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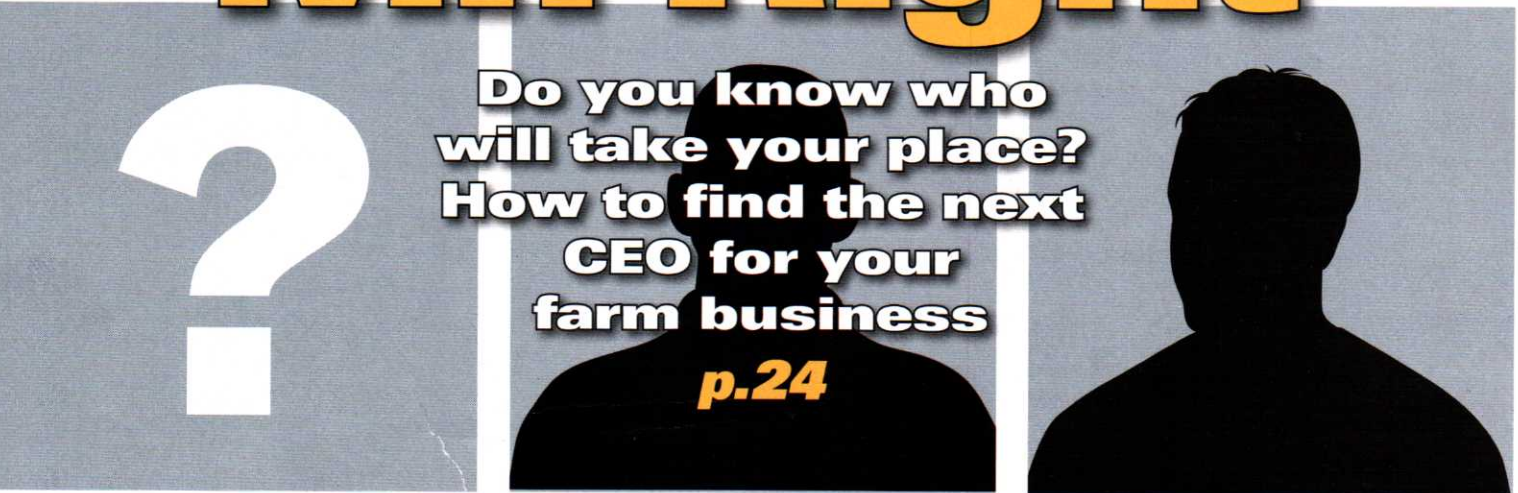
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Finding Mr. Right



Do you know who
will take your place?
How to find the next
CEO for your
farm business

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COVERSTORY

Finding Mr. Right

DO YOU KNOW WHO WILL TAKE YOUR PLACE? HOW TO FIND THE NEXT CEO FOR YOUR FARM BUSINESS

By Mike Wilson

Les Imboden is on top of his game. The 60-year-old with a thriving 6,500-acre grain operation near Ashville, Ohio, is well-respected as a family man, business operator and community leader.

Yet, like hundreds of farmers around the country, Imboden faces a nagging worry: Who will take over his business in the event of death, debilitating injury or simple retirement?

"Transition plans are difficult to talk about," says Imboden, "but the time to do it is not right before a funeral."

That "transition insecurity" is nothing new for U.S. farmers. According to our most recent survey, 26% said they were unsure who will take over their operation once they retire. A startling 15%, age 60 to 69, do not yet know who will take over after they are gone.

Younger farmers, those under 40 years old, were the most likely to be unsure of their successor. Fully 50% of this group didn't know who would take over their business.

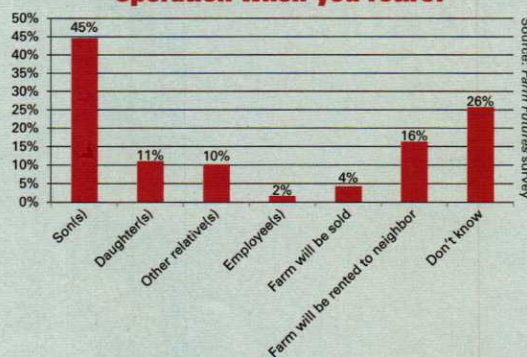
Overall, sons are the most likely suc-

cessors, according to the 680 farmers we surveyed in August. On average, 45% indicated a son or daughter was likely to be their successor, with 11% planning on a daughter taking over. Another 10% believed another relative would farm their ground, with 16% planning to rent to a

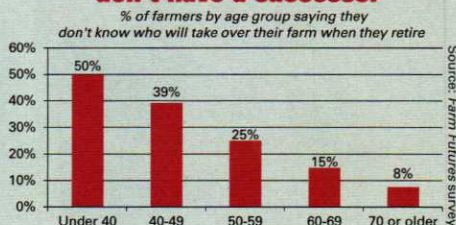
neighbor. Only 4% said their farm would be sold.

