

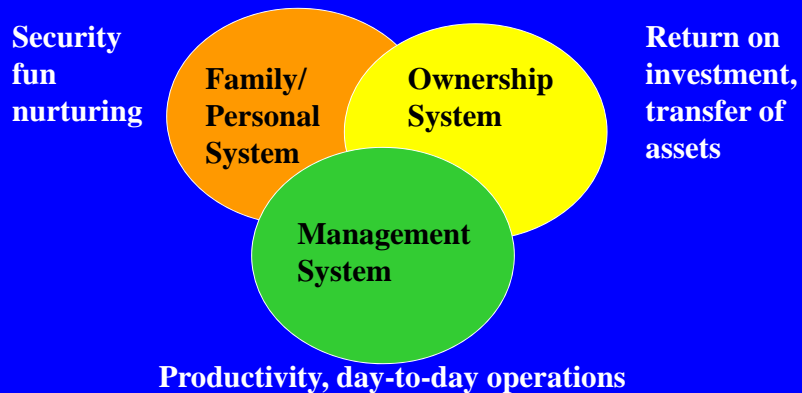
Planning for Successful Family Business Transitions

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Introduction to BS

- Grew up near Green Kansas
- One of 7 children
- Loved the Farm

Family Businesses are Complicated Beasts



Family Business Succession

- 30% make it to the 2nd generation, 15% to the 3rd, and only 5% to the 4th.
- Why?

Challenges That Must Be Overcome

- Development of a shared sense of purpose and direction
- Consensus regarding objectives and goals
- Economic realities
- Decision making structures and legal structures
- Growth and development

Family Business Succession

- 30% make it to the 2nd generation, 15% to the 3rd, and only 5% to the 4th.
- Why
 - Goal inconsistency
 - Failure to address the “real” underlying issues
 - Lack of planning
 - Lack of communication
 - Very “touchy” subjects
 - Fairness vs equality

(Need to develop communication skills; planning skills; and conflict resolution skills)

Categories of Issues

- Strategic Thinking (Visioning, Goal Setting, SWOT, etc.)
- Communication
- Economic and Structural Realities
- Conflict Resolution

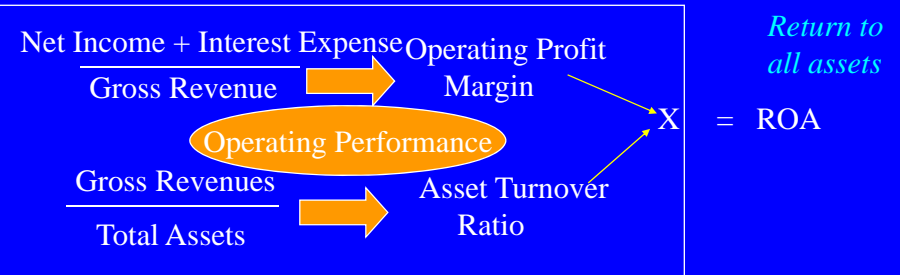
Planning Is A Process

- Take stock of the current situation
- Develop a shared vision (strategic planning)
- Devise a workable plan
- Implement and monitor the plan

Take Stock Of The Current Business

- **Economic Realities**
 - Profitability
 - Enough profit for additional people?
 - Enough profit for current people?
 - Not enough profit for current situation?
- **Strengths and Weaknesses**
 - What is the source of our competitive advantage

DuPont Relationship



If Net Income includes capital gains, target 9 or 10%,
 If Net Income excluded capital gains, target 5 or 6%

Point --- There are farms and ranches out there (the competition)
 That are beating these benchmarks

Internal Strengths and Weaknesses

- **Things you can control**
 - Productivity
 - Knowledge
 - Financial Position
 - Location
 - Physical resources
 - Labor resources (family and non-family)

Have you identified the source of your
 Competitive Advantage???

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Strategic Planning

- Visioning
- Goal Setting
- Facilitating Communication
- Examining Opportunities and Threats

Business Vision Statement

- Provides a guiding philosophy
- Reflects “core values”
- Influenced by strengths and weaknesses
- Should inspire (dream big picture)
- Should unite stakeholders
- Set standards of excellence
- Create Uniqueness

What we would like to be

Mission Statement

- Normally short and to the point
- Specific, embodies the broader vision
- Size, scope, composition of products
- Provides the foundation for the rest of the plan
- Requires involvement from all stakeholders

Who we are

Vision vs. Mission

- Vision is broad and future oriented
 - What we would like to be
- Mission is more focused, and contemporary
 - Who we are today

