



Welcome to the the final module, Where do we go from here?

In this module you will review the content already presented and learn what steps should be taken next.



## ISSUES IN MANAGEMENT

Issues that can complicate management succession include:

- Differing perspectives held by the founders and next generation owners/managers
- One-way communication or lack of communication that does not allow everyone to express their ideas and concerns
- Unresolved conflicts
- Lack of clarity around business management procedures and processes
- Lack of a formalized business planning process
- Lack of formal communication within the family about business procedures and plans



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As you have learned throughout this course, the transition of management responsibilities in any business is challenging. It is even more challenging for family businesses where the individuals involved are family relations, business colleagues, and possibly rivals for future business ownership.

The complexity of the situation can be compounded when the issues listed on screen have not been addressed.

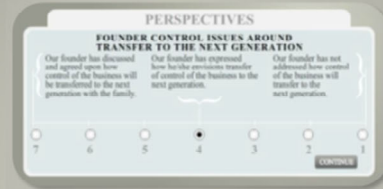


## WHERE ARE WE?

Assessing where individuals and the business are in the process of management succession can help to establish what areas have already been addressed and those that need further attention.

Assessments you have completed:

- Succession Planning Process Assessment
- Perspectives Assessment
- Communication Effectiveness Assessment
- Conflict Management Assessment
- Formal Business Management Assessment
- Business Communication Assessment



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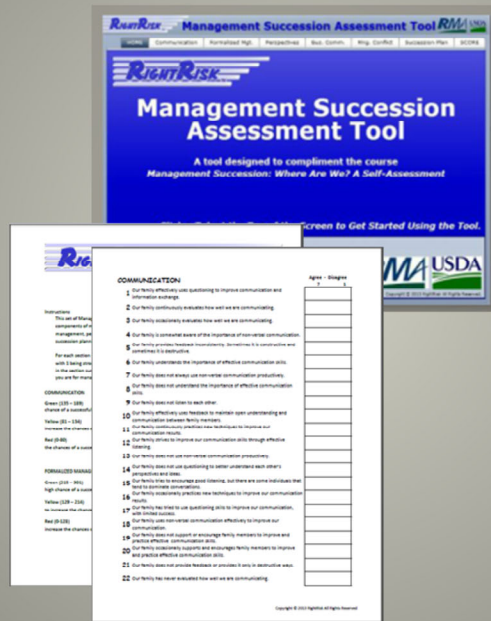
In this course you assessed key areas in your business that may need attention in order to ensure a smooth and efficient transition of the ownership and management of your business from one generation to the next.

Areas listed in the assessment results as needing attention represent actions needed to prepare for management succession. Unfortunately, not all individuals involved in the process will assess these areas in the same light. As a result, it still may be difficult to develop the momentum to address the situation.



## ASSESSMENT TOOL

- Have other members of your family complete the assessments you took today and compare your answers
- An electronic version of the assessments is also available.



Instructor: Give participants a blank copy of the entire Assessments PDF and encourage them to have other family members in the business complete them. You can learn a lot by comparing the perceptions of multiple family members about the current state of the business.

Mention that there is an electronic version of the assessments available as well.



## THE SUCCESSION PLANNING PROCESS



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Following a formal succession planning process will increase the likelihood of a successful transfer of management responsibilities.

While it is possible to transfer management responsibilities without following these steps, failing to complete one or more may put the future of the business and individual relationships at risk.



## INTERPERSONAL ISSUES

Practice effective communication by:

- Questioning
- Listening
- Providing feedback



Conflict management approaches:

- Work it out
- Mediation
- Arbitration
- Separation

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Transitions in family businesses introduce many opportunities for interpersonal conflicts to emerge. It is important to practice good communication skills and sound conflict management approaches to keep these issues from becoming barriers to success.



## BUSINESS ISSUES

Formalize business planning by defining and documenting:

- Where you are
- Where you want to go
- How to best get there

Manage your business communications through:

- Family council meetings
- Family business meetings
- Code of conduct



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Formalizing business management processes and procedures is another step that will help the succession transition to happen more smoothly. Once processes have been agreed upon and documented, it is important that they be communicated throughout the business and the family. Implementing regular communication meetings and communication documents can help.



## SUCCESS IN SUCCESSION



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Transitioning the ownership and management of your business does not have to be a painful process. With proper preparation and planning the transition can occur while maintaining good family relationships and setting the business up for future success.

Let's look at a success story of a business that employed the principles we've discussed.

Instructor: Read the scenario below

Ted and Sally Morgan have owned and operated a small beef operation for 40 years. The ranch consists of 200 beef cows, 40 acres of hay, and some pasture land. The Morgans sell their calves through the local sale barn. Due to increasing expenses the cow-calf enterprise has not been very profitable. The lack of profit has prevented Ted and Sally from saving much money for retirement.

Sally also owns another small business in their community. She does not take a salary, but simply uses money from the business to help pay family living expenses as needed.





Instructor: Continue reading the scenario below

The Morgans have three adult children. Their oldest daughter, Joyce, is married and has a son. She lives in a large city about 70 miles away from the farm.

