

Successful & Effective Farm & Business Transitions

Top Producer – Breakout Session
Thursday, January 30, 2014

Presented By:
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Today's Goals

1. Get you thinking!
 - Most important activity in 2014 may not be related to \$
2. Stimulate you to take at least “one small step”
3. Provide a helpful “human-oriented” lens to use in thinking about business succession

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Business Owner Planning Checklist

1. Have you decided:
 - a. When you want to leave your business? YES NO
 - b. What amount of cash or annual cash flow you will need when you exit? YES NO
 - c. To whom do you want to transfer your business? YES NO
2. Based on future cash flow, do you know how much your business is worth today? YES NO
3. Do you know how to best maximize the income stream generated by your ownership interest - both before and after you leave the business? YES NO
4. Do you know how to sell your business to a third party and pay the least amount of taxes? Do you know if your business is even marketable? YES NO
5. Do you know how to transfer your business to insiders (family, employees, and co-owners) while paying the least possible taxes and enjoying maximum financial security? YES NO
6. Do you have a plan for your business if the unexpected happens to you? YES NO
7. Have you taken steps to protect your family wealth? YES NO

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How did you score?

Yes

7: Congratulations! Your Business Succession Plan is well underway.

3-6: Good start. Keep going and don't stop until you can answer yes to all 7.

<3: You are procrastinating and likely need help.

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Landscape

- Many farm operators – 60s and 70s
- Most - ~~succession plan~~
- Entering farming - costly and complex
- Most risk – lack of contingency planning, succession planning, \$ planning & no / poor communication

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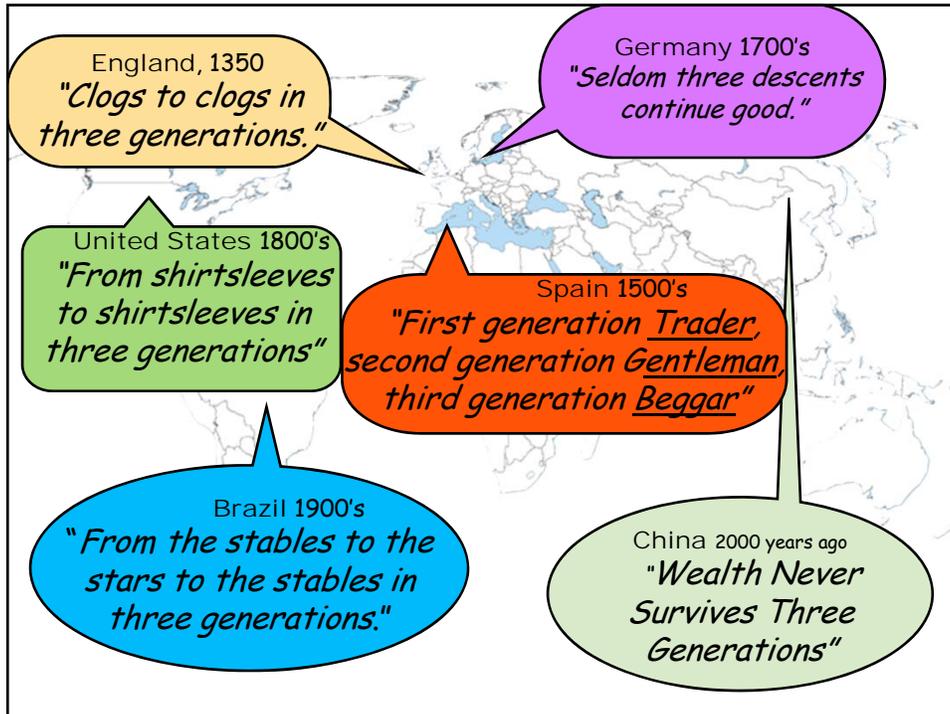
Family Landscape

Families fail to keep their families and fortunes together for three or more generations
90% of the time.

**True for families and
even more true – family businesses**

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The Most Obvious Question...

What do the 10% who have success in keeping their family, wealth and business intact over generations **Do Differently???**

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The 10%:

Business:

They prepare the next generation to effectively run the company.

Family:

They prepare their heirs for the inheritance they will receive.

Both require:

Building a culture of communication and trust in the family, and developing leadership in the next generation.

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Core Conflicts

Family = unconditional love

Business = performance – “what have you done for me this week?”

