

Farm Business Transition

Tip and Tactic's

**Dennis Stein, District Farm Management
Michigan State University Extension**

KEYS TO SUCCESS

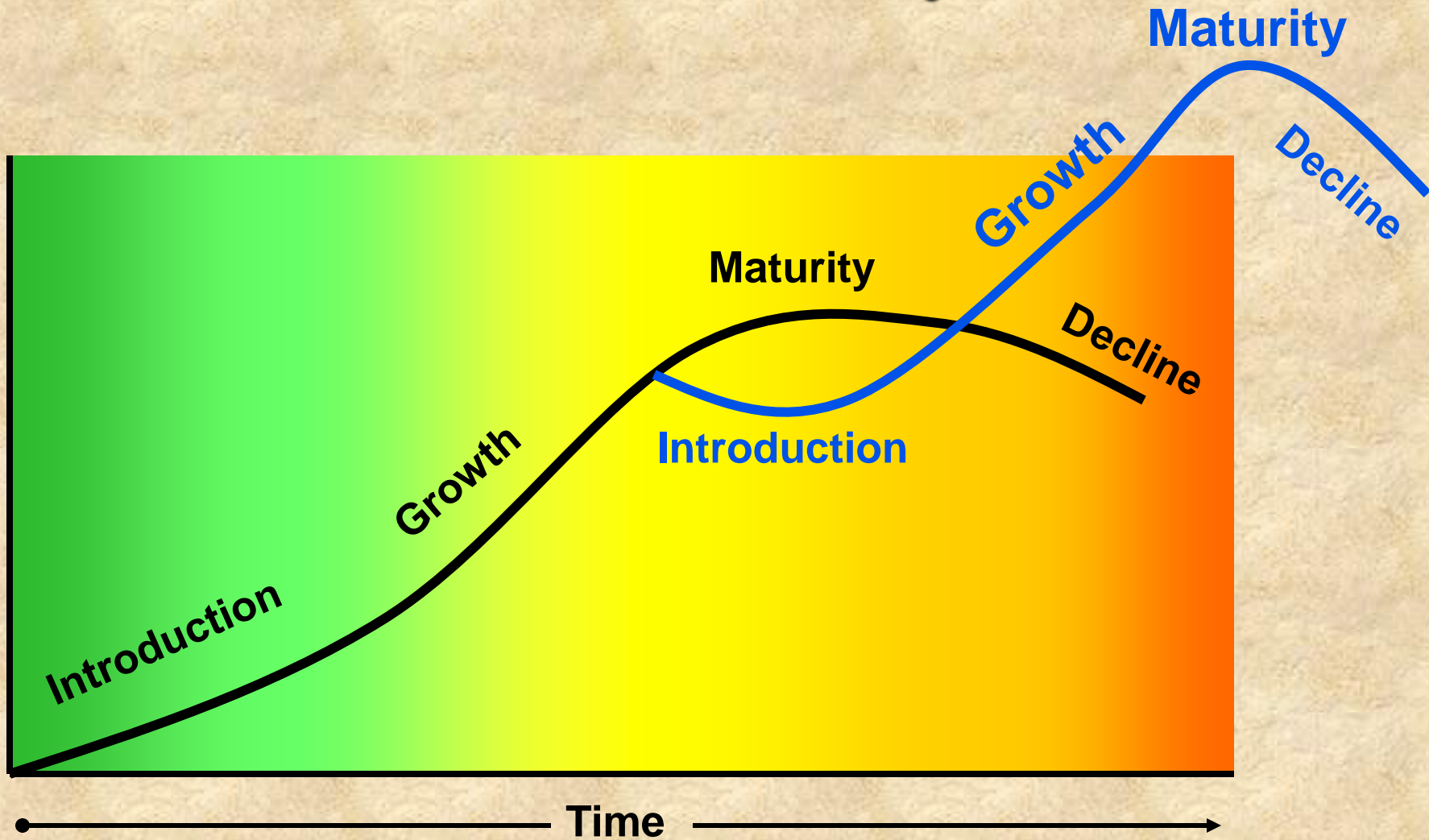
- **Strengthen Family Relationships**
- **Improve Communication Skills**
- **Recognize Individual Differences**
- **Management Participation = Learning**
- **Decision Making**
- **Encourage Diversionary Activities**
- **Separate Housing is Required**

