Succession Planning

Best Practices to Implement and Pitfalls to Avoid

FARM CREDIT

PA Farm Link
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Housekeeping

- Attendees will stay muted
- Presentation will be recorded
- Submit questions during the webinar using the Chat panel
  - Send to: All panelists
  - Try it out: where are you joining us from today?
    - Type your answer in the chat and hit **Submit**

- Download the presentation materials from the link in your email or you can find those links in the chat function

PA Farm Link
LINKING FARMERS TO THE FUTURE

- Darlene Livingston
- Executive Director of PA Farm Link
- Fourth generation farm partner at Mahoning Creek Farm

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Succession Planning

- What is it?
- The continuous process in a business that involves the transferring of knowledge, skills, labor management, control and ownership between one owner to the next. In family businesses this is generally between generations.

Succession Planning Statistics

- 90% of all businesses in the U.S. are family owned
- Only 30% of these will survive the transition from the first generation to the next
- Only 13% of family businesses remain in the family over 60 years

The topic of Succession Planning within any business is a difficult one. However, Succession Planning in a family-owned business is generally much harder. The necessary discussions of ownership, finances and future managements decisions are increasingly difficult with those you are related to. Emotions tend to be much stronger.

Top Reasons for Succession Failure

- No Succession Plan
- Business No Longer Viable
- Failure to Transfer Management Authority
- Family Discord & Communication (Unhealthy or Nonexistent)
- Next Generation did not Wish to Continue in the Business

Best Practices for Success

- Have a Plan – Start Conversations Early
- Make Business Viable
- Off Farm Experience/Education (Jr Generation)
- Transfer of Management
- Financial Transparency between Generations
- Healthy, Respectful Communication
- Involve others:
    1. Professionals (accountants, lawyers, estate planners, third-party consultants, etc.)
    2. Farmers who have transitioned successfully

In a Family Business survey, done in 2016 by the National Bureau of Economic Research Family Business Alliance, it was revealed that 43% of family-owned businesses **DON'T have a succession plan** – yet roughly ¾ of these enterprises plan to pass ownership on to the next generation.

Plan

- Planning creates control over something that is going to change anyway
- The key to avoiding conflict about who will take over a business is having a well-defined PLAN
- Crisis Planning is the worst form of planning
- Set a date and stick to it – it is estimated that business owners need ***<u>at least 10 years to plan for succession</u>***

Business Viability

- Is the business viable enough to pass on?
- Is the business debt heavy? or too small to sustain another family ? (Retiring generation as well as younger generation)
- What does the Balance Sheet look like?
- Seek a professional, unbiased opinion of the business' viability

Off-Farm Experience/Education

JR Generation:

- Experience gleaned from working for other employers, in different career fields and under different management styles
- Education through College or Trade School

**Both of these are invaluable

Transfer of Management

- Start Early
- Be <u>Intentional</u>
- Be <u>Transparent</u>
- One task at a time (labor, crop work, herd health, finances, etc.)

Financial Transparency

- Finances should not be kept “private” until next generation owns everything.
- Younger generation needs to understand the ebbs and flows of the expenses and income

Healthy, Respectful Communication

- Be a good listener; ask questions for clarity
- Acknowledge that each person in the process will have a different perspective – and that's ok. Different perspectives doesn't make one right and one wrong. It just means they are different.
- Be respectful to others throughout the process

Involve Others

- Seek out other Farmers/Business Owners who have transitioned their businesses successfully –ask LOTS of questions
- Bring in an accountant, estate planner, financial advisor, lawyer, and/or other third-party consultants that would benefit the process

Pitfalls to Avoid

- Not having a plan – or waiting for a crisis to consider one
- Business has too much debt and/or isn't viable enough to sustain 2 families
- Jr Generation has no off-farm experience/education
- Transfer of Management is non-existent
- No Financial Transparency between Generations
- Toxic/Negative Communication
- No Involvement of others:
  - 1. Professionals (accountants, lawyers, estate planners, third-party consultants, etc.)
  - 2. Farmers who have transitioned successfully

"The difference between mere management and leadership is communication"
~Winston Churchill~

Questions

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References

- https://www.familybusinesscenter.com/resources/family-business-facts/
- https://www.inc.com/encyclopedia/family-owned-businesses.html
- https://www.score.org/resource/infographic-family-business-successes-and-obstacles

Farm Succession Planning Podcast Series

- Guiding Families Through Transition with John Black
- Reflections on Farm Transitions with Marlin Hartzler
- Legal Considerations in Farm Transitions with Jody Anderson Leighty

Thank you

- Check your email over the next day or so for links to the replay, presentation and links to resources discussed today.