How do you manage relationships with children in the business AND be fair to those outside?

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Definitions

- **Business Continuity Plan**
 - A developed and communicated plan that will ensure the continuation of the business
 - May or not include a business ownership change
 - If ownership change, clearly states what will happen
 - Buy Sell Agreement
 - Texas Shoot out
 - Specifies details of all critical functions of the on-going entity
- **Business Succession Plan**
 - Includes both management and ownership change of the business. They may not happen at the same time, but they both eventually happen.
- **Estate Plan**
 - Plan that specifies the handling of a deceased persons estate.

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Components of an Effective Business Continuity and Succession Plan

- Written Plan based on owner objectives and includes accountability checklist
- Built inclusively and collaboratively
 - Appropriate family members
 - Appropriate business leaders
 - Collaborative team of appropriate, knowledgeable and experienced advisors

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Components of an Effective Business Continuity and Succession Plan cont.

- All components of the plan are reviewed and discussed for understanding before implementing
- Documented – all appropriate family members and business staff and advisors have signed copies
- Reviewed annually and updates as appropriate
- Strong business management team
- Strong business cash flow
- Time to implement strategies/action items

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Why every Business Owner needs a Business Continuity and Succession Plan

- For their
 - Family
 - Partner(s)
 - Employees
 - Clients/customers
 - Community
 - Industry partners and suppliers

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Challenges in Business Continuity and Succession Planning

- **People**
 - Owners
 - Unsure – don't know what they want
 - Unable – can't communicate what they want/desire
 - Unwilling – don't want to face idea of death, sickness, injury
 - Selfish – solely focused or concerned about themselves
 - Lack of owner clarity - \$ or personal
 - Unrealistic expectations - \$ or otherwise
 - Inflexibility
 - Family
 - Communication challenges
 - Relationship issues
 - Differing expectations and desires
 - Others
 - Nobody interested or able to lead (own & manage) the business going forward
 - When selling to key employee(s) doesn't work

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Other Challenges

- **Business**
 - Value drivers not substantial and/or sustainable
 - Inadequate cash flow and profitability
- **Time**
 - Not having enough time to fully implement the most optimal plan due to starting too late
 - Procrastination – “I will start...tomorrow...next year...”

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Excuses not to have a Succession Plan?

- Owners don't think they will die
- Owners don't care what will happen after they die
- "Parents and mentors never had one – why do I?"
- Think they already have one
 - Get frequent calls about someone buying the agency ... someone will buy me out when I'm ready
 - I "think" _____ is interested in owning the business so I will see what evolves
- Will get started tomorrow
-
-
-

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When is a Plan Needed?

- Before something bad happens
 - Death
 - Disability
- Before key employees leave
 - Communication: not knowing what the future holds
- Before children in the business get frustrated, disengage and/or leave the business

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7 Steps in Building an Effective Business Succession Plan

1. Understanding Owner's objectives & timing
2. Understanding the business' and personal financial resources
3. Maximizing and protecting business value
4. Ownership transfers to outside parties
5. Ownership transfers to insiders
6. Business Continuity
7. Business Owner personal wealth and estate planning

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Perpetuating the Family Business*

Meeting the needs of a family in a business and meeting the business needs in a family can be very difficult. Rules and norms of each are different and sometimes opposite.

Family

- Emotional
- Basically socialistic
- Membership is permanent

Business

- Rational and objective
- Basically capitalistic
- Membership is voluntary and discretionary

* Perpetuating the Family Business - John L. Ward

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Perpetuating the Family Business*

Five (5) Insights

- 1) Respect the challenge of combining family and business – take managing succession very seriously and put enormous effort into it
- 2) Family Business issues are common and predictable, yet perspectives on the same issues will be different
- 3) Communication is indispensable
- 4) Planning is essential to continuity
- 5) Commitment is required

* Perpetuating the Family Business – John L. Ward



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Perpetuating the Family Business*

Four (4) P's

- 1) Sense of purpose and vision (unified)
- 2) Policies before the need
- 3) Process (all the thinking, meeting and discussing that family members do together to resolve issues)
- 4) Parenting

* Perpetuating the Family Business – John L. Ward

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Case

- Silently read case
- Discuss with 2 or 3 others
 - Key issues
 - How best resolve
 - Do you know of anyone who has faced these issues?
- Group Discussion

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Values and Goals

No two people want or value the same exact things

- What do Hank and Betty really want? What will he/she do after leaving the business? When do they want to leave?
- Do Hank and Betty agree on how the children inside and outside the business will be treated? Fair versus equal?
- Legacy for community? For children? As much money as possible with as little tax as possible?

