FARM TRANSITIONS

Chapter 5

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CHAPTER 5. PUTTING YOUR PLAN INTO ACTION

Putting Your Plan into Action

5.1. Do we have what we need?

In this section we ponder the question: does the business have the resources that it needs to get where it needs to be? We have already broached this topic in some areas including the overall size of the business, and in some discussions regarding the human resources. Here we address the issue in more detail and provide a few simple tool suggestions. Resources to be considered include land, equipment, buildings, financial assets, community support and services, and people.

Begin the process by describing the resources currently available, perhaps by category. This is not an exercise in putting together a value inventory, where the resources are simply listed and assigned a dollar value, but rather an exercise designed to zero in on the contributions of the various resources to the productivity and overall efficiency of the business. Therefore, the focus of this inventory process needs to be on the productivity and usefulness of each resource to the business. Think about the contribution to the goals, objectives, mission, and vision of the business. This evaluation helps match the resource base with production plans, and how those plans might need to change over the course of a transition.

The evaluation begins by detailing a multi-year plan of operations for the business, spelling out on paper what the business plans to produce over the course of the next few years. This is especially important if significant changes will be taking place. This will set the stage for considering the resources that will be needed to facilitate the production plans. We suggest keeping an open mind and considering all options when changes to the resource base (in any category) need to be made. Current resources may need to be disposed of in order to facilitate the acquisition of a set of resources that are a better fit for the future production plans.

The land resource warrants significant attention in any discussion aimed at agricultural producers, since it is considered to be the "base" resource for most agricultural operations, and it is considered to be scarce and costly to obtain in most agricultural situations. Inventory the current land resource beginning with the obvious legal and common descriptions. Utilize GIS maps or satellite photos to assist in the evaluation. For each property, describe the current ownership and/or tenure arrangement, and document any considerations regarding how that arrangement is likely to change in the foreseeable future. Also document any legal restrictions such as zoning, etc. that might limit the scope of the use of that parcel for business purposes. If the land is owned by someone else, the land owner may also impose restrictions on the use of the land. Consider buildings, improvements, water availability, climate, and other overall productivity factors as you focus on how each piece of land currently available to the business matches with the long-term production plans of the business.

Often, it is determined that additional land will need to be added to the operation to facilitate the transition (and just to keep up with normal growth trends in the industry). Like most other resources, land can be acquired through either ownership or leasing. This is a decision that needs to be weighed very carefully, as there are advantages and disadvantages to various land tenure arrangements. Ownership brings with it certainty of control, complete management and use flexibility, and the opportunity to benefit from the investment aspect of land ownership. However, from a financial perspective land purchases have historically had a significant "cash flow" problem, in that agricultural land does not generate enough cash net returns to make payments on any significantly leveraged purchase arrangement. Therefore, land purchases can create significant financial strain on a business in a transition, and as such careful consideration needs to be given to not only the "profitability" aspects of a proposed purchase, but also to the "financial feasibility" aspects as well. On the other hand, in most geographic areas, the rental market for agricultural land is extremely competitive, with several "good" operators in line for any rental opportunities that become available. Consider ways that your business can become very innovative in "selling itself" as the tenant of choice in your area. Think about factors that are important to the land owners you may want to attract as potential stakeholders in your operations. Some may value primarily the financial returns potential, so for those you find creative ways to highlight the financial returns that you feel you can generate for them. Others may value opportunities to participate or be involved in certain activities such as harvest, so consider mechanisms to facilitate that involvement. You may want to develop landlord newsletters, web pages, or social media outlets as mechanisms to keep land owner stakeholders well informed.

Machinery, facilities, and breeding livestock make up the next largest category of resources for a typical agricultural business, at least in terms of dollar value. Much like the initial evaluation of the land resource, this inventory begins with a list and description of all equipment, buildings, facilities, and breeding livestock currently in the business. Again, the focus is not on dollar value but rather on productive capacity, usefulness, and fit with the overall production plan of the business. For machinery and facilities document such characteristics as age, state of repair, useful remaining life, and match with future needs for production and expansion (could be a ranking on a scale of "excellent" to "poor" for example. Similarly, for breeding livestock document at least a summary of the average age, quality characteristics, and productivity potential. A worksheet like the following might assist in the process.[1]

Many options exist for acquiring resources like machinery, buildings, and facilities. For machinery the list of options includes purchasing (new or used), cooperation or sharing arrangements, hiring work done on a custom basis, leasing equipment, or short-term rental arrangements. Keep in mind that the capacity of modern agricultural machinery is huge, and the reliability is greatly improved from several years ago. At the same time, the price tag is large as well. In order to justify ownership of modern equipment, it must be spread out over a large amount of hours or acres. When planning for the equipment needs of an agricultural business in transition stakeholders must look for opportunities to utilize owned equipment fully, or they must consider alternative ways of acquiring machinery services.