KEYS TO SUCCESS

(continued)

- **Develop a Written Business Plan**
- **Develop a Written Agreement**
- **Fit the Agreement to the Situation**
- **Update the Business Arrangement**
- **Make it Work “Attitude”**

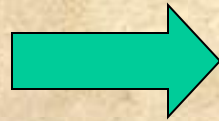
Business Life-Cycle



Source: Wadsworth

Business Succession Plan

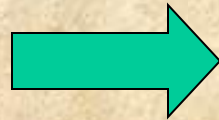
The Transfer Process



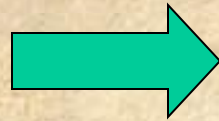
Ownership



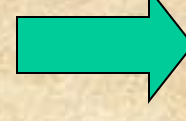
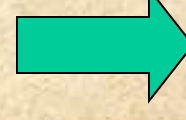
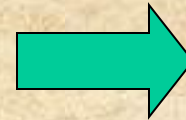
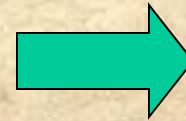
Management



Divide Income



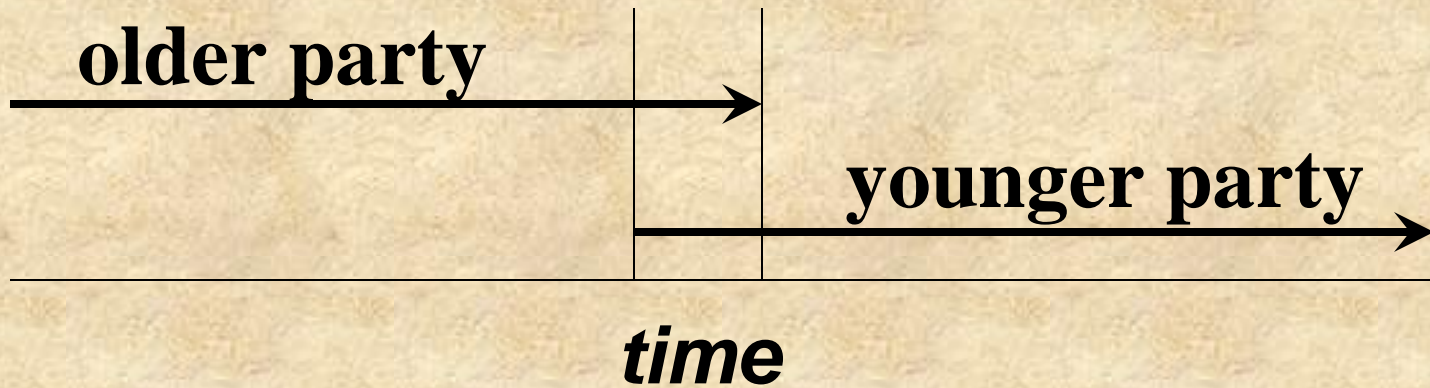
Labor



Business Succession Plan

TRANSFER PERIOD

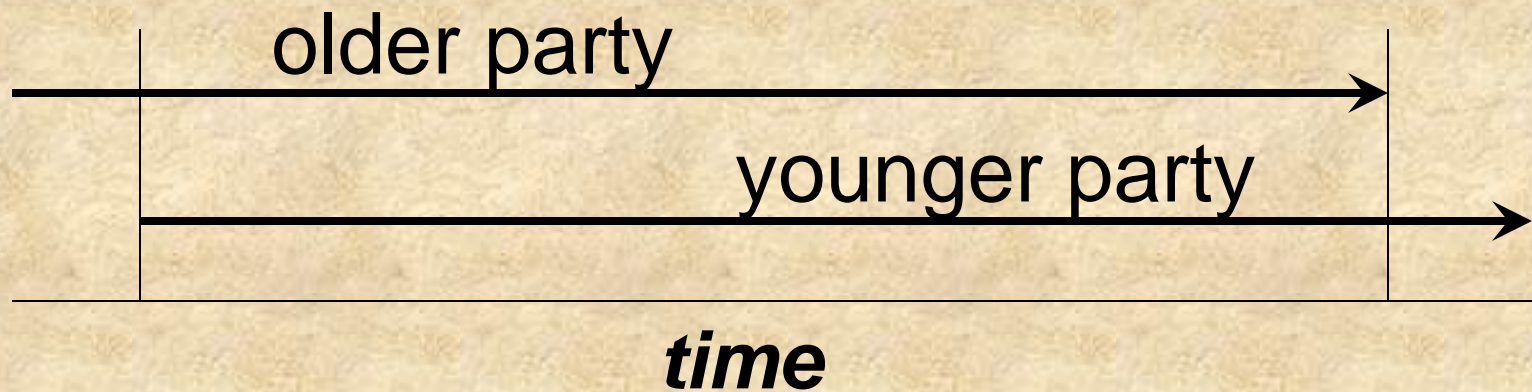
Short Transfer Period



Business Succession Plan

TRANSFER PERIOD

Long Transfer Period



What to do with the Farm?

Do you want to transfer the farm as a “business” or simply as a “group of assets”?

- A. Transfer Plan**
- B. Estate Plan**

FARM

```
graph TD; FARM[FARM] --> Business[Business]; FARM --> Assets[Assets]; Business --> SuccessionPlan[Succession Plan]; Business --> FinancialViability[Financial Viability]; Business --> Goals[Goals]; SuccessionPlan --> RetirementPlan[Retirement Plan]; FinancialViability --> RetirementPlan; Goals --> RetirementPlan; RetirementPlan --> EstatePlan1[Estate Plan]; Assets --> EstatePlan2[Estate Plan];
```

Business

Assets

Succession
Plan

Financial
Viability

Goals

Retirement
Plan

Estate
Plan

Estate
Plan

Successful Farm Transitions: Financial Viability

➤ Farm Efficiency

✓ Expenses

- Purchases (shop around)
- Bang for the buck
- Quantity/early pay discounts

✓ Income

- Production, production, production
- Marketing
- Quality



Successful Farm Transitions: Financial Viability

➤ Farm Efficiency

- ✓ Assets earning their “keep”
 - ✓ Investments paying for themselves
 - ✓ New paint disease



Successful Farm Transitions:

