

CARRYING THE TORCH

Third generation shines bright at Star Rock Farms



Four generations of Barley men include (back, from left) Abram G. Sr., who passed away May 24, 2008, Abe Jr., Jack, John, and Abram M.; (front) Jonah, Colt, Tom, Ethan, and Rob.

PHOTO: TOM YOUNG

By Linda H. Smith

Star Rock Farms, named after a rock outcrop overlooking the Susquehanna River on property owned by the Barley family, began with Abram M. and Grace Barley. Generation two, Abram G. and John Barley, took the farm to almost 10 times the 140 acres they took over from Abram M.

In 1992, the brothers were either side of 40, farming 1,300 acres in a county where the average was under 100. Abe managed field operations and John, financial management.

Always a pair who were ready to

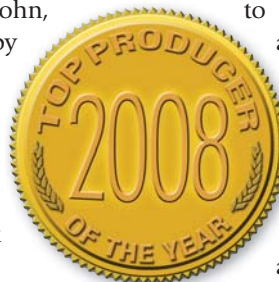
capture opportunities, "We saw we were approaching a stage in life when we might no longer have the drive to continue to grow," says John, the younger of the two by 5½ years. "A business must continue to grow to go forward; if it stops growing, it will begin to slip downward. You need an infusion of new interest and new ideas."

So they began the transition of management and ownership of their Conestoga, Pa., farm to their children. "Abe Jr. returned from the Marines and I sat down with him and

outlined the opportunity the farm offered," John says. "Abe Jr. thought it over and said yes. It took about a year to get things arranged." Rob and then Tom answered the same way upon college graduation.

Abe and John set up a plan so the three younger men would assume both the farm's operating assets and debts.

Today, the three farm more than 10,000 acres in a 35-mile radius spread over four counties, milk 1,200 cows and market diverse livestock. Their adoption of managerial



accounting, strong financial performance and growth in an area riddled with suburban sprawl earned them one of the three 2008 Top Producer of the Year awards.

Transitional challenge. Although by no means unheard of in agriculture, among family businesses the Barley operation is among an elite group. Only 30% make the transition from first to second generation, and just 12% to third generation. By the fourth generation, a measly 3% are still in existence.

Common causes of failure are inadequate estate planning, insufficient capitalization and failure to prepare the next generation, says Kevin Stafford of Legacy by Design in Chico, Calif.

"The Barley family has done an exceptionally good job," says Jan Graybill of Legacy Planning Partners in Coopersburg, Pa. "Books about entrepreneurs agree that after 25 years in a business, they become entrenched in their thinking. It is time for the next generation to infuse its energy into the business.

"John and Abe recognized that," he says. "They began at an earlier age than many owners do, and they were willing to turn over responsibility to the younger generation—something

often resisted by business founders."

"That's where so many transitions fail," John says. "The older generation wants to continue to run the business—I've seen some who wanted to rule from the grave. You have to be there as an advisor, not a dictator.

Talk it out. Communication is critical if you are going to be in a family business, John adds. "The elder generation should praise generously and not be critical of mistakes, which provide a chance to learn."

Communication also is key for the next generation, the partners say. "In general, our different personalities complement each other, but if we have differences, we talk about them," Abe says. "When we disagree, we don't challenge the person. We challenge the idea or practice to make sure it is the right decision." Such discussions help uncover better decisions and ways to do things, Tom adds.

Divvying up responsibilities helps them avoid stepping on each others' toes. Walking in his father's footsteps, Rob runs the office and livestock; Tom's arena is the dairy and Abe takes to the field. "Specializing helps avoid scattered attention," Tom says. "For example, I can worry about the cows—not paying bills."

**Managerial
accounting
validates
decisions**

Star Rock Farms' Mission Statement

To produce Quality Agriculture Products in an efficient, well-managed and progressive operation. Accomplishing this while maintaining a safe, friendly working environment for employees. Seeking to develop and maintain open and honest relationships with employees, vendors, professionals and neighbors.



PHOTO: DANA TIMMINS

Accounting boost. One of the first steps generation three took was to ratchet up their accounting a notch. Pennsylvania Farm Bureau's Farm Business Farm Management service had served brothers John and Abe well, but the current generation adopted enterprise accounting.

"While tractor-seat management worked for previous generations, today's economics require the use of enterprise and cost accounting to validate management decisions and

support bank credit requests," says Lowell Fry, vice president of Fulton Bank in Lancaster, Pa.

"Combined records didn't allow us to analyze strengths and weaknesses in each of our major activities," Rob explains. "Profitable areas could easily mask losing activities."

So the Barleys hired an accounting firm and, within the past five years, have adopted an aggressive system of managerial accounting to determine the profitability of each enterprise

and where best to invest capital.

Knowing their cost of production helps them decide what to pay for rents—and what farms they may not want to keep, Rob says.

Now the partners are studying quarterly reports for each business unit to catch financial trends early and take remedial action if needed, Rob says. "Also, we can now compare our business units with industry data to evaluate our performance."