Visioning Matrix

	Now (Mission)	Future (Vision)
Products – Services	“*****”	“*****”
Production Practices		
Size – Scope		
Marketing Practices		
Mgmt, Ownership, Org.		
Social concerns		
Human Resource concerns		
Financial Perf. Expectations		
Family Value Expectations		

Vision Statement

In ten years our farm will be producing livestock and grain products. We will be widely recognized for our ability to achieve high levels of production at a low unit cost. We have a passion for family based agriculture, and the rural lifestyle, however we are committed to a reasonable family living standard as we bring future generations into the business

Mission Statement

The Mission of _____ is to operate a diversified small grain and livestock operation in Central Kansas. We will be recognized as reliable community citizens, neighbors, and stewards of the environment. We base decisions on the best available “science based” information, and avoid emotional decisions. We strive to produce high quality commodity grain and cattle. We will sustain a “family farming” environment, while targeting at least an 8% return on investment, and a 4% equity growth rate.

Goal Setting

- Goals and Objectives provide manageable steps to vision and mission accomplishment
- They work (improve chances of success) because:
 - They focus attention and action
 - They mobilize energy and effort
 - They increase persistence
 - They encourage the development of good work habits

Goal Setting Template

General Category	Long-term Objectives	Short-term Goals
Business activities, production practices, etc.	1. 2.	1a. 1b....etc. 2a.
Marketing products, services, and the business		
Financial performance, size, structure, etc		
Environmental, resource stewardship, etc.		
Personal, family, communication, etc.		

Example

- **Objective**
 - Increase gross income per acre:
- **Associated Goal**
 - Increase average soybean yield to 50 bushels per acre next year:
- **Objective**
 - Transfer a successful family business to the next generation
- **Associated Goal**
 - Schedule succession planning family meetings each month this year

Family Business Communication

- **Family System**
 - Emotion
 - Inward orientation
 - Slow change
 - Goal is to maintain harmony, nurture, develop good adult citizens (transfer values)
- **Mgmt – Ownership Systems**
 - Outward orientation
 - Rapid change
 - Merit based
 - Goal is to generate profit, develop skills, pass on the business, etc.

Family Business Communication

- **Why don't we do it well**
 - We don't understand different perspectives
 - Past experiences with trying to talk about business affairs
 - Threat of "loss of control"
 - Reluctance to change

Family Business Communication

- **How can we improve**
 - Gain an understanding of the different personality traits, and different perspectives in your organization
 - Understand a “little bit” of communication theory
 - How it is communicated is more important than what is said
 - Non-verbal is important
 - Develop listening skills
 - Recognize bids for communication
 - Remove roadblocks to communication

Family Business Communication

- Honesty and openness is critical—takes courage to be honest and open
- Uncertainty is an awful thing to have to live with
 - I knew early that treatment would be equal
 - I was told that if I could make \$X, I should take the job

What Regularly Scheduled Family Meetings Will Do For Your Family Business

- **Build leadership skills**
- **Build a stronger farm business**
- **Plan for future ownership and management**
- **Increase participation**
- **Preserve values, traditions, history**
- **Recognize and resolve conflict**
- **Enhance business success**

Family businesses need a “Family Communication” plan!

Family Meetings

- **Choose a facilitator**
 - Start with someone everyone trusts, perhaps later rotate around
- **Set an agenda**
 - Early meetings could focus on visioning
- **Invite the right people**
 - Non-farm family members, outside advisors, lenders
- **Set ground rules**
 - Support majority decisions, keep disagreements within the group, etc.
- **Keep a record**
 - File with other important business information
- **Organize the next meeting**
 - Date, time, general agenda, who is invited, etc.

Serious Disagreement (Conflict)

- Family business conflict is inevitable
 - It can be a positive thing
 - It is a matter of how the stakeholders deal with it
- Understand generational differences
- Recognize the need to get outside facilitation or help

Conflict Resolution Guidelines

- Avoid blame
- Use “I” statements
- Maintain respect
- Honor other’s interests
- Time out

Family businesses need a “conflict resolution” plan!

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Developing a Transition Plan

- Fair vs Equal
- Retirement Planning
- Estate Planning
- Business Structure
- More Economic Considerations
 - Feasibility
 - Size

Fair vs Equal

- **Factors to Consider**
 - Value of non-business assets
 - Importance of passing the business “intact”
 - What has already been gifted
 - What have various stakeholders already contributed
 - What opportunities have been foregone
- **Tools that might help**
 - Insurance
 - Long-term lease or purchase agreements

Key to success --- early and open communication

Retirement!!!

