

## **FARM BUSINESS SUCCESSION PLANNING**

Brent Carpenter, Ag Business Specialist, [carpenterb@missouri.edu](mailto:carpenterb@missouri.edu)

### **What is it?**

Business succession planning refers to the process of passing the business—in part or in whole—from one generation to the next. It involves preparation for the *transfer* of knowledge, skills, labor, management, control, and ownership. Often, this happens in stages over several years.

Successful transitions include a plan for the continuance of the business, a retirement plan (preparing for life after paid work ends) and an estate plan (preparing how assets will be settled upon death).

### **Success Rates for Business Transitions**

70 percent when business is sold to nonfamily

50 percent for a new business startup

30 percent for family succession (Lower rate for third-generation)

Non-family, arms-length deals tend to be more successful. Transitioning a farm to heirs over time can be difficult or impossible without careful planning, preparation, and commitment by all parties.

### **Get Comfortable with the Uncomfortable**

The importance of communication cannot be overstated. Planning for the future requires communication on topics that most people prefer not to discuss:

- Money • New Ideas • The future • Family differences • Risk • Job competency • Death • Disappointments

### **Groundwork**

Ask yourself these questions.

- What do you want to happen to your farm after you are no longer involved?
- Is there a future for the farm business? Does the farm support a single family? Can it support more than one family? Does anyone in your family want to continue the farm business?
- How can each generation communicate their desires and aspirations? Can the parents allow the next generation to get involved in decision-making? Can the children respect the parents' decisions in the early years of the succession plan?
- How do you develop the next generation of farm managers?

### **Typical Problems to Avoid in Succession**

- Developing a shared vision for the business
- Poor communication
- Assessing what is realistic
- Creating new leaders to carry on the legacy
- Transition from being a boss to being a mentor.

### **Five Elements of a Succession Plan**

#### *1. Do a SWOT analysis*

Identify strengths and weaknesses of the farm business. These are typically internal.  
Identify opportunities and threats faced by the farm business. These are typically external.

#### *2. Review financials*

Get financial records in order. Three to five years of balance sheets and income statements are best.  
Employ an outside financial professional to review the financial records and make projections.

#### *3. Determine your direction*

What path do wish to pursue for the business. Does it need to grow? How? Set short, mid, and long-term goals that are SMART—specific, measurable, attainable, relevant, and time-bound.

#### *4. Begin to identify and develop successors*

Start early to learn the interests and capacity of potential successors. Inform all parties, including heirs not involved in the farm. Give successors off-farm work experience. Consider educational needs and requirements.

#### *5. Implement in Stages (Probably over years)*

- a. Testing. Set up a trial run. Can the generations work together? Is the potential successor committed?
- b. Commitment. Successor invests more time and money in the business. Elder generation begins to withdraw. An operating agreement with a clear division of income and responsibilities is probably needed. Changes in the organizational/legal structure are often done in this stage. Consider what is appropriate; partnership, C-Corp, S-Crop, LLC, LLP, etc.
- c. Establishment. Successor has skills and experience to have more authority. Fairly rapid ownership transfer can occur in this stage. Elder generation withdraws further.
- d. Complete withdrawal. Elder generation withdraws completely from management and enters retirement. Lease agreements may be needed.

### **Monitor**

Evaluating progress is important in each phase of the transition process. Be prepared to modify and improve arrangements, if necessary. All parties need to ensure the transition process is aligned with the mission and goals of the farm business.