Even though younger farmers might not know their successor, they were the most likely to see the farm as a family tradition. Some 95% said it was important for the farm to stay in the family. But even 87% of farmers 70 and older felt the same way.

Who do you expect will take over your operation when you retire?



Many older farmers don't have a successor



TOUCHY TOPIC

Too often no one in the family, including the principal owner/operator, wants to touch the transition topic. Then a death, serious illness or injury forces the issue.

"Everyone gets wake-up calls at certain times of their lives," says Imboden. "Hopefully, they get it in time to wake up and address the issue before it becomes a disaster."

In Imboden's case, it happened two years ago when his father was diagnosed with pancreatic cancer and died just seven weeks later. Devastated, he found himself taking care of his father's affairs when it dawned on him his own estate plan was still incomplete. That gave him a new sense of urgency. "It used to be way down on my list of things to do," he says. "Now, it's in the top five."

Dick Wittman says the sooner you

Key points

- ✓ Start writing a transition plan; don't just talk about it.
- ✓ Insurance is absolutely necessary for risk management for the estate.
- ✓ Find the right professional or lawyer focusing on transition of management/operational continuity, as well as farm estate ownership and tax management. Word of mouth is paramount.
- ✓ Talk to people involved in successful farm transition. If they will talk about it, get names and references of the professionals who helped them.
- ✓ Be very careful about the fee structure. Get what you pay for.

have that epiphany, the better. "Not having a plan could put the people who could be candidate successors at real risk to fail," says the Idaho rancher and farm management consultant. "It's not that people don't want to plan; it's more like they have a paralysis on where to start the process. It's a huge task, but it's doable. It's just a matter of breaking it down in pieces."

What are those pieces? It starts with communication on a number of issues, such as: "What is the vision for our business in the future? Who is interested in working in the business? Who has an interest in being an owner in the business? Do the potential successors share a common mission, vision and values? If not, how does that affect our estate and succession planning options?"

Most people don't spend enough time talking to potential successors — those who demonstrate an interest, aptitude and appetite for management and leadership.

"Having discussions on the aforementioned issues before you sit down with lawyers is critical," says Wittman. "Unfortunately, people often start with, 'How can we beat the government out of estate tax?'"

"Plans get made, the par-

ents go home and lay out the plan, and the kids say, 'Why did you do that?'"

"Sometimes just asking what various stakeholders' objectives are puts a completely different perspective on implementation options. Too often we have those first steps mixed up."

And you may not even be aware of who to look for as a successor. The apprentice CEO — someone who will be working into the job as principal operator of your business — should be a networker, leader, problem solver, facilitator and risk manager, says Imboden. "You have to love challenges," he adds. "You have to embrace and anticipate change; you have to be several steps ahead. You have to find someone who loves to fix problems."

FIRST STEPS

Taking Wittman's advice, Imboden started the process by having a roundtable discussion with family and employees off the farm in a relaxing setting with no phones or interruptions. Based on his experience, don't expect that first meeting to be pleasant.

"It was pretty ugly at first," he recalls. "There were a lot of emotions. People don't want to talk about it. 'You're fine, we don't need to talk about this' — that's the message you often get from employees

and your kids."

Imboden ran that meeting, but in some cases, it's good to have a facilitator who is focused on the succession plan goal. You are looking to find out what people's real interests are.

"When you start having these meetings, you start clearing the waters and you find out what's on people's minds," says Imboden. "With family, you find out if they have interest in returning to the farm. With employees, you find out what their long-term goals are. Some want to be here forever, and some do not. Some don't need ownership and don't want to be the CEO. They don't want to worry about finances, or they can't stand marketing."

"You have to find out how much skin in the game they each want, whether it's family member or employee," he adds.

As the senior person, you start that discussion by saying you and your spouse are looking at your future, and you both want to know what everyone's goals and ambitions are, says Wittman. "You learn the goals of the potential heirs and successors without anybody making commitments."

FINANCIAL TRANSPARENCY

Once you identify prospective successor roles, including who might best be



Photo: Mike Wilson

"My succession transition plan is a work in progress," says Les Imboden, with son Seth.

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groomed as the incoming CEO, financial transparency is critical.

