

The Evolution of Transition Management in Agriculture

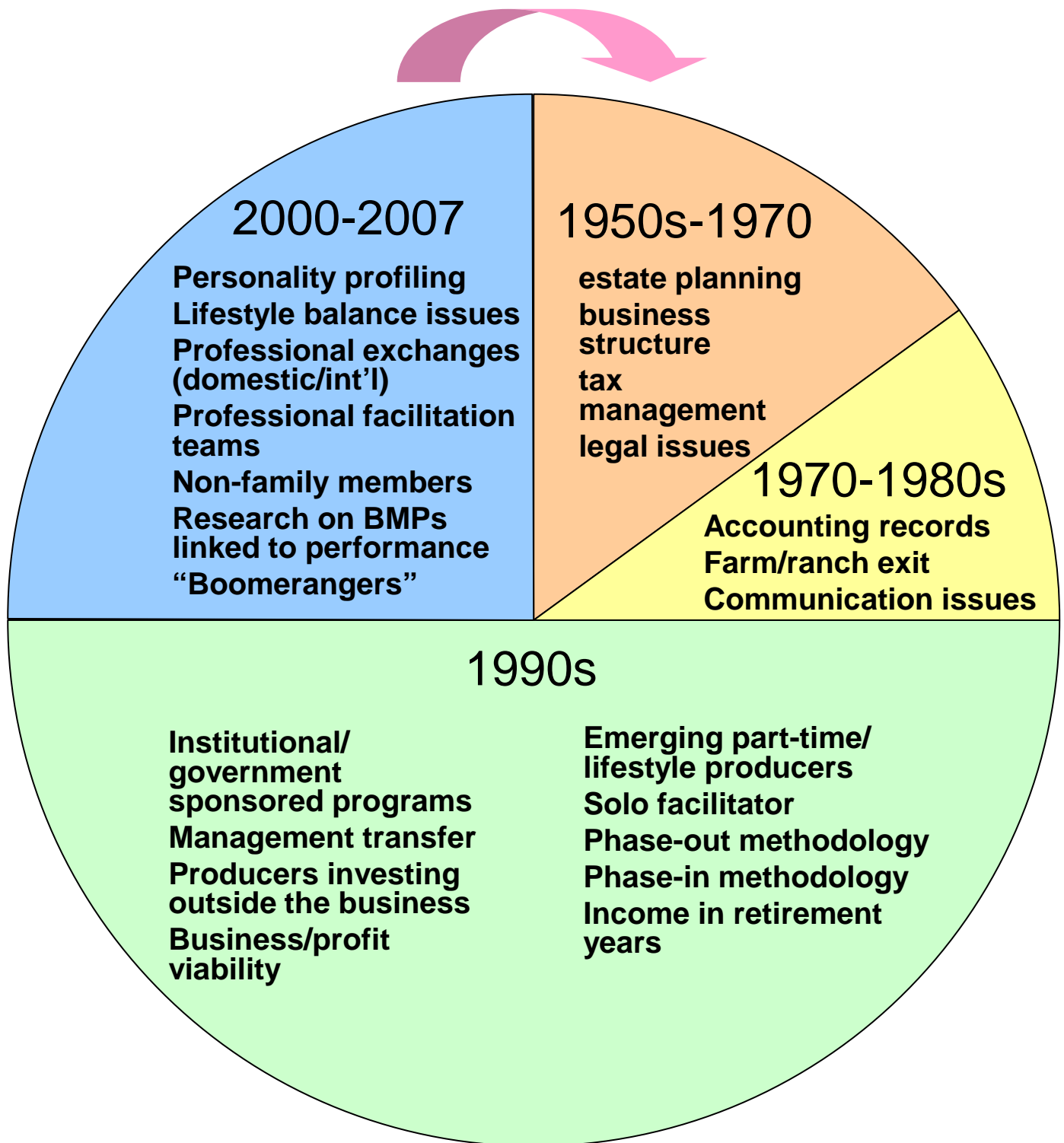


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Evolution of Transition Management Through the Years



Transition Planning & Management Practices

Financial Variable	Transition agreement in place & agreed upon	Transition plan has not been discussed or developed
ROA	8.82	6.70
Net Income	\$134,812	\$75,334
Revenue	\$924,291	\$650,366
Debt to Asset Ratio	56%	57%