- **Phased in vs all at once**
- **Retention of investment, control, etc**
- **Retirement funding**
- **Who will live at (control) the business headquarters**
 - Retiring generation may be reluctant to give up control
 - Non-business siblings still have strong emotional ties

Structure

- **Organizational/Management Structure**
- **Legal Form**
- **Financial Structure**

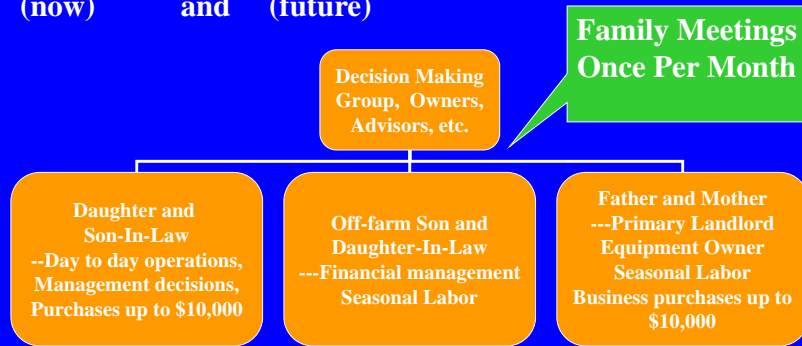
Organizational Structure

- **Framework for stakeholder interaction**
- **Assures that everyone understands what is expected, and how decisions are made**
- **Each stakeholder must be aware of the vision, mission, objectives and goals**
- **Each stakeholder must understand the roles of other stakeholders**
- **Lines of authority, and responsibility need to be clearly established**

Organizational Structure

Successful Businesses Exhibit Shared Decision Making

Develop an “organizational” Chart (now) and (future)



Legal Structure Comparison

	Individual Liability	Business Continuity	Mgmt Control	Taxation	Obtaining Capital
SP	Unlimited	None	Proprietor	Individual	Difficult <i>Large Sums</i>
Gen Partnership	Unlimited	None	Partners	Individuals	Limited
Limited Partnership	Limited <i>Limited Partners</i>	None	General Partners	Individuals	Limited
C Corp	None	Perpetual	Board	Double <i>If Distributed</i>	Stock
S Corp	None	Perpetual	Board	Individuals	Stock <i>Limited</i>
LLC	None	Limited	Members	Individuals	Flexible

Organizational, Legal, Financial Structure Decisions

Organizational Structure	Legal Structure	Financial Structure
Command and Control	Sole Proprietorship	Debt
Bureaucratic	General Partnership	Equity
	Limited Partnership	founder
People Oriented	C – Corporation	family
	S – Corporation	friends
Hybrid	Limited Liability Company	financial inst
		contacts
		venture capital
		general public
		grants, etc

The Important Point

- These decisions are not independent. All decisions regarding the “structure” of the business need to be made simultaneously, and at the early stages of the planning process

More Economic Considerations

- **Feasibility**
 - Can we make the payments on proposed expansion plans
- **Size**
 - Is the business large enough to accomplish objectives and goals

Economic Feasibility

- **Can the business make the principle and interest payments**
- **Land purchase example**
 - Total returns (profit) includes cash returns and capital gains
 - Purchase may be profitable, but not feasible
- **Important point – remember they are two different financial concepts**

Succession Planning

- **95% communication – 5% Economics**
 - Begin planning early, communicate openly
 - Make sure all parties agree on the overall vision, and the objectives and goals
 - Start NOW, and include a succession plan as part of the overall business plan
 - Involve all stakeholders, address the issue of “fair” vs “equal” early
 - Involve a well respected outside facilitator, and employ professional advisors (lawyer, accountant, etc.) when needed
 - Honestly consider profitability, feasibility, size, and risk
 - Plan for the “retirement” of the older generation
 - Lastly, consider tax implications



KEEPING THE FAMILY FARMING
A Workshop Series for Farm Families

- What matters most?
- Where do you stand financially?
- Planning for retirement
- Business entities
- Estate planning and much more...

Beloit, Kansas	To Register:
Session One: January 9, 2010	Rich Llewelyn
Session Two: January 23, 2010	345 Waters Hall
Hiawatha, Kansas	Manhattan, KS 66506
Session One: January 16, 2010	Phone: 785.532.1504
Session Two: January 30, 2010	Fax: 785.532.6925

www.agmanager.info/events/transitions/2010

 The next generation is ready to farm.
Is the farm ready for the next generation?

Why Bring Your Family To The Workshop Series

- Financial Evaluation
- Strategic Evaluation
- Visioning – Goal Setting
- Family Business Communication
 - Personalities
 - Conflict Resolution
- Retirement
- Estate Planning
- Organizational Structure
- Financial Feasibility

Additional Resources

- Additional resources are readily available
- www.agmanager.info continuous updates
- MAST program provides many of the tools and information
- Succession planning workshop series