For buildings and facilities that are permanently or semi permanently fixed to a real estate resource, the options for acquisition are somewhat more limited for obvious reasons. Since these resources can tie up large sums of capital, time spent seriously evaluating future needs and plans for acquiring will be well spent.

Breeding livestock is most typically acquired through purchase, though it is not uncommon in many situations for there to be a lease arrangement in place between two individuals. Breeding livestock lease arrangements are a good way for the exiting generation to transfer ownership of a breeding herd to the incoming generation slowly over a period of years.

After summarizing existing resources, future production plans, and the overall transition timeline, plans can be made for making changes to the resource base and acquiring additional resources. Thinking through a couple of alternative acquisition strategies for major items using a template such as illustrated here (worksheet 5.2) can provide direction for the process and will hopefully help your organization to ultimately make better acquisition decisions.[2]

Chapter 1 provided a detailed discussion regarding the evaluation of the financial resources of the farm, and methods for looking at the financial aspects of implementing the transition production plan. Along with the "mechanical" aspects of financial evaluation and planning outlined earlier, don't forget to assess the ability and willingness of various business stakeholders to take on risk. As part of the resource evaluation and planning process constantly monitor credit worthiness and maintain a list of potential funding needs and sources.

The "community" resource compliment includes such things as access to markets that are relevant for what you are currently or planning to produce, labor availability and competition, support services, and professional service availability. This is likely the one resource category that you cannot change (at least not very much), so planning involves figuring out how to best manage your operation in the community environment that you find yourself in.

Worksheet 5.1

Describing Current Physical Assets

Buildings - Structures

Item	Size or Capacity	Condition	Value	Match with Future Production Plan

Machinery – Equipment (Crop Production)

Item	Size or Capacity	Condition	Value	Match with Future Production Plan

Livestock - Equipment

Item	Size or Capacity	Condition	Value	Match with Future Production Plan

Breeding Livestock

Item	# of Head	Condition	Value	Match with Future Production Plan

Worksheet 5.2

Thinking Through Resource Acquisition Alternatives

Resource Need:	Acquisition Strategy I	Acquisition Strategy II
Land		
Buildings – Livestock Facilities		
Machinery and equipment		
Breeding livestock		

Finally we come to the category of "human" resources. Human resources are unique in that each person is different in many regards, labor is necessary to utilize the other resource categories, and for the most part labor cannot be stored. Begin the process of the human resource inventory and plan by developing a business workload calendar that clearly summarizes what tasks and functions need to be accomplished, the timeline when those tasks and functions need to be done, and the amount of time required. A worksheet similar to our example worksheet 5.3 may be helpful in that process.[3] Next, summarize the individuals currently available in your stakeholder team and the amount of time they are willing and able to commit to the business. Consider each individual's skills, abilities, and interests that match up with the tasks that need to be done.

Worksheet 5.3

Workload Calendar

Hours/Quarter				
Tasks	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
Operating				
Sub Total				
Management				
Sub Total				
Marketing				
Sub Total				
Other				
Sub Total				
Overall Total				

It may be helpful to develop a diagram of your human resource situation (what are the various responsibility and reporting connections) to graphically portray your business human resource situation. The idea is to gain a clear understanding of "who is on your business bus" and "what seat are they in". The current workload calendar needs to be supplemented with future production plans to consider the match between workload estimates and other needs, and the human resource compliment that will be available or will need to be assembled. Questions such as "will anyone who currently works in our operation be leaving", and "will any new people be joining our operation and if so what skills will they bring to the table" need to be considered. This process will help identify human resource "gaps" that will need to be filled. Then, like with the other resources, a well thought out acquisition strategy can be developed that considers the skills needed to move the business forward through the transition. If this sounds like developing job or position descriptions, it is. While a relatively small percentage of even the best run farm and ranch businesses have well documented job descriptions for important positions in the business, we argue that position descriptions are an essential part of this planning process. Among other things, well written job descriptions help to define the various roles within the organization, proved a benchmark for accountability, and provide an objective basis for performance evaluation. While many believe that job descriptions are only for "non-family" roles within the business, they can also help avoid common pitfalls when bringing family members into the business. By focusing specifically on the skills that are needed in the business, a position description will help avoid the temptation to bring somebody into the operation (and start paying them) just because they are family, and not because there is a legitimate opening in the business that can be filled by that particular person. There are often serious misconceptions