"I see a lot of parents hesitant to share their financial situation," says Wittman. "If they get some initial input from estate planners on how much of their estate they need to keep in their retirement, kids are reasonable about that. At the same time, if there is \$15 million in net worth and the parents need \$2 million to retire on, the sooner that is known the better; then you can start talking about the best ways to transfer wealth.

"If there's a chance to help the kids advance their goals, there's a lot of opportunities to leverage that wealth. But too many times it's an awkward conversation, or the kids come across as greedy. So no one talks."

The incoming generation deserves to know what it takes to buy into the operation. Some will end up minor owners and active operators; other siblings may end up simply as shareholders. Each situation needs to be addressed as the estate owners see fit.

"If you have someone who is operating the farm, taking excessive compensation, and the other sibling shareholders see no net return on business investment, that isn't going to work," says Wittman. "Many times these transition plans don't work because there is no transparency on the compensation for the owner/operator and the owner/non-operator siblings."

NO HEIRS IN SIGHT

What about farmers who have no lineal heir apparent? You can sell or rent the farm, of course. You may actively seek out a non-family apprentice CEO through a job search, but fair warning: It's a difficult road. Imboden has talked to college graduates with successful resumes and no farm to return to, and he knows there are qualified people out there. But so far he's mostly run into young people with unrealistic expectations.

Another option is to enter retirement with the hope that grandchildren may come along and work into the business. In these "bridge years," you might work out an arrangement to rent to a neighbor who will actively manage the business, while you as semi-retired take on the farm's role that most interests you, such as marketing or equipment maintenance.

"There are numerous options, but it starts with the goals of that operator and

Son, daughter — or someone else?

Les Imboden is a devoted family man. So he knows it sounds harsh when he talks about bringing a non-family person in as the apprentice CEO of his farm near Ashville, Ohio.

"We need to hire management and leaders based on qualifications, not genetics," he says. "The millions of dollars that most of today's farms have invested demand the best CEO for the job, and that may not be a family member. You should interview and hire the best person for the job and not trump the decision based on family ties."

Imboden's approach may be unique among most farmers. Then again, he's not like most farmers in the first place. He never grew up on a farm, so he has no preconceived notions about the background of his eventual successor. At age 60, he's working through this decision and looking at every angle. Good communication with family members and employees is key.

His 27-year-old daughter made it clear she's not interested in running the farm; his 15-year-old is too young to know what he wants; his 30-year-old son has a six-figure salary, an MBA and a good career in the food industry. Imboden is talking to him about how his skills might be used to take the farm to the next level. Meanwhile, his top employee is highly dedicated and has high standards, but no formal education. Still, "you want that kind of person who is take-charge and has skin in the game," says the Ohio farmer. "It fits my particular situation."

It's very hard to remove the "family" emotion from any discussion on the future of a business. One way to do so is to have a board of advisers for the farm. Hold roundtable meetings with everyone involved to discover their goals and aspirations.

A next-generation family member may indeed be the best choice for your business. But being a hard worker alone does not qualify a family member to be the heir successor. They must also have leadership skills, passion and commitment.

"If you have a super strong business and leadership-oriented family structure, then you probably will be OK," he adds. "But how many of us train from within and teach outside-the-box thinking? It is counterintuitive."

how committed you are to keeping your options open," says Wittman. "You can have a limited business arrangement, with the understanding that 10 to 15 years from now a family member may come along to run the business."

In that case, make sure the business continues to evolve and innovate, so that when the time comes, it's not hopelessly behind the curve. You will have to have an operation that will be economically viable — size and scope — by the time that heir chooses to come into the business 15 years from now.

"This is tough, because Mom and Dad see retirement coming and are inclined to coast," says Wittman. "Thinking long range about the need to remain viable puts a burr on a guy's bonnet to really examine what kind of role you want to play in your senior years, and what will be required to strategically innovate and grow."

Any business or partnership needs an exit strategy. Plan for your retirement, but

also plan for the unexpected. Have a plan for what will happen to each individual when the principal owner/operator dies, and make sure it is transparent to everyone.

"Family farms fail because they don't get this," says Imboden. "Even if you don't know what the estate tax rules will be, it doesn't mean you don't plan. By the time you are thrown into a situation where you realize you have to make big decisions, the elder generation may not be in position to make good decisions.

"With the dollars involved in farming now, there's not a whole lot of room for mistakes." **ff**

Farm Futures Now!

Passing on the farm can be difficult; yet, avoiding the topic may be more costly. Go to www.FarmFutures.com and click on Farm Futures Now! for more.