



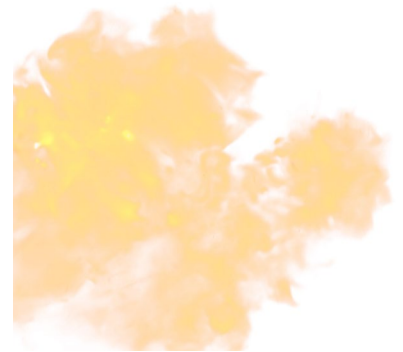
Passing the Torch

Transition Planning Workshop



How Do We Begin?

- Develop a family culture of communication.
- Create a “safe” atmosphere where a ideas, hope, dreams, and fears can be shared without judgement.
- Regardless of transition issues.

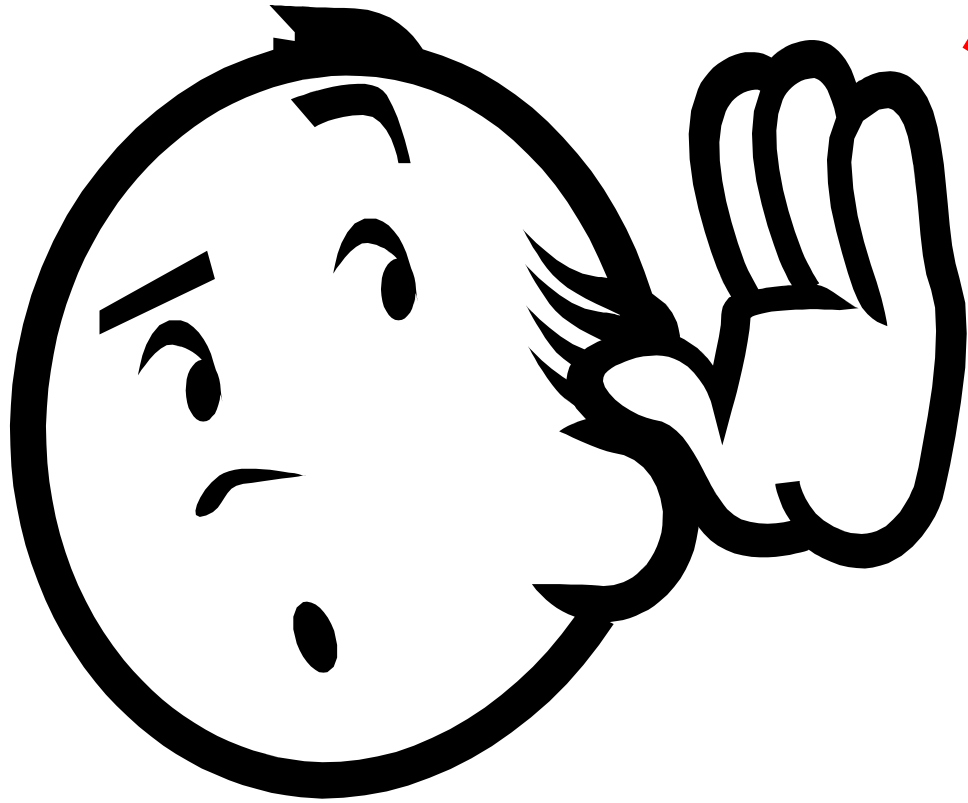


How Do We Begin Transition?

- Start talking
- Talk some more
- Talk some more
- Be sure to listen!



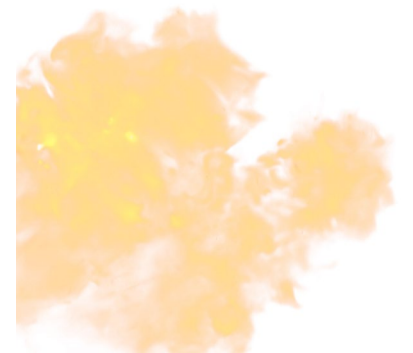
The Most Challenging Part Of Communication Is...



Listening!

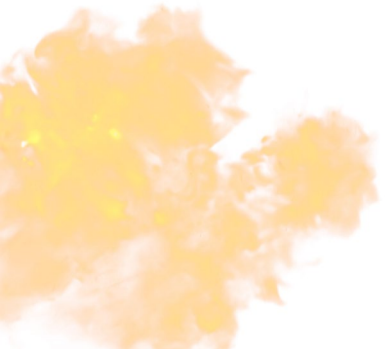
Listening

- Discipline yourself to really listen.
- Do not plan your rebuttal.
- **Do Not Interrupt.**
- Seek to understand.
- Speaker can help by being brief.