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Sample: Succession Themes

Expectations	Fears	Desires
Family members will know where they stand	Business will break up	Family harmony
Succession will be successful	Expectations don't align among those inside the business	The transition works
Process will be amicable	Family disharmony – breakdown in communication & trust	Those inside the business know where they stand G1 has the life they want
More organized business – hard for some	Won't find enough successors in family	People change based on the report
Learn a lot about themselves in process	G2 can't get along	Greater clarity re roles & responsibilities

Values and Goals – Next Gen

No two people want or value the same exact things

- What about G2/key employees? What do they really want?
- Are they willing to be there 60+ hours per week? Need to be there 60 hours/week?
- Can they/are they willing to “put it all on the line”?
- How resilient are they?

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Typical Generational Business Differences

First Generation Businesses

- Typically informal and very difficult – do whatever is necessary to survive
- No defined & specific roles/responsibilities. Focus on consistent cash flow.
- Business bank account = family bank account.
- Owners seize opportunities, don't have/take time to work "on the business".
- Owners can do what they want – little structure or need for communication.

Successful Transitions - Second Generation Businesses

- Much greater need for communication
- Structure is put into place – roles and responsibilities. Owners may know that it's necessary but find it frustrating. Decision making may be challenging.
- Clear that business does not = family (very important to "outside family").
- A common vision is developed that accommodates both G1 and G2s needs

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Leadership Preparation

- What gaps exist when Hank and Betty leave?
- Who will fill these gaps – key employees or family members? What training is needed?
- Does G2 have what it takes to be owner(s)?
- What kind of informal or formal education needs to be created to make sure the new leaders are ready?

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Clear Roles & Responsibilities

- Greater differentiation = less conflict
- Clarity: G1–G2 and G2–G2
- Increasing levels of responsibility (tests)
- Accountability and support – need both
- Family employment entrance policies

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Typical Spouse Roles in Family Businesses

Spouses are an often overlooked but very important part of the succession process.

Business Partner – full partners in the business in every way

“Junior Business Partner” – work in the business in a significant role but not involved in key management decisions

Free Agent – not involved in the business, often know little about what goes on

Family Steward – the glue that holds the family together (maybe the larger family or could be only the nuclear family) - often the mediator and communication conduit

Underminer – possibly a jealous spouse, possibly one who does not get along with extended family members – they are negative influences on their partner and the family

These roles may overlap – important that there is shared clarity regarding role expectations

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Performance – Working on the Business

- Rigorous and honest ongoing assessment
- Right people doing the right activities?
- Clear direction and expectations
- Individual accountability to metrics and to “cultural” fit
- Employee input and engagement
- Good communication!

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Strategy – Where Are We Going?

“When a man does not know which harbor he is heading for, no wind is the right wind.” ~ Seneca

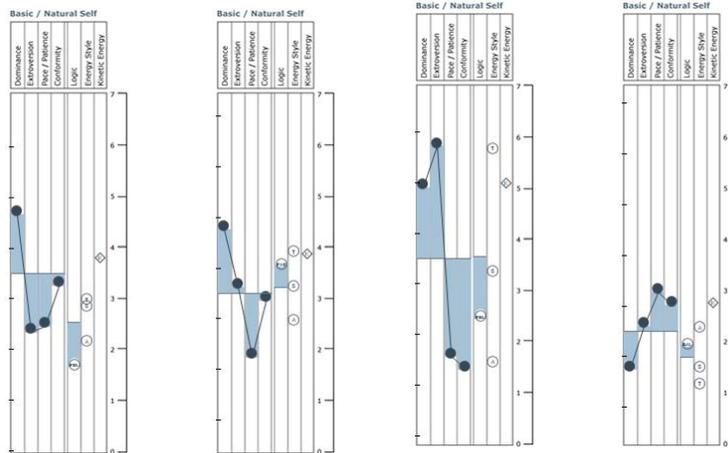
- Strategic planning versus “strategic dreaming”
 - Who does what by when?
- Clear values and vision – everyone buys in
- Regular meetings – keep G1/G2/key employees on same page

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Style Summary



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Communication – “Yes, It Really Matters!”