As their banker, Fry adds: "Loans can be supported by numbers and tracked for performance. Furthermore, management can mitigate market risk and cash flow volatility through contractual relationships based on accurate costs of production. By lowering business risk, the bank's risk is reduced and the Barleys have access to more, less costly, credit."

Four entities. At the same time the Barleys switched accounting practices, they carved their business into four entities to allow them to better identify the strengths and weaknesses in each of their major activities. Each enterprise—and any new investment—has to pass two tests: Will it stand on its own and will it enhance the overall operation?

- Star Rock Farms initially included 2,000 beef cattle, 7,000 hogs, 100,000 broilers and 130,000 laying hens. Based on the Barleys' financial records, they have converted ownership of the cattle to a 3,800-head custom feeding operation and gotten out of the layers.
- Star Rock Dairy started with 400 cows. In 2004, the family built a state-of-the-art facility and expanded to a milking herd of 1,100.
- Star Rock Services grew from 6,000 acres of corn, soybeans, wheat, barley and hay to over 10,000 acres.
- Barley Farms became a real estate partnership to manage the family's properties and rental ground.

Reputation. Their growth has been fueled by word of mouth, the partners say, bringing land rentals their way. "We just try to do a good job and build relationships," Rob says. ▶

Star Rock Farms, Conestoga, PA

PROFILE OF THE OPERATION: Star Rock Farms, Star Rock Dairy, Star Rock Services and Barley Farms, owned and managed by Abe Jr. (42), Rob (39) and Tom (37) Barley, Conestoga, Pa. Diversified crop and livestock farm that has grown rapidly in an area where suburban sprawl is replacing farmland. Managerial accounting and a sharp eye on financial ratios help them meet profit goals.



ABE: Being a sergeant in the Marine Corps provided leadership training and management—he led people.

ROLE AT THE FARM: Manages farm operations.

FAMILY: Wife, Jen, is a physical therapist; Abby (14), Ellie (10) and Jack (5) are involved in sports.

OTHER INTERESTS: Weightlifting, bicycling, hunting, Honor Guard at military funerals, antique tractor pulls.



ROB: Studied animal science with a business emphasis, Penn State University.

ROLE AT THE FARM: Overall financial management; livestock operations other than dairy.

FAMILY: Wife, Shelly, is church secretary; Michaela (9), Laurel (5), Ethan (12) and Amelia (16) are involved in sports and show dairy cows and hogs.

OTHER INTERESTS: Leads church youth group.



TOM: Business management, Millersville University.

ROLE AT THE FARM: Dairy operation.

FAMILY: Wife, Elizabeth, is a preschool teacher; Emma (11), Jonah (9), Ivy (7) and Colt (5) are involved in sports and 4-H dairy cattle showing.

OTHER INTERESTS: Bicycling, dairy cow showing.

PHOTOS: DANA TIMMINS

"I give the guys credit for developing the business plan and growing as they have," John says. "They have leveraged opportunities in ways I probably never would have dreamed of."

Internal growth. At Star Rock today, the cousins aren't averse to growth when opportunities arise, but for the next two to five years, their main focus is to be as efficient as possible and to reduce debt.

"We would consider an enterprise that would enhance current operations," Rob says. "But it would have to have a compelling story."

Thinking outside the box to afford land, they are willing to sell development rights in an area where preservationists are active; sell timber; or enter a sale-leaseback arrangement, as they did with one property where an existing business wants to expand.

They have begun planning for the next generation's transition.

"Each generation of the Barley family has proven an ability to adjust to and adopt emerging trends," says banker Fry.

"As agriculture now demands that business practices change, the Barleys have led the way by adopting financial practices that will lead to informed decisions, positioning the business for continued profitability and succession to the next generation." ■

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been fueled
by word
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Steps to a Successful Succession

In a perfect world, your succession plan actually begins when your children are in preschool. You groom them as business managers by giving them responsibilities, praising them when they do well and letting them learn from mistakes. However, the more explicit succession plan, with its business and legal aspects, often kicks off somewhat later. Jan Graybill, a managing partner of Legacy Planning Partners, in Coopersburg, Pa., who works with the Barley family, names three steps or phases.

Phase 1: Contingency plan. This is simply a basic plan for how to keep the farm in operation in case of a catastrophe such as the death, disability or voluntary withdrawal of an owner. "It's similar to backing up your computer regularly," says Graybill. You make certain you have sufficient liquidity and a manager who can take over. This phase may include estate planning, life insurance and the like.

Phase 2: Succession plan. This defines the current owner's plan to shift management and ownership to the next generation. "On the financial side, you need to make sure there is sufficient income to fund your retirement but not place too heavy a burden on the younger generation," Graybill adds. "On the management side, you have to allow the next generation to begin calling the shots while you are alive so they can gain from your experience." Ownership and management do not necessarily involve the same people, he notes.

Phase 3: Next generation estate planning. Right from the start, the next generation should form its business structure and investments with its successors in mind. Then, the plan should be reviewed and adjusted every five years.

"It's easy for young managers to focus on the day-to-day business and never get a plan in place," Graybill says. "It's really important in your 20s, 30s and 40s to talk about what you want in your 50s, 60s and beyond. Setting goals allows you to arrange things so the money will be there and you will have more options."