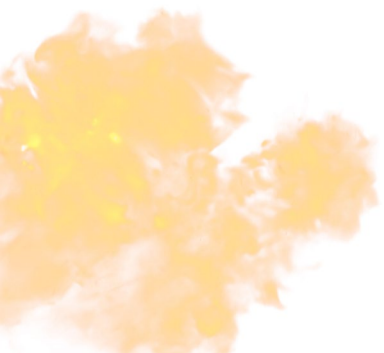
What do we talk about?

- What do parents want?
- What do children want?



What Parents Want?



- *Usually.....*
 - To see the farm continue with family ownership.
 - To have enough income to live on.
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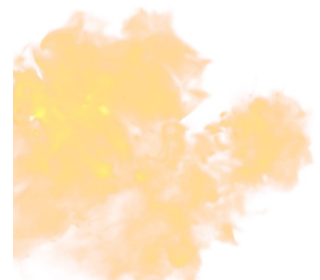
What Children Want?

- *Usually.....*
- To have the opportunity to own and operate the farm.
- To have an economically viable business.
- Everything is easier if the farm is profitable.



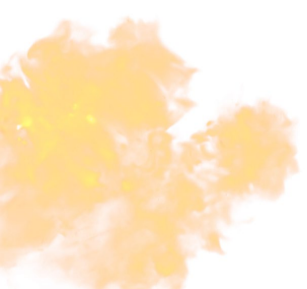
Reasonable Timeline

- Thirty years per generation of management and ownership.
- (at least non-real estate).
- Start working on a plan by the time younger generation is in mid-twenties.
- Put commitments in writing.

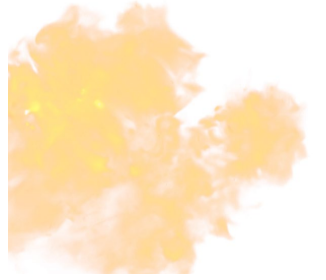


Reasonable Timeline



- Begin transferring assets when younger are in the thirties.
 - Often cows are first, then equipment, and real estate last.
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Reasonable Timeline



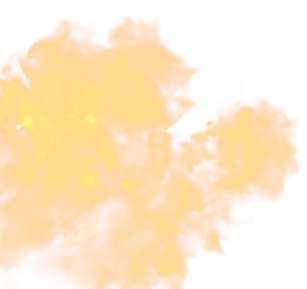
Or.....

- Form an LLC to own cows and equipment, and begin transferring shares when younger are in their thirties.
- Responsibilities should be transferred along with ownership.

Reasonable Timeline



Or.....

- Begin transferring heifer calves to younger beginning in their early thirties.
 - With a 33% cull rate, younger will own half the cows in four years, and all of them in ten years.
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What To Charge?



- It depends.
- How much “sweat equity” has been accumulated?
- Sweat equity is the difference between what the younger person was paid and what he or she could have made working off the farm.

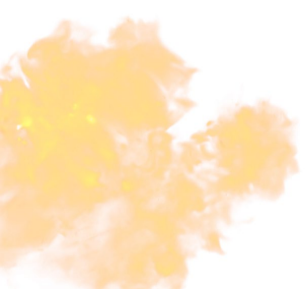
Sweat Equity



- Establish early how sweat equity will be considered.
- Put it in writing once some agreement is reached.
- Don't let it drift, with older and younger holding different expectations.

What To Charge?



- Purchase price of assets must be high enough for parents to live.
 - Must be low enough for younger people to live.
 - Varies a great deal from farm to farm.
- Profitability is important to farm transfer!
- 

What To Charge?



- It is usually not possible for the older generation to get full market value for all assets, especially land.
- Review finances from at least the past three years to get an idea of how much cash flow is available for the younger people to pay to the older.

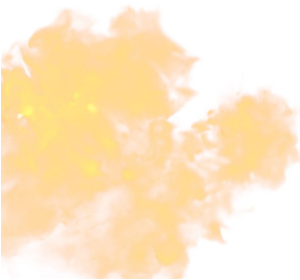
Facilitator



- An experienced facilitator can often help the process to occur.

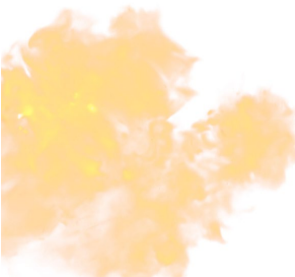
Communication Guidelines

- What happens if we cannot agree?
- Learn to “speak personally”.
- Establish eye contact, and begin your sentence with the word “I”.
- Tell the other person your thoughts and/or feelings.