Their son, Jim, is a single father raising his daughter alone. He works for Sally's business. His managerial responsibilities have been increasing as Sally takes more time off.

The youngest sibling, Jill, is married with two step sons. She and her family live in a modular home located on the ranch property. Jill has a job in town and her husband, George, is the only full-time employee of the ranch.

Currently, Ted manages the ranch, while George does most of the physical work. Part-time employees are hired to help harvest the hay and care for the cows as they are needed.



- The Future of the Ranch



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Instructor: Continue reading the scenario below

About ten years ago, the entire family met to discuss the future of the ranch. Ted and Sally wanted to express their desires and hear what the rest of the family was thinking. All were encouraged to express their thoughts, but they also had to be open to everyone else's comments.

Ted expressed an interest in slowing down or even retiring. Sally wanted to have more time to spend with Ted and said she was interested in selling her business.

Joyce said that she likes living in the city. She was not interested in participating in the operation of the ranch but wants to be sure her parents have enough money to be comfortable in their retirement.

Jim was interested in taking over Sally's business. However, he did not have enough money to buy it.

Jill and her husband enjoy ranch life. They would like to take over the business; however, they want to make several changes to the operation to make it more profitable. They are concerned about Ted's willingness to relinquish managerial control.

During the meeting Sally revealed that her business is worth somewhere between 225 and 250 thousand dollars. Since she and Ted have little savings, she would like to sell the business outright. They are not in a financial position to retire without money from the sale of her business. The family agreed that while it would be nice to keep Sally's business in the family, it must be sold to help fund Ted and Sally's retirement.

Jim agreed to help Sally find a buyer for the business as he considers what he will do once the business is sold.

The family found the meeting to be helpful and productive, so they agreed to meet again every few years to evaluate changes and discuss future strategies.



- A Five-Year Plan

	Ted/Sally	Joyce	Jim	Jill
Initial	100%	0%	0%	0%
Year 1	85%	5%	5%	5%
Year 2	70%	10%	10%	10%
Year 3	55%	15%	15%	15%
Year 4	40%	20%	20%	20%
Year 5	25%	25%	25%	25%

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Instructor: Continue reading the scenario below

After the family meeting, Ted and Sally met with an attorney to begin some estate planning. Ted and Sally both updated their wills and living wills. The attorney also suggested that they incorporate the farm to allow Ted and Sally to sell or gift shares of the corporation to their children over time. He suggested a five-year plan to do this. Further, Ted could receive a fixed income for his operational and managerial responsibilities.

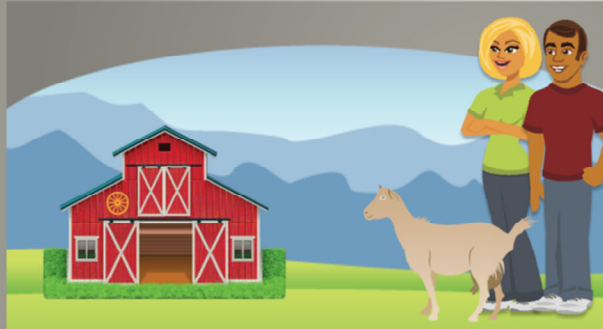
He also recommended that Ted and Sally gift each of their children enough cash to help pay for a life insurance policy on Ted.

Ted called a Family Council Meeting to create and agree on a five-year plan to transfer ownership of the business to the siblings and management to Jill and George.

The family came to an agreement on how the transition would be handled and they began to execute it. They also decided to hold monthly family business meetings throughout the transition to keep those involved in running the business on the same page and to allow them to adjust as necessary to unanticipated events or results.



- Years 1 & 2



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Instructor: Continue reading the scenario below

In the first two years, George took over day-to-day management of the ranch. In addition to his wages, he received a \$500 per month management fee. Ted maintained control of the finances and kept all the records for the corporation.

Jill and George wanted to make some changes to the ranch so that it might become more profitable. Since George grew up on a goat dairy, they researched adding a new enterprise of dairy goats. Goats would allow them to have a new product to sell and help control the weeds and shrubs invading the pastures.

Jill and George shared their ideas and research findings during the monthly family business meetings. Ted was impressed with their efforts and listened intently. He was even open to some of the changes suggested by George.

In accordance with their estate plan, Ted and Sally gifted five percent of their shares in the farm corporation to each of the children. They sold an additional five percent of their shares to Jill and George in year two.



- Year 3



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Instructor: Continue reading the scenario below

In year three, George increased his managerial responsibilities and received an additional \$250 per month. Although Ted maintained control of the farm's finances and records, he began to share the information and decision-making with George.

The farm purchased 10 dairy goats and the necessary milking equipment. The goat milk was sold to the local goat milk cooperative. George was even invited to join the co-op's board of directors. Ted and George began to see some evidence of fewer weeds and shrubs in the pastures. Due to the farm's new enterprise and higher milk prices, the farm realized increased profitability.