Technology Adoption

Financial Variable	Early or after proven	Majority, laggards & innovators
ROA	8.03	6.56
<i>Northwest</i>	<i>5.53</i>	<i>4.93</i>
Net Income	\$110,317	\$67,306
Revenue	\$860,269	\$561,225
Debt to Asset Ratio	54%	65%

- **Minnesota: innovators are least profitable (4.71 ROA)**
- **Northwest: innovators are most profitable (6.61 ROA)**

Communications, Business & Family Issues

Financial Variable	Separate business & family issues	Conflict & business/ family issues affect effectiveness
ROA	7.90	6.55
Net Income	\$97,171	\$88,296
Revenue	\$720,740	\$769,222
Debt to Asset Ratio	58%	53%

- **Producers who communicate are 21% more profitable**
- **Northwest producers who separated business & family were 63% larger & had 22 percent more net income.**

Business Planning

Financial Variable	Business Plan		No Business Plan	
	MN	NW	MN	NW
ROA	6.75	6.34	7.76	5.61
Net Income	\$93,093	\$766,778	\$92,878	\$505,193
Revenue	\$973,388	\$5,719,524	\$613,682	\$4,122,027
Debt to Asset Ratio	68%	37%	48%	32%

- **As farms become bigger and/or more leveraged, more business planning is necessary**

Growth Philosophy

Financial Variable	Deliberate & objective		Shoot From the Hip	
	MN	NW	MN	NW
ROA	6.59	6.20	7.51	5.01
Net Income	\$105,545	\$718,232	\$89,750	\$433,214
Revenue	\$1,035,181	\$5,253,285	\$653,110	\$3,723,892
Debt to Asset Ratio	65%	33%	54%	34%

- **Objective growth is critical the bigger you become in Northwest**
 - ✓ (25% more profitable)
- **Objective growth in Minnesota was critical as the producer incurred more debt**

Accounting Expertise

Financial Variable	Accountant or CPA	Bookkeeper
ROA	5.95	4.80
Net Income	\$630,100	\$478,688
Revenue	\$5,702,500	\$3,699,313
Debt to Asset Ratio	38%	31%

- **Data for Northwest only**
- **No differences in Minnesota data because of farm management instructors**

Philosophy on Estate Planning

Financial Variable	Ignore estate planning	Estate planning for protection & control of wealth
ROA	5.01	7.55
Net Income	\$54,929	\$96,342
Revenue	\$600,568	\$739,805
Debt to Asset Ratio	77%	55%

Sweet 16 Golden Rules of Transition Management

Indicate the number that corresponds with your business:

0-3 = Red, 4-7 = Yellow, 8-10 = Green



- _____ 1 Do you pass the \$40,000-\$70,000 Rule, or are you willing to accept less living withdrawals, or have additional non-business revenue?
- _____ 2 Will the business model provide for a minimum of a 4% to 8% increase in net farm or business income annually over the next five years?
- _____ 3 Has the younger generation experienced 3-5 years away from the business in outside experience to develop emotional intelligence?
- _____ 4 Has the older generation committed to shared decision-making by the sixth year upon the younger generation's entering the business?
- _____ 5 Do you pass the older generation financial rule? Does Mom or Dad, or business partner who is retiring have at least 50% of retirement income from outside the business investments?
- _____ 6 Do you have written job descriptions with performance measures that are evaluated on a periodic basis?
- _____ 7 Do you have a cash wage and total compensation package that lists the values of fringe benefits and other "perks"?
- _____ 8 Do you pass the written agreement test? Is your business transition plan written, with buy-sell agreements and a fair, but not equal, treatment concerning non-active family business members?