- Silence or “violence”?
- Company culture – gossip and negativity or acknowledgement and support?
- What are the “stories” - blame, victim etc.
- What do I really want – me, other, relationship?
- ACE – accountability, communication, expectations

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“What If” – Contingency Planning

- Management continuity
- Document access
- Processes documented and shared
- Key relationships – Hank has all of the key customers and banking relationships?
- Family considerations

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“Security”

Individuals don't take action if they don't feel secure

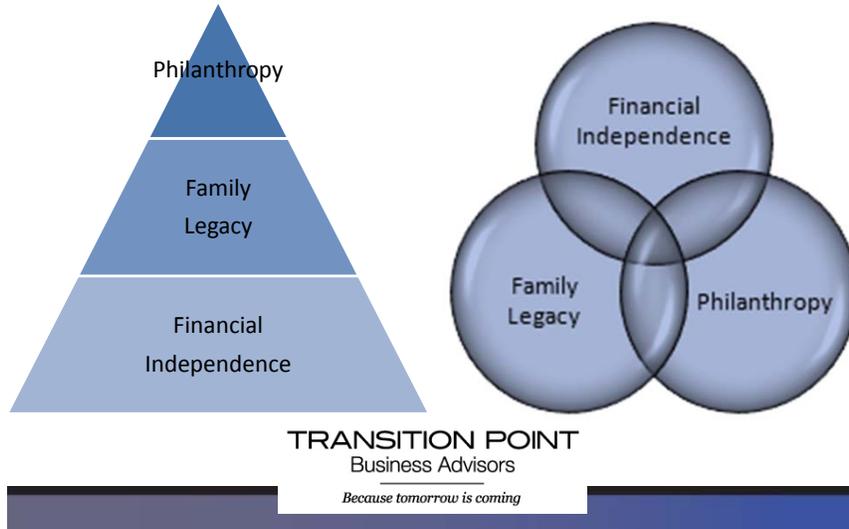
- People – Can Steve and Jim get along? How are children inside the business AND those outside treated? Will they be successful in keeping this business alive and growing it?”
- Financial – Do Hank and Betty have enough to live on? Is their retirement secure or is it based on G2 or the key employee's success when they retire?

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“Financial Security”



Fair vs. Equal



\$4 Million in Land

3 Children

1 Operator

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Transfer Options

Organizational Structure

- Sole Proprietor
- C- Corporation
- S- Corporation
- Limited Liability Corporation

Considerations

- Timing of Transfer
- Control and/or Income
- Discounting Transfer
 - Lack of Liquidity
 - Lack of Marketability
 - Minority Interest

Which options are right for your Family?

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Other Transfer Considerations

- Titling of Land
 - Individual vs. Joint vs. Tenants in Common
- Will or Trust Provisions
 - Overall Plan
 - Life Estates
 - Lease or Buy/Sell directives
- Life Insurance & Retirement Plans
 - Ownership
 - Purpose
 - Primary & Contingent Beneficiaries

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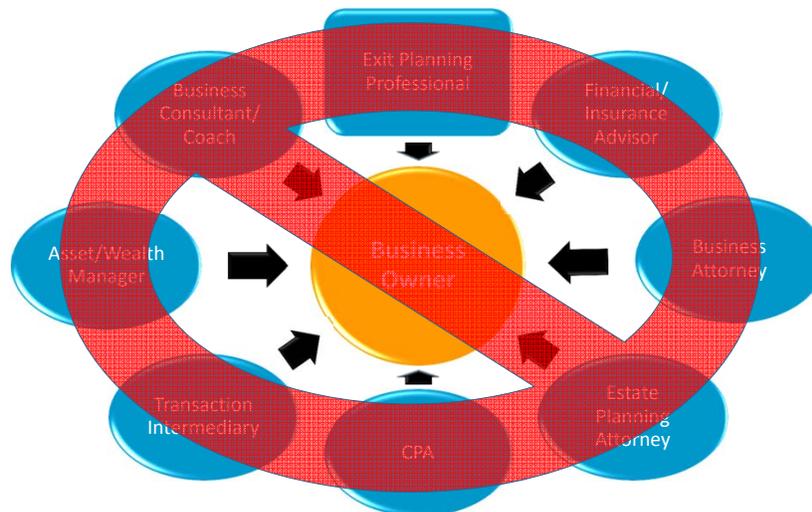
Using Advisors Effectively

- Not one professional has all of the answers
- Need a diverse set of skills
- Team approach, with a “quarterback” is more effective and saves \$
- Not only technical!

