

The tale of two transitions

Contributed by **Stanley Moore**

AT A GLANCE

There are many risks to successfully transitioning farm ownership to the next generation. One of them is waiting too long to get started.

Getting a farm transition right can make or break a farm's chances of surviving from one generation to another. Consider two farms:

- **Farm 1** has waited to make the farm transition decision until the senior generation is 68 years old, and the younger generation is 45. The senior generation is ready to retire, and it's

time to hand the keys over to their 45-year-old heir. The heir has worked on the farm since he was very young and has continued to function in the role of hired labor. He talks with dad about management decisions, but dad and mom pretty well run the show. Mom and dad have complete ownership and, ultimately, the decision-making authority on the farm. But they're ready to be done.

- **Farm 2** decided to get the younger

generation involved in management and ownership shortly after the younger generation came back from college. On this second farm, the senior generation is 48 years old and the younger generation is 25. Mom and dad are excited to see the interest of their daughter in becoming a partner on the farm. For the past three years, they have been giving her more management responsibilities to see if a partnership would be successful and, at 48 and 25 years old, they have decided to move forward as partners. In 10 years, the younger generation will be a 50% partner in the operating business part of the farm (5% ownership transferred per year). If all continues to progress according to plan, the following 10 years will see the next generation become 100% owner, allowing her and her husband (at age 45) to begin to think about the third generation.

Why is it so important to start the transition process early?

- *Transition takes time.* Farm 1 is literally caught behind the eight ball. If they try the same transition process as Farm 2, Mom and Dad will be 88 before the farm is transferred. Unfortunately, most parents will not see age 88 and, even if they do, will they really want to manage the farm up to that point in their lives? Farm 1's best option at this point, assuming the next generation wants the farm, is to transfer 100% of the operating business (usually this should not include most land and the senior generation's home) over the next 10 years (10% ownership transferred per year). Even with this more rapid transfer, Farm 1 has missed out on some great opportunities to help the next generation succeed.

- *Risk tolerance decreases with age.* Let's face it, most all of us become more risk-averse as we age. From personal experience, I can tell you individuals over 55 are generally not looking to take on significant debt. However, most farms need to grow in order to accommodate the next generation. If farms do not grow in size, they often start new enterprises in order to generate the dollars needed to support multiple partners. Farm 1's 68-year-old senior generation is not likely to take on new debt, and rightly so, but Farm 2's 48-year-old senior generation is much more likely to partner with the next generation to finance new growth.

- *Waiting means a missed opportunity of mentoring the next managers.* Business transition is more than ownership transition. In fact, ownership transition is relatively easy compared to management transition. Management transition includes

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giving the younger generation mini-management responsibilities and allowing them the opportunity to succeed – and sometimes even more important, the opportunity to fail. Consider Farm 2; they have planned 20 years of ownership transition, giving themselves 20 years to manage together, grow together and learn from each other.

Often, I hear comments from senior generation owners that lead me to believe that they really don't want to give up ownership and management control. I think, in many cases, that senior generation wrongly believes that this will help the farm continue to be successful. Too often the bulk of management and ownership control doesn't transfer until the passing of the senior generation. I would contend, that the best way to ensure sustainability of the farm is for senior generation owners/managers to mentor and develop the next generation of owners/managers while they still can.

• *A transition will happen one way or another.* Successful farm transition takes time, energy and a willingness to give up some management control.

In situations like Farm 1, there are always reasons why it is not the right time to start the process, whether it is the weather, low prices or just being "too busy." However, an unplanned transition that is forced to happen due to events outside of your control, such as accidents or health, will always result in a worse situation. Think about where Farm 1 would be should the senior generation need to exit the business. No time will ever feel perfect, so start the transition process today, and begin to reap the rewards of working closely with your farm's future generation of owner/managers. ➔

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