

## Dreams to Realize

I have invested years searching for solutions to the succession planning puzzle—a problem that plagues many farm families. What I found at first was not as instructive as it was alarming. I discovered that not only is the succession challenge a looming crisis for the family, it may well be a ripple in the pond that further erodes the U.S. economy.

We all know that most farms are family-owned and -operated. What you may not know is that family businesses make up 80% to 90% of all business enterprises in the U.S. They account for 60% of our nation's employment, 78% of all new jobs and 65% of total wages paid.

Post-World War II entrepreneurs, the current owners of most farms, must decide how best to pass their ownership interest to the next generation. Past experience tells us that among first-generation operations:

- 70% will fail to transition the business to a second generation;
- 90% of those remaining will fail to pass to a third; and
- 96% of the remainder will never reach a fourth.

In my research, I found that the three leading causes of failure are an improper estate plan, insufficient cash flow and failure to prepare the next generation for leadership. Add to this the unique culture of the agricultural industry, and you have a recipe for disaster.

During the past five years, I've met with numerous farm families and, though each family is unique, the reasons for not planning boiled down to a few common explanations.

**1.** Succession planning is often confused with estate planning. The goal of succession is to transition a going concern to a prepared next generation; estate planning is intended to minimize the amount of taxes to be

paid in case of a premature death in the family.

**2.** Most families rely on advisers such as CPAs, attorneys, etc., for help. Yet, due to the emotional roller coaster of succession planning, most of these advisers are not willing to engage in the process.

**3.** Tools and techniques used in succession planning are undefined or are not readily available.

**4.** Many operations are built around preserving a lifestyle rather than generating a return on investment.

**5.** Leadership training often consists of good parenting and a strong back, not a development plan necessary for success.

**More than paper.** A properly and judiciously implemented succession plan creates a better outcome for farm owners and their successors. The primary purpose of succession planning is to preserve, protect and promote the family's most valuable asset. It removes uncertainty, mitigates risk and allows the family business owner to exercise control. It encourages the owner to plan success and enjoy life.

A succession plan is more than just a binder full of legal documents and a life insurance policy. It's dreams to realize. It's business goals to attain, and leadership capabilities to develop. It ensures a family's financial security and the operation's capital resources. Planning for succession is a big step on the road to long-term success and creating a lasting legacy.

The Farm Journal Legacy Project is designed to provide valuable tools and no-nonsense succession solutions



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to farm families. Our goal is to help you preserve, protect and promote our agricultural resources. Never has the challenge been so big and the obligation shouldered by so few. The family farm in 2010 is not the quintessential picture from the 1950s, but rather a vibrant business with professional management, skilled employees and growing capabilities.

Prepare the next generation for leadership in the ag industry. Real, quantifiable measures of professional growth and development—encouraging specialization and mentor/protégé relationships—will be crucial factors in passing down the wisdom and experience necessary to manage increasing food, fiber and fuel demands.

Promote the concept of the “agripreneur”—the entrepreneurial visionary willing to take risks and step out from behind the idea of “This is how it's always been done.”

Kevin Spafford serves as Farm Journal's succession planning expert. His firm, Legacy by Design, guides farmers and agribusiness owners through the succession planning process. Send questions and comments to Legacy by Design, 2550 Lakewest Drive, Suite 10, Chico, CA 95928, (877) 523-7411 or [legacyproject@farmjournal.com](mailto:legacyproject@farmjournal.com).