

A Springboard for the Future

It happened again. While consulting with a local farm family, I became acutely aware that the best solutions to the succession-planning puzzle are usually dormant, resting subconsciously in the minds of participating family members. No, most clients aren't fluent in legal lingo, they're not comfortable talking Wall Street and they get squeamish when the topic is business planning.

However, given the right questions, agribusiness owners amaze me with their clear sense of vision, grasp of monetary concepts and understanding of management principles. Establishing a succession plan does not require exact language, specific expressions or fancy vocabulary. Stick drawings, rough examples and parallel references will suffice.

A succession plan is personally designed to achieve the objectives for each farm family. It is a private matter devised according to the wants and needs of the active family members.

Most agribusiness owners already know the solutions to a winning strategy. Their hesitation stems from unclear objectives and uncertain options. Using questions that are designed to bring out specific intentions, an owner sets clear goals and makes concise actions.

If we were discussing your succession wants, I may start the conversation with any number of these questions.

1. Is it important to maintain family ownership of the farm?

This is the watershed question for a family considering farm succession. Without a heartfelt succession intent, the mental angst, detailed conversations and expense of a physical plan is futile. Family members active in the farming operation must agree that succession is a vital goal, that the operation is economically viable and that the current generation is willing to work through the process.

2. Do you intend to create an operation that can go beyond the current generation and pass to the next?

The premise of succession planning is founded on a farm or agribusiness that is financially sound and fundamentally strong. The focus is preserving, promoting and protecting the family's most valuable asset for current and future generations.

3. Do you understand the difference in and the value of focusing efforts on the three sources of business income—profit, equity and satisfaction?

Income is the monetary and emotional return from a job well done. Every endeavor may include returns of profit, equity and satisfaction. Succession planning is designed to maximize returns for the current owner, active family and loyal employees.

4. Can your role transition from daily manager to "leadership development"?

If we were discussing your succession desires, I may start the conversation with any number of these questions

Good management and leadership skills take time to develop. Like fine wine, leadership characteristics are developed over time, with appropriate education, a growing level of accountability and on-

the-job experience. Guidance from a mentor enhances the process.

5. Can you identify the most important skills and abilities necessary for managing your operation?

The last thing a progressive farmer can tolerate is the same ol', same ol'. Albert Einstein said, "The definition of insanity is to continue doing what you've always done but expect a different result." Everything about agriculture in America is changing. The skills and abilities that will lead us into the future are different from those that created our past.

6. Have you identified a good leadership mentor for your son or daughter?

This question serves a dual purpose. First, it addresses the issue of providing a good role model to learn from and emulate. Secondly, it suggests that a parent may not always be the ideal person to guide an adult child into a new role with added responsibility and accountability.

7. Can you transition ownership to the next generation without draining business capital or obligating your family with note payments in order to securely retire?

Cash flow is the life blood of business. For a business owner, capital management must be second nature. Due to the cyclical nature of the agricultural industry, regular payment obligations can become an onerous threat to business stability. A seasonal or variable expense is easier to manage, and no obligation is even better.

8. Have you created an investment strategy that is separate and diverse from business equity?

For the typical farm family, equity in the operation constitutes more than 90% of the family's wealth. It is important to diversify some financial holdings outside of ownership equity. A principle of good money management is diversification; it is more important in the case of a family business owner whose tendency is to reinvest earnings into business assets.

9. Do you need to plan for the financial support of parents, a special needs child or others?

Know your obligations, current and future, and account for them. We now have a new socioeconomic and socio-cultural trend to compensate for in our financial plans. The sandwich generation compelled us to provide for our children and parents (as they age). Consider the impact of a single income supporting three generations.

10. Do you intend to create an investment portfolio that you can't outgrow?

Inflation is a corrosive element that

quietly destroys the nest egg of the unsuspecting. Diligence in planning and attention to detail in managing investments may be the only remedy. Hedging against inflation, planning for respectable growth and controlling obligations will help create a financial reservoir for future use.

11. Have you identified a retirement option date and a plan for implementation?

Ah, retirement. For most it's an illusion, for some a reality, but for the ambitious it's another fork in the road. Establishing a plan for retirement, including an option date, prompts good money management, better leadership development, creative business design and careful planning.

12. For retirement, should you consider establishing a subsidiary operation, a new business or volunteering time and energy to a worthy cause?

As entrepreneurs, most farmers and agribusiness owners are creators. They focus on building something that did not exist—producing a product or service that fills a void in the marketplace. As such, absolute retirement may not be the most attractive alternative as you make room for the next generation.

13. Have you planned for the financial security of your family in case of premature death or disability?

Long-term financial security is the reason a person risks it all as a self-employed business owner. Contingency planning is critical. Most farmers have an allergy-like reaction to insurance but, if not for it, you would need substantially more in capital reserves. Betting the family's financial security on the whims of nature is, at best, a long shot.



Kevin Spafford
writes from Chico, Calif.

14. Does your estate plan allow for the continuation of your operation?

The typical estate plan is drafted to minimize the estate tax. It treats the farm as an asset to be equally divided and distributed among heirs. Shared ownership between active and inactive children may become a wedge of discontent. Succession planning is focused on protecting the integrity of the operation, designing a means for only active children to retain ownership and an equitable distribution of other assets to inactive children.

15. Are there any charitable organizations that may represent your philanthropic intentions in the future?

Charitable gifts to a meaningful cause allows you to leave a legacy, reduce estate taxes and demonstrate support for a cause you believe in.

Kevin Spafford is the author of *Legacy by Design: Succession Planning for Agribusiness Owners* and is a certified financial planner whose firm guides farmers and agribusiness owners through the succession planning process. Mail questions to Legacy by Design, 901 Bruce Road, Suite 160, Chico, CA 95928, send an e-mail to SuccessionSolutions@farmjournal.com or call (877) 523-7411.