

# *FARM BUSINESS TRANSITION PLANNING – PREPARING THE NEXT GENERATION*

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Road Warrior of Agriculture: [www.cornandsoybeandigest.com](http://www.cornandsoybeandigest.com)

Ag Globe Trotter: [www.northwestfcs.com](http://www.northwestfcs.com)

# *Fast Facts about Long-Lived Businesses*

- one in three businesses are second generation
- 500 to 1 chance of reaching sixth generation
- oldest business in U.S. is 400 years old
  - former student is 11<sup>th</sup> generation
- larger farms in revenue have lower exit rates
- European vs. U.S. farms have 27% vs. 40% exit rate in a five year period

# Qualities of Long-Lived Businesses

- “Core values count!”
  - strong sense of values shared with family members, employees, customers, and suppliers
- frugality
  - conservative on debt
  - strong liquidity
  - profit plan
- transition/planning
  - incremental changes
  - continuous changes
  - astute planning
- development
  - staff and employee development
  - deliberate in identifying successes
- relationships
  - long term relationships with employees, customers, suppliers, & community

# *Pitfalls of Transition*

- no job responsibilities, wages, compensation plan, or fringe benefits in writing
- younger generation taking over an unprofitable business
- younger generation acquiring rusted out, worn out & faded out assets
- assuming non-farm sibling has no interest in farm assets
- sole source of income in retirement is sale or lease of farm
- assuming estate plan is a transition plan
- overemphasis on type of business structure
- assuming the older generation dies first
- procrastination, divorce, or long term health care

# *Rules for Business Transition, Growth, and Evolution 1*

- resource assessment of land, facilities, livestock, & machinery for estate
- profitability of the business
- community assessment
- independent and written goals of each generation
- skill assessment of existing & new members
- development of business plan
- living arrangements of each generation
- 50% of older generation's income in retirement from Social Security & off-farm investments

# ***Rules for Business Transition, Growth, and Evolution 2***

- 3 to 5 year rule for younger generation
- 6 year rule for younger generation
- disgruntled daughter/son-in-law
- advisory team/facilitator
  - an investment, not a cost
- transition timeline, job responsibilities, and compensation
- 3-1-1 rule: fair and equitable, not equal, treatment of siblings
- required reading – *The Ultimate Gift* by Jim Stovall

# *Ten Compelling Reasons to Be Optimistic in Agriculture 1*

- 50/70/70 Rule
- 1995-2013- Top 20% livestock/crop producers had 10% returns
- one size does not fit all
- young people, women, and minorities are the “new energy”
- technology, innovation, and bio-engineering information

# *Ten Compelling Reasons to Be Optimistic in Agriculture 2*

- talent wars in agriculture and rural America
- 1 in 6 jobs in U.S. are directly or indirectly connected to agriculture
- retail, entrepreneurial segments
- emerging nations, BRICS & KIMT, think globally but act locally
- raising a family- value systems/living expenses