Farm Succession Planning
Ag Profitability Conference
Lyons, KS
January 28, 2014

A Little About Me...

• K-State Research & Extension
  Assistant Director – Agriculture, Natural Resources and Community Development
  — Extension Profession Coach
• Extension Farm Management Specialist & Associate Professor
  — University of Wisconsin – Extension
  — University of Wisconsin – River Falls
• Feed Industry
• Farming

Rules and Promises

Today’s Goals

• Learn about farm succession by discussing discussion commonly held beliefs about succession
• Provide succession planning recommendations
• Encourage you to start succession planning

Why?
Succession Belief 1:
WE DON’T NEED A DETAILED SUCCESSION PLAN

Test Questions To Determine If You Need Succession Planning

• To the current generation of owner/manager:
  — Do you always agree with your successor’s business philosophy, management ideas and decisions?

• To the next generation of owner/manager:
  — Do you always agree with the current owner/manager’s business philosophy, management ideas and decisions?

If Someone Said No, You Are Honest And Need Succession Planning

If Everybody Said Yes, You Are Probably A Liar Or Kidding Yourself!

Most Farm and Ranch Situations Require A Detailed Succession Plan

Succession Belief 2:
MOST SUCCESSIONS FAIL DUE TO THE LACK OF A GOOD ESTATE PLAN
Not Always
- Disagreements about business philosophy
- Inadequate earning capability
- Transfer of work and management decision making
- Emotional roadblocks
- Poor communication
- Death, disease, disability, disaster, divorce (5 Ds)
- Poor estate plans

Estate Planning Is One Piece Of The Succession Planning Pie

Succession Planning

- Other Aspects
- Estate Planning

Succession Belief 3:
ESTATE PLANNING IS SUCCESSION PLANNING

Succession Belief 4:
ESTATE PLANNING IS THE FIRST STEP OF THE PROCESS
False, But What Are The Steps?

Succession Belief 5:
SUCCESSION PLANNING SHOULD BE CONDUCTED WHEN THE OWNER WANTS TO RETIRE

Today!

- On-going process
- The actual succession plan should be developed before the next generation starts working for the farm in a career position
- The plan should be reassessed frequently
- Never know when one of the 5 Ds will hit

Succession Steps

<table>
<thead>
<tr>
<th>Concern</th>
<th>Succession Participants' Perspective</th>
<th>Succession Facilitators' Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estate Plan</td>
<td>1</td>
<td>Estate</td>
</tr>
<tr>
<td>Financial Feasibility</td>
<td>2</td>
<td>Financial</td>
</tr>
<tr>
<td>Business Plan</td>
<td>3</td>
<td>Business Plan</td>
</tr>
<tr>
<td>Dealing with Emotional Roadblocks</td>
<td>4</td>
<td>Dealing with Emotional Roadblocks</td>
</tr>
<tr>
<td>Learning how to Communicate</td>
<td>5</td>
<td>Learning how to Communicate</td>
</tr>
</tbody>
</table>

Succession Belief 6:
DEVELOPING A SUCCESSION PLAN IS A LENGTHY PROCESS
Succession Planning Meeting | Meetings Required
--- | ---
Team building | 1 to 2 Meetings
Communication | 1 Meeting
Conflict management | 1 Meeting
Business philosophy and strategy issues | 1 to 3 Meetings
Operational issues | 1 to 3 Meetings
Financial issues | 1 to 2 Meetings
Decision making and work responsibility transition map | 1 to 2 Meetings
Estate planning | 1 to 4 Meetings
Plan finalization | 1 to 2 Meetings

But It Is So Worth It!

Controversial, But If The Goal Is To Remove Obstacles To A Successful Succession...

Succession Belief 7:
ONLY BLOOD RELATIVES SHOULD BE INVOLVED IN SUCCESSION PLANNING

It Is Better To Be Inclusive!

- Possible participants
  - The current owner/managers
  - The next generation of owner/managers
    - Do you really know who wants to be?
  - Non-farming heirs
  - Spouses

Succession Belief 8:
OUR FARM WON’T HAVE TO CHANGE
That Would Be A Rare Situation!
- The farm or ranch has to pay for
  - Itself
  - Its investment
  - The current owner’s labor and management
  - The next generation owner’s labor and management
- The financial risk needs to be assessed

How Can We Make The Pie Bigger?

Succession Belief 9:
FARM SUCCESSION PLANNING SESSIONS CAN BE STRESSFUL

Yes!
- Succession planning can be stressful
- It helps to have rules that govern the planning process

Yes!
- The skeletons will come out of the closet and the elephant in the room needs to be addressed

Succession Belief 10:
ALL WE NEED TO MAKE THIS WORK IS A GOOD LAWYER
Perhaps...

Expertise Needed

- Communication specialists
- Conflict management experts
- Counselors
- Mediators
- Financial analysts
- Lawyers
- Succession planning facilitator

Recommendations

- Start as soon as possible
- Allow enough time
- Use experts
- Work on:
  - Communication
  - Emotional roadblocks
  - Business issue
  - Financial analysis
  - Estate plan
- Address the 5 Ds
- Develop planning rules
- Be inclusive and transparent
- Map out the transfer of management power
- Make sure the farm can support all involved and itself
- Print the written plan
- Revisit the plan often

Thank You!

Good Luck With Your Farm or Ranch Succession!