Sweet 16 Golden Rules of Transition Management *cont'd*

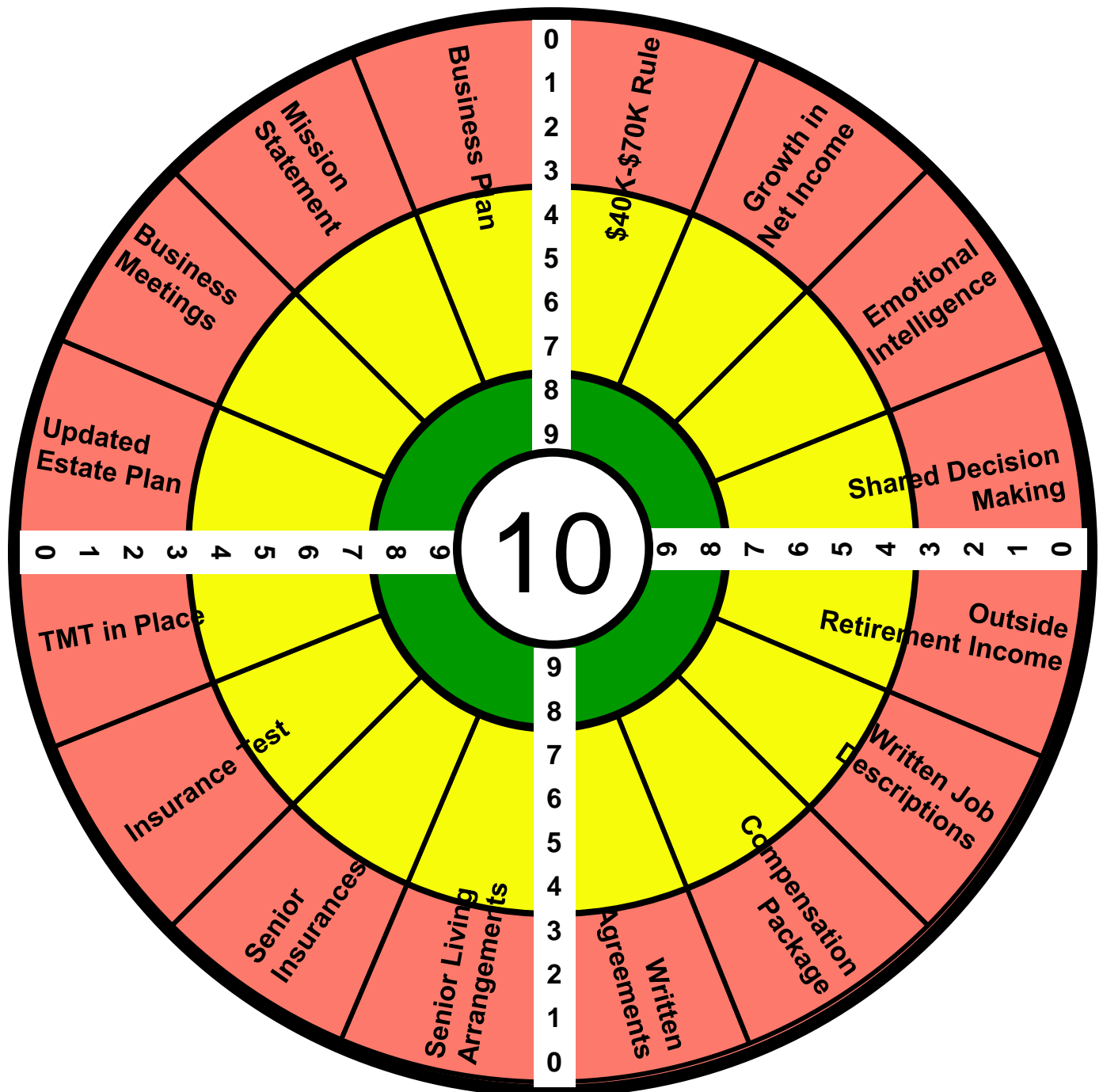
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- ___ 9 Has the senior generation made plans for living arrangements and housing in their retired years?
- ___ 10 Does the senior generation have long term health care, disability insurance, & final directives?
- ___ 11 Do you pass the insurance test? Does the business have proper insurances such as life, disability, long term health care, and key person for family members?
- ___ 12 Do you have your TMT (Transition Management Team) in place, including an accountant, lawyer, outside facilitator, and other crop/livestock and financial specialists?
- ___ 13 Has the written estate plan been updated in the past 5 years?
- ___ 14 Do you have periodic family business meetings away from the business with an agenda, minutes and use of an outside facilitator?
- ___ 15 Do you have a written mission statement with specific short- and long-term goals that are discussed with the management team and family?
- ___ 16 Do you have a written business plan including mission, goals, tactics & action statements covering financial, marketing operations, risk management and an exit plan?



Sweet 16 Golden Rules for Transition Management Bulls Eye



Any spoke < 4 - needs immediate attention
 Any spoke 4-7 - needs improvement
 Any spoke > 8 - continue to do well