Instructor: Continue reading the scenario below

In year four, George began keeping all the ranch's records with Ted providing oversight. George's management fee increased to \$1,000 per month with his salary remaining the same.

The changes made to the business kept it profitable. To make room for the purchase of 20 additional dairy goats, half of the beef cows were sold and adjustments were made to fencing for the goats.

Jill enjoyed making cheese from the goat milk. She gave it to friends and family as presents. She and George thought the ranch could increase its profits by selling cheese at their neighbors' road side vegetable stands. A friend of Sally's had a year-round farm store selling various fresh foods. She was also willing to sell Jill's cheese.

Jill and George visited with the local small business support group. They met someone willing to help them develop a brand name and promotional materials.

In accordance with their estate plan, Ted and Sally sold 15 percent of their stock in the farm corporation to Jill.

At the end of year five, the entire family gathered for another Family Council meeting.

They learned that Ted was able to finally retire and that George had assumed all managerial responsibilities of the farm.

The demand for Jill's cheeses was growing rapidly. Since Jill was spending so much time making cheese, she had to reduce her hours at her job in town. Almost 75 percent of the goat milk was being used to make cheese. The balance continued to be sold to the local goat milk cooperative.

Sally had been able to sell her business netting \$198,500 after paying all sales commissions, other costs, and taxes. She was able to spend time traveling with Ted and playing with her grandchildren.

Ted and Sally sold another 20 percent of their shares in the farm corporation to Jill.





- A Happy Ending



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Instructor: Continue reading the scenario below

Everyone thought the five-year transition period went smoothly. They were happy that Ted and Sally had some money and would continue to receive a share of ranch profits. Joyce and Jim were pleased to know that the ranch would continue to be in the family.

The ten percent ownership gifted to Joyce and Jim helped transfer some of Ted and Sally's estate and allowed them be a part of the on-going family farm. Through gifts and sales, Jill and George gained a 60 percent ownership in the ranch. George was able to take over management of the ranch business gradually. He learned how to run the financial aspects of the business from Ted and was able to incorporate his own ideas for changes that improved the profitability and sustainability of the business for the next generation.



## OTHER RESOURCES

- Enterprising Rural Families <http://eruralfamilies.org>
- Austin Family Business Program <http://www.extension.iastate.edu/bfc>
- Beginning Farmer Center <http://www.extension.iastate.edu/bfc>
- AgTransitions <https://www.agtransitions.umn.edu>
- AgPlan <https://www.agplan.umn.edu>
- AgPlanBusiness Families Foundation <http://www.businessfamilies.org>
- Farm Management Canada <http://www.farmcentre.com>

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Refer to participants to the Resource Handout and describe each resource as follows:

Other resources exist to help family businesses address the issues in management succession, as well as succession of asset ownership. An online search will result in educational resources, as well as for profit companies.

**Enterprising Rural Families** <http://eruralfamilies.org/>

Enterprising Rural Families offers a set of online courses and resource materials designed to help individuals involved in family businesses improve their own roles and their family's role in the business. The material emphasizes the individual and family-aspect of the family business.

**The Austin Family Business Program** <http://www.familybusinessonline.org/>

The Austin Family Business Program helps prepare family businesses to balance the well-being of the business, the family, and individuals, as they address the challenges and opportunities which inevitably arise, day to day and during succession.

**The Beginning Farmer Center** <http://www.extension.iastate.edu/bfc/>

The Beginning Farmer Center develops, coordinates, and delivers targeted education to beginning and retiring farm families. In addition, it provides programs and services

that develop skills and knowledge in financial management and planning, legal issues, tax laws, technical production and management, leadership, sustainable agriculture, human health, and the environment.

**AgTransitions** <https://www.agtransitions.umn.edu/>

AgTransitions helps farmers and ranchers develop a plan to transition their business to the next generation. Materials at the site help individuals develop a personal transition plan, learn what a transition plan should include, and encourage multi-generational discussions for a successful transition.

**AgPlan** <https://www.agplan.umn.edu/>

AgPlan helps rural business owners develop a business plan. Everyone can use AgPlan to develop personal business plans, learn what a business plan should include, and view sample business plans.

**Business Families Foundation** <http://www.businessfamilies.org/>

Business Families Foundation provides a gateway to powerful educational experiences that help family enterprises address their unique challenges. Using a multi-faceted, collaborative approach, BFF connects business families with meaningful educational support.

**Farm Management Canada** <http://www.farmcentre.com/home>

Farm Management Canada began as the Canada Farm Business Management Council. It now focuses on development and delivery of business management resources and information to Canada's farmers; connecting the industry and continuing to build a culture of business management, and best practices at the farm level. Materials on their website provide a rich resource for succession planning and rural enterprise planning and management.



## GOOD LUCK!

You have finished this course.

Refer to your resource handout for additional materials to help you prepare for ownership and management succession in your business.



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### Conclusion:

Ask how participants did in their self-assessments. Ask for people to share what they discovered and how they will proceed. Ask each participant to share an 'ah-hah!' moment as they went through the class.

Congratulate the participants on completing the course and ensure everyone has their Resources Handout.