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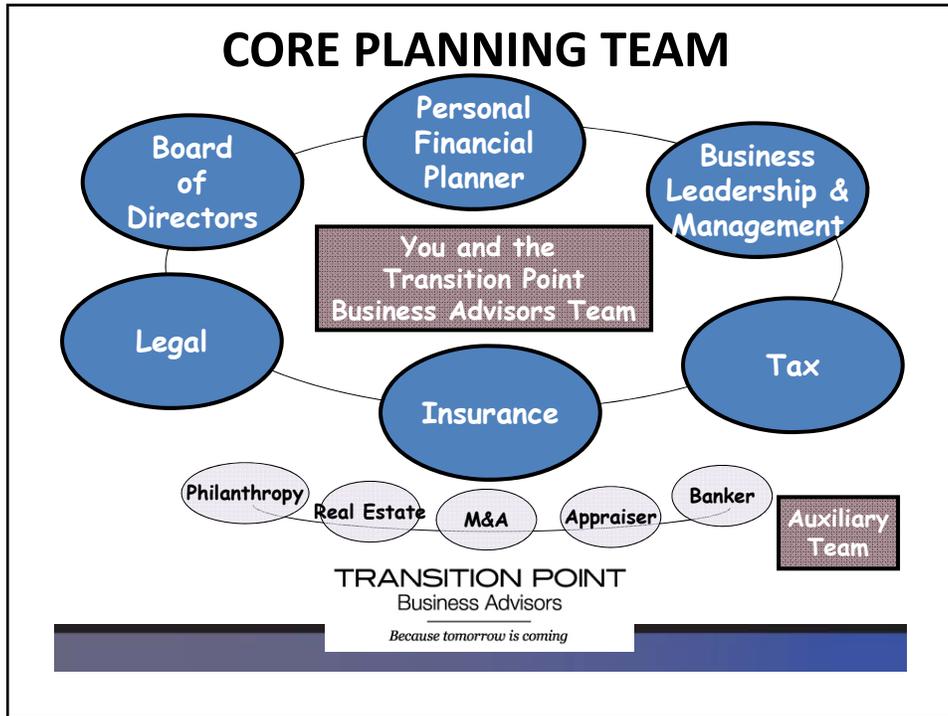
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- ## Our Process
- Phase I
 - In-depth interviews - all key stakeholders – thoughts, beliefs and wants
 - Administer assessment tool for decision making and communication styles
 - Diagnostic report
 - Summary of interviews
 - Key issues (including family not in business)
 - Potential solutions
 - Phase II
 - Develop and implement strategies to create and implement succession plan
 - Includes other trusted advisors
 - Can include roles, entry policies, G2 development plans, key documents, family communication ground rules and governance policy
 - Help owner create operational and strategic plans – Build Value
 - Phase III
 - Evaluate and monitor – provide accountability
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"The day soldiers stop bringing you their problems is the day you have stopped leading them. They have either lost confidence that you can help them or concluded that you do not care. Either case is a failure of leadership."

~ Colin Powell

"I suppose leadership at one time meant muscles; but today it means getting along with people."

~ Gandhi

A culture of communication
and trust is **ALWAYS** important in any transition.

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Don't wait until a "Dreaded D" to take action

- Death – relative, close friend, in media
- Disability or poor health
- Daughter-in-law (son-in-law)
- Divorce – owners or successors
- Disruption – changes in industry or family
- Discord – between or within generation(s)

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What's Next?

- Gain clarity of your vision (3, 5, 10 years) and share it with others (family, business partners/associates, “key” staff) for understanding, inclusion and engagement
- Determine when and how you want to exit your business
- Determine how much money you need to live on, then create and implement an exit plan to secure that money before exiting your business.
- Determine who you would like to continue your business – internal or external sale
- Build and implement a succession plan that meets all of your objectives
- Complete all 7 steps in the Business succession checklist

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Thank you!

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