loyal
- Good Listener
- Dependable

**C** - Active & Outgoing
- Productive
- Competitive
- Aggressive
- Headstrong
Personality Profiles

- You’d be surprised much personality profiles can help communication!!

- I won’t work with a family until they’ve gone through a personality profile
  - It helps me work with them
  - It helps them work with each other
What About the Finances?!

- You need to analyze the financial condition of your operation
  - Current (pre-transition)
  - Projected (post-transition)

- The farm must cash flow & be profitable!
  - “Cash is King, but Profits are the Kingdom”

- It must have sound debt structure

- You need to use your resources efficiently
Doc White’s Tips

- A full-time operation should generate at least $250,000 of gross annual revenues per partner
  - It costs roughly $0.80 to generate $1 of revenue
  - That leaves $50,000 for family living & taxes

- Can the new “partner”
  - Increase revenues by $250,000,
  - Reduce expenses by $250,000, or
  - Some combination of both?
Financial Condition

- Look at the financial condition of the farm: currently and post-transition
  - Liquidity & Cash Flow
  - Repayment Ability
  - Solvency
  - Financial Efficiency
  - Profitability
  - Sensitivity Analysis
Is the Farm Worth Transferring?

- If “No”, plan accordingly
  - Older Generation
    - Sell or not? (Financial planner, Accountant)
    - Estate planning
    - Source of income for living needs?
  - Younger Generation
    - Career plans?
    - Source of income?
  - Discuss with all relevant parties
    - Spouse, children, partners, non-farm kids

Start the Conversation!
Is the Farm Worth Transferring?

- If “Yes”, plan accordingly
  - Communicate early and often
  - Clearly lay out managerial responsibilities
  - Develop a transition “timeframe”
    - Ownership and management responsibilities
  - Communicate regularly!!
  - Estate planning (Attorney, Accountant)
    - How to treat non-farm kids!!
  - Put the plans in writing – business plan
  - Communicate, communicate, communicate!
Keys for Successful Transition

- Start the planning process **early**
- **Open communication among all parties**
- Clearly establish goals & mission
  - Farm, family, personal
  - Different for each generation!
- Treat the farm as a business
  - Timeline, *job descriptions/duties*
  - Proper organization (S-corp, C-corp, LLC, etc.)
  - Usable, flexible business plan
More Keys

- Kick out the next generation!
  - At least for 2–3 years or so
- Phase in the next generation gradually
  - Responsibility and ownership
  - “Probationary period” for Jr.
- Sr. must allow Jr. to grow & manage (& fail)
  - Often a stumbling block
  - Mentor the next generation
- Invest for retirement NOW!
Open, honest communication is the key
  ◦ Ask the tough questions
  ◦ Involve everyone

Start planning early

Develop a solid team

Estate planning and tax management are the easy sides of transition planning
  ◦ It’s the “touchy/feely” side that kills most family businesses
The Tough Questions

- What are your goals – personal, family, business?
- Is there a formal business plan?
- Is the business economically viable?
  - $50–70,000 net or $250,000 gross per partner (FT)
- Does Jr. want to continue?
  - Can Jr. and Sr. work as a team?
- Is the Jr. capable of continuing?
  - Skills, abilities, motivation
  - Work for someone else for 2–3 years first
How active does Sr. want to be in management?
Is Sr. willing to turn over control & ownership?
  - Coach the incoming managers, but still allow Jr. to manage
  - Will Junior listen?
What changes are necessary for survival?
  - Current/potential problems?
  - What changes will help bring Jr(s) into the operation?
How will your lifestyle be impacted?
  - Income, time, housing, etc.
More Tough Questions

- What about “non-farm” family members?
  - Impact on family relations, business
- Will Sr. have enough income during retirement?
  - Social Security, retirement plans, family operation
- Will Jr. have to support Sr?
  - Time, money, expertise, “mental capacity”
- What is the exit strategy for Sr. and/or Jr.?
  - Entry strategy for other Juniors?
- Has the family discussed estate planning?