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## Farm Transition Model: An Approach to Small Business Succession Planning

Forrest Buhler

*Kansas Agricultural Mediation Services*

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# Farm Transition Model: an Approach to Small Business Succession Planning

Forrest Buhler, Staff Attorney

Kansas Agricultural Mediation Services

Rural Grocery Summit

June 6, 2016



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**KANSAS AGRICULTURAL  
MEDIATION SERVICES**

**K-STATE**  
Research and Extension

**KANSAS AGRICULTURAL  
MEDIATION SERVICES**

**1-800-321-FARM**

# What type of program is Kansas Agricultural Mediation Services or KAMS?

- Part of K-State Research and Extension
- Official USDA certified state agricultural mediation program for program for Kansas since 1988.
- Resolves conflicts and disputes using mediation.
- Provides a safe and confidential place for the Kansas agricultural agricultural community to call for information, assistance and and referrals.

## **USDA Grant Cases**

- **Agricultural Credit**
  - FSA direct and guaranteed loans
  - Banks, suppliers, dealers, etc.
- **USDA adverse decisions**
  - FSA, NRCS, RD, RMA

## **Other Types of Cases**

- **Family farm transitions**
- **Dissolutions or mergers**
- **Farm family disputes**
- **Fence law disputes**
- **Ag lease disputes**

# Preparing for Mediation through Support Services

- **Agricultural Financial Counseling**
  - Who: K-State Farm Analyst Program
  - Cost: \$100 charge for initial analysis
- **Legal Assistance**
  - Who: Kansas Legal Services (KLS)
  - Cost: Sliding fee depending on income (\$20, \$30, \$50, or \$80 per hour)



# **KANSAS AGRICULTURAL MEDIATION SERVICES**

Forrest Buhler – Staff Attorney

Char Henton – Mediation Coordinator

Janel Koons – Extension Assistant

**1-800-321-FARM**

**[ksre.k-state.edu/kams](http://ksre.k-state.edu/kams)**



# Farm and Ranch Succession Planning



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# Overview of today's presentation

- **Why succession planning is important**
- **How it's defined**
- **General overview of the process and the order of the steps**
- **Review KSU Ag Econ 12-step process**
- **Succession resources**



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# Family Business Succession Statistics

- **30% of family businesses make it to the 2nd generation**
- **15% make it to the 3rd**
- **5% make it to the 4<sup>th</sup>**

***Dr. Brian Schurle, KSU Ag Econ***



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# Family Business Succession Statistics

## Why?

- 1) Lack of communication
- 2) Goal inconsistency
- 3) Unwilling to sacrifice for the common goal
- 4) Lack of planning

*Dr. Brian Schurle, KSU Ag Econ*



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# Succession Planning

- Establish a business plan and philosophy
- Set management and workload rights
- Determine how to work and communicate together
- Succession feasibility
- Estate planning – Important, but succession planning is so much more.

*Dr. Gregg Hadley, Assistant Dir. KSRE & KSU*  
<http://www.ksre.k-state.edu/kams/succession/basics/>



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# Succession Steps - Participants' Perspective

Concern/Step	Order
Estate Plan	1
Financial Feasibility	2
Business Plan	3
Dealing with Emotional Roadblocks	4
Learning how to Communicate	5



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# Succession Steps – Facilitator's Perspective

Concern/Step	Order
Estate Plan	5
Financial Feasibility	4
Business Plan	3
Dealing with Emotional Roadblocks	2
Learning how to Communicate	1



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# Transition Planning: 12 Steps to Keep the Family Farming

- KSRE and KSU Ag Econ publication MF-3074
- “Keep the Family Farming” workshops, 2009-11
- KSRE Farm Analyst Program- Duane Hund, Director  
785-636-5477    [dhund@ksu.edu](mailto:dhund@ksu.edu)



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# Step #1 – What Matters Most

- Values
- Sacrifices
- Desire to maintain Legacy
- Core values





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# Step #2 – Identify Hopes, Wants, Needs, Fears

- Communication
- Explore concerns
- Everyone Participates
- Facilitation

<http://www.k-state.edu/kams/succession/communication/>



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# Step #3 – Vision, Mission, Objectives & Goals

- Vision & Mission are critical
- Guiding Philosophy
- Goals should be SMART: Specific, Measurable, Attainable, Rewarding, and Timed
- Deadlines must be met
- With a common vision, differences are complements
- Vision leads to mission to objectives to goals



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# Step #4 – Human Resource Evaluation

- People positions
- Successor may have different strengths
- Communicating desires and skills of the successor
- Hired Help