Example

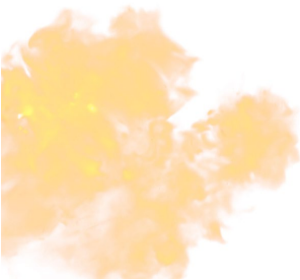
- Parent suggest son buy the cows, and then take half the milk check. Son will concentrate on cows, Dad on crops. Both will help the other as needed.
- Parents have set a price for the COWS.
- Son thinks they are asking too much.



Example – Bad Approach



- Son confronts parents with no warning.
- He says, with a somewhat hostile voice,
- “You are asking way too much for the cows. There is no way I can makes that payment. You must want me to fail.”

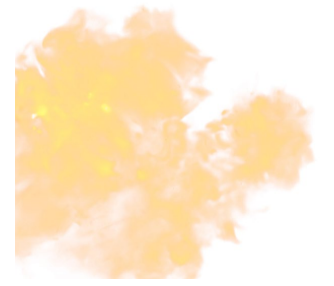


Better Approach

- Son tells parents he wants to schedule a meeting.
- Son, speaking with respectful tone, says
- “I appreciate you offering me the chance to buy the cows. I have looked over the finances from the past few years, and I don’t see how that will cash flow. Is there any way you can lower the price?”



Example



- From this point, parents can offer a lower price, or hold firm.
- Son can hope for strong milk prices and accept, or decline.
- Mutual respect can continue regardless.
- If both parties want what is best for the family, some compromise can usually be attained.

Speaking Personally

- Use an “Eye to I” approach.
- Establish eye contact.
- Start your sentence with the word “I”.
- Tell the other person your point of view.
- Do not criticize or blame or complain about them.

Second Example

- Daughter and her husband came back the farm to help out when Dad developed health problems.
- They were told “In a few years, you can take over.”
- What does that mean?
- Six years have passed; nothing has been transferred.
- When younger people bring up the subject, parents are vague with the plan or time-line.

After a bad day.....



- Daughter approaches parents and says...
- “You just see us a cheap labor. You promised us we could take over in a few years, but you still control everything. Whenever we bring it up, you just stall us. You are taking advantage of us”.

Better Approach

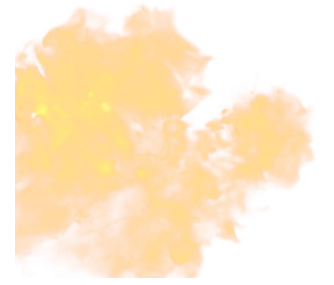


- Daughter gives it some thought.
- She approaches parents and says...
- “I am concerned that things have not worked out the way we expected. We enjoy working at the farm, and we want to continue. We need to have a firm plan that allows us to build equity, and have some say in decisions. Are you open to making some changes in the next six months?”

If Nothing Changes

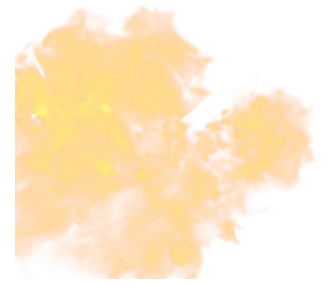
- Younger people need to make a decision.
- Do they walk away?
- Or continue with no progress?
- Don't wait twenty years before getting to this point.
- The proverbial line in the sand may be needed.

My Opinion



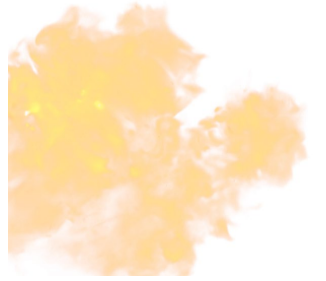
- Parents do not owe their children the right to take over the farm.
- Children do not owe their parents coming back to help with the work.
- ***Unless.....***
- Commitments have been made by either party.
- Commitments should always be put in writing.
- Even with best intentions, people remember things differently

When There Is Conflict



- Steven Covey, *Seven Habits of Highly Effective People*
- **Seek First to Understand.....**
- **Then Seek to Be Understood**
- Do not focus on getting your way, or “winning the argument”, or making a decision
- Once understanding occurs, the plan often becomes easier

Don't Wait for the Perfect Plan



- **Perfection is the enemy of completion.**
- Compromise may be needed from both parties.
- No one may get exactly what they wanted.
- Try for a plan that all can live with.
- **Get Started Soon!**