

Ross Mosteller
District Extension Agent, Livestock & Natural Resources

Family Farm Business Transition

The increase asks for information on current “going” rental rates, purchase of Farm Account books and the arrival of the Farmers Tax Guides in the Extension Office, signals the end of a calendar year approaching. Along with this time of year is financial look back on the past year and looking ahead to the coming year. We often think in the short term of yearly finances, but what about longer term with generational transfer and planning?

Talking about transition of a family farm is a topic that few people like to address, but this is such a critical link to the success of the business. It is never too early to start thinking about generational transfer of the family farm, something most families want to see happen. Careful planning and good communication skills increase the chances of a smooth transition of a business and maintain harmony among family members involved.

Historical statistical analysis shows that about 30 percent of family-owned businesses are successful in transferring to the second generation. Approximately 15 percent go on to the third, only 5 percent make the fourth, and less than 2 percent will survive until the fifth generation. The factors affecting these statistics are many, such as younger generation lack of interest in the business or older generation fear of retirement and “death planning”, but in many cases it is simply a lack of planning or a failure to communicate effectively.

The first step in making a transition is to assess the current business, by evaluation of its financial health, and its strengths and weaknesses. Financial measures may reveal the need for substantial changes. Businesses that have not met or exceeded the industry average profit level in the past will probably have trouble surviving in the future. In addition, family members need to evaluate what areas of their business are competitive and what areas need improvement.

A comprehensive “planning thought process” is needed to increase the likelihood of a successful business transition. This is an on-going, never ending, cycle of planning that begins with the development of a shared stakeholder vision. A vision is a long-term concept focused on the plans for the future. Businesses that have a vision of where they are going and what they want to achieve, are more often successful than those who don’t.

Development of associated mission, objectives, goals, strategy and specific tactics, comes next. This will help the family business ultimately achieve the vision that the stakeholders have in mind. Going through the process of discussing these things and actually writing them down, help all involved understand where they are and where they want to go. As a final step in the process, stakeholders need to examine resource needs to determine what changes will be needed in the current resource base in order to achieve the vision of the business.

When planning for the future of family-owned businesses, good communication is the key. How well a family communicates on a daily basis relates strongly with the probability of success. If the family decides to pass down their business to the next generation, a transition plan is needed. A plan will summarize retirement plans for the existing generation and will address the question of fair versus equal for each stakeholder. A comprehensive plan will also need to establish the financial, organizational, and management structure of the business.

The succession process will be most successful if a “team approach” is established, supported by good communication, and has continuous skill development. The process can be relatively short, or it can take several years, and can sometimes lead to frustrations. There is good news however! AgKansitions, from the Kansas State University Office of Farm and Ranch Transition, is a resource here to help. Visit <https://www.agkansitions.org/> or contact your local Extension office for assistance connecting to this resource.