

Succession Planning for the Younger Generation

TOM JAMES

Who is Tom James?



Succession Planning	Estate Planning
Focuses on how to transition a business from one generation to the next generation	Focuses on what happens when a key person dies, and what happens to his or her estate.
Prepares your business and your family for a change in ownership and leadership	The process of understanding and using available tools to ensure that the asset transition is carried out in the most efficient manner, from both a legal and a tax perspective
Emphasis is on how to ensure that a business remains successful while a transition takes place	Emphasis should be placed on issues like management, possible tax liability and efficiency

Discussing an estate plan before determining a succession plan is like packing your bags for a trip before you know where you're going.

How would you like your future to look?

Personal Goals → Family Goals → Business Goals

Personal goals are the most important goals – what would you like your future to look like?

Family goals should build on personal goals – how can the family work together to ensure that each individual is achieving his or her vision of the future.

Business goals are in place to identify and achieve milestones that will trickle down and make family and personal goals easier to achieve.

Perfect Balance: Your business becomes a tool to help you achieve the life you would like to live!

How do you want your future to look ?

Setting S.M.A.R.T Goals

Compare:

Specific

1. “I want to be a big farmer”

Measurable

Attainable

2. “I want to farm 10,000 acres”

Relevant

Time Bound

3. “I want to farm 10,000 acres by the time I am 50 years old”

Current State of the Business – Viability?

1. Can your farm meet its financial obligations?
2. Can your farm generate enough cash flow for you to live on?

Putting together a plan... SWOT Analysis

STRENGTHS

WEAKNESSES

OPPORTUNITIES

THREATS

Let's use my middle daughter as an example...

STRENGTHS

- Professional experience that is relevant and useful to the farming business
- Strong industry connections
- Access to off-farm income

WEAKNESSES

- Low level of practical farming knowledge
- Lives 4.5 hrs from the farm

OPPORTUNITIES




- Has strong connections in the agricultural industry
- Willing to put her off-farm income towards farm business

THREATS

- Spouse does not have a farming background and is financially risk adverse

Creating a Business Plan

OUTLINE:

1. Executive Summary
2. Goals and Objectives
3. Company Background
4. Human Resources 
5. Financial Position and Projections 
6. Products and Services
7. Industry Analysis 
8. Competition
9. Marketing and Sales

Human Resources

SWOT Analysis

Clearly define the roles (past, present, and future) of each person involved in the business.

Establish timelines for transitions of responsibility from the older to the younger generation.

Identify benchmarks that indicate success.

Financial Position and Projections

GOOD year > AVERAGE year > BAD year

1. Yield Forecast (consider crop rotations, change in revenue sources)
2. Revenue Forecast
3. Expense Budget
4. Cash Flow Statement
5. Income Projections
6. Balance Sheet

Industry Analysis

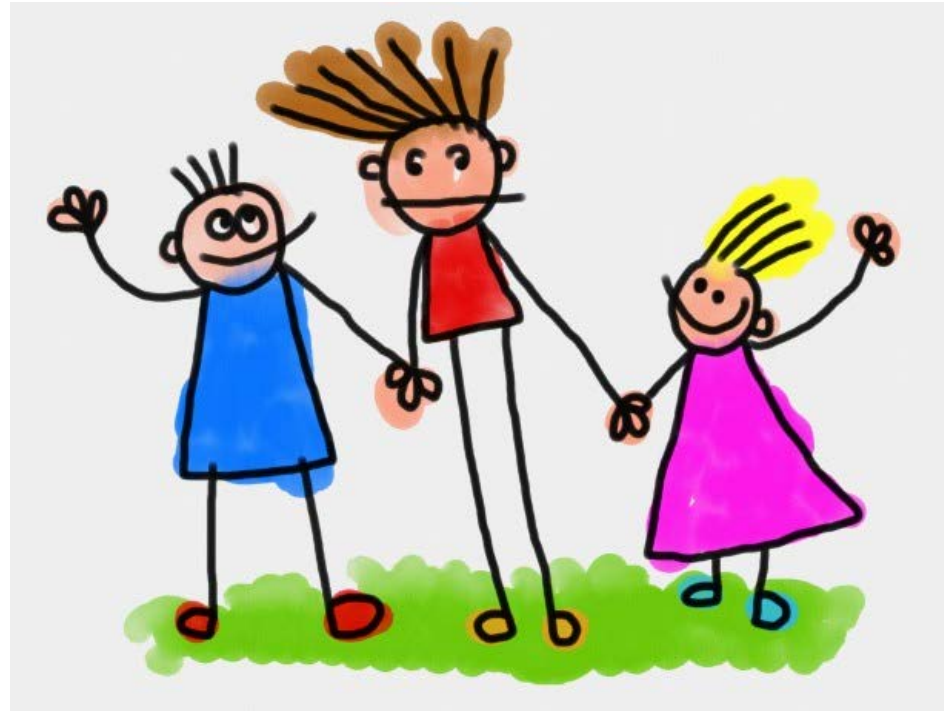
What is the future of agriculture, generally and in your area?

How do these trends affect the decisions that you must make on a go-forward basis.

CONSIDER:

- Land Prices: Twenty years ago, people said that land prices were ridiculous and that they could never go higher.
- Industrial farms, consolidation of farmland into industrialized blocks.
- Larger more technical equipment - more expensive and increasingly automated.
- Market trends (organic crops, new cash crops, consumer preferences, environmental issues).
- International influences – market shifts, changes in diets, need to know sources.

Family Dynamics at Play



Are we a “business first family” or a “family first business”?

Estate Planning Tools

Business Planning Tools:

- Joint Venture agreements
- Unanimous Shareholder Agreements
- Long Term Lease Agreements
- Incorporations vs Partnerships
- Rights of First Refusal / Options
- Mortgages (tailored to specific cases)

Tax Planning Strategies:

- Estate Freezes
- Rollovers
- Butterflies

Other:

- Utilizing life insurance

Steps for Success

1.

Write goals down...

Revisit and discuss these goals often...

Revise goals as necessary.

Steps for Success

2.

Manage personal relationships in an
Honest, frank and respectful manner.

Steps for Success

3.

Seek out knowledge wherever you can find it.

Steps for Success

4.

Find people who can contribute to your
ability to achieve your goals

How did we do it?

The James Family Joint Venture

Key objectives: grow the farm operation, encourage the younger generation to take deliberate steps to take over control and to grow the operation if that remains a goal of the business.

Key take-aways

Define what you want your future to look like and focus on that vision– Goal Setting

Determine individual and collective strengths and weaknesses

Write down a business plan. Revisit that business plan when making decisions

Surround yourself with people who are able to help you achieve your goals.