Financial Viability

- **Family Living Cost**
 - ✓ **Retiring family**
 - ✓ **Farming family**
 - ✓ **Off-farm employment**
- **Farm Size will set the max. income**

Successful Farm Transitions:

Financial Viability

➤ Farm Debt Structure

- ✓ Long term vs. short term loans**
- ✓ Interest rate**
- ✓ Principal payments**

10 Ways to Sabotage Family Estate Transfer Plans

1. Procrastinate

Don't write a will or transfer plan. Let the children worry about it after you're gone.

2. Avoid planning or making decisions

3. Don't discuss the subject of estate transfer.

Keep information from younger family members. This is a sure way to increase family conflict.

4. Blame others for problems. Stay angry.

5. Do all you can to block the younger generation from any involvement in goal-setting or decision making until they are middle aged.

10 Ways to Sabotage Family Estate Transfer Plans

- 6. Refuse to listen to other family members' viewpoints.**
- 7. Hold on to total control of the family business.**
- 8. Assume others know what you want. Avoid discussing your wishes about transfer with family members.**
- 9. Make sure all your sense of worth, your identity, and life's meaning come solely from the business. Resist transferring to the next generation. This way they have the least influence and the most stress.**
- 10. Pay no attention to wake-up calls like a farm/ranch accident, illness, death, or major choice point by an offspring.**

***Someday Son, This
Will All Be Yours***

Successful Farm Transitions

Goals

➤ Older Generation

- ✓ Retirement lifestyle (money needed)
- ✓ Nonfarm heirs
- ✓ Residence

➤ Younger Generation

- ✓ Lifestyle (money needed)
- ✓ Growth of business
- ✓ Attitude toward debt
- ✓ Ownership vs. renting
- ✓ Family time vs. work



Thank You!

Dennis Stein, Farm Management

362 Green Street, Caro, MI 48723-1910

Ph# 989-672-3870 fax# 989-673-5953

Email: steind@msu.edu

Web: <http://www.msu.edu/user/steind>