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# Step #5 – Who's in Charge

- Retiring generation hates mistakes
- Hard to let go of the reins
- Training the next CEO
- Farm and Ranch Career Plan



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# Step #6 – Where We Stand Financially

- Is the business currently profitable?
- Is there room for another partner?
- Full Disclosure
- Risk management of potential hazards
- The five D's: Death, Disability, Divorce, Disaster, Disease



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# Step #7 – Do We Have What We Need

- Inventory resources, land, buildings
- Can a new business venture be created
- Retiring generation may have to retire to create room for succession
- Investments may be required to add income



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# Step #8 – SWOT Analysis of Internal/External Factor

- Strengths
- Weaknesses
- Opportunities
- Threats
- When building a farm game plan, analyze your competitors



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# Step #9 – Evaluating Financial Feasibility

- Financial Statements
- Budgeting each enterprise
- Cash flow planning
- Finpack – [www.cffm.umn.edu](http://www.cffm.umn.edu)
- [www.k-state.edu/kams/succession/financial/](http://www.k-state.edu/kams/succession/financial/)





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# Step #10 – Developing a Business Plan

- Effectively communicates plan to lenders, partners and family
- Documents viability
- Demonstrates purpose
- AgPlan – [www.agplan.umn.edu](http://www.agplan.umn.edu)



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# Step #11 – Estate, Retirement, and Entity Planning

- Estate planning a must
- Minimize taxes
- Know what the future holds
- Security for all parties
- Minimize conflict between heirs on/off the farm
- Entity Choices



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# Step #12 – Putting the Plan into Action

- Timeline
- Promises must be kept
- Respect for retiring generation
- Allow management to be passed on to next generation



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# Summary

Transitions will happen, one way or another. If accomplished with effective communication and formal business planning, the result can be an operation that is highly competitive and will enable another generation to come on board.



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# Succession Planning Timeline

*Dr. Gregg Hadley*

Succession Planning Meeting	Meetings required (Half day)
Team building	1 to 2 meetings
Communications	1 meeting
Conflict management	1 meeting
Business philosophy and strategy issues	1 to 3 meetings
Operational issues	1 to 3 meetings
Financial issues	1 to 2 meetings
Decision making and work responsibility transition map	1 to 2 meetings
Estate planning	1 to 4 meetings
Plan vitalization	1 to 2 meetings





# Succession Resources

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# “Planning for Farm and Ranch Succession”

<http://www.k-state.edu/kams/succession/>

Website created by:

K-State Research and Extension & Kansas Agricultural Mediation Services

Conference Videos/ Presentations/ Documents:

- ❖ Succession Basics
- ❖ Communication and Family Dynamics
- ❖ Financial – Feasibility and Business Entity Planning
- ❖ Legal – Estate and Entity Planning
- ❖ Transfer of Power



## Planning for Farm and Ranch Succession

Succession Planning Home

Conference Registration

Succession Basics

Videos

Presentations

Documents

Communication and Family Dynamics

Financial

Legal

Transfer of Power

Facilitation

Resources

### Planning for Farm and Ranch Succession

Kansas Agricultural Mediation Services  
2A Edwards Hall  
Manhattan, KS 66506

785-532-6958  
785-532-6532 Fax

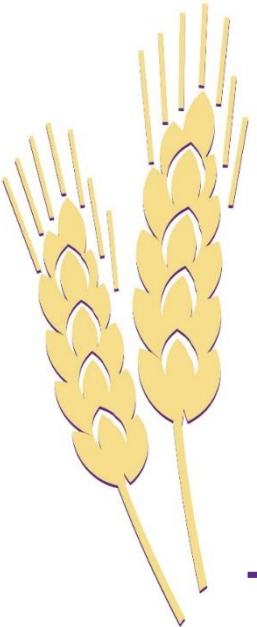
Hotline: 1-800-321-3276

### Succession Basics

How important is succession planning? Where do we start? *When* do we start? Visit the links below for general information and first steps to the succession planning process.

[Videos](#) | [Presentations](#) | [Documents](#)

Gregg Hadley, Planning a Farm Succession





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# KAMS Succession Facilitation Services

- Role of the facilitator - Guide families as they form their own unique succession plan; schedule and facilitate regular meetings; point you to the right resources; help generate options and ideas; keep things focused and moving forward.
- Fees for the facilitator's services
- Additional services for fee
  - Farm Financial Analysis
  - Mediation Services
  - Extension Specialists
- Family responsible for obtaining other expert advice



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# Another Resource

## “Farm Transitions Workbook”

Oklahoma State University

Department of Agricultural Economics

<http://agecon.okstate.edu/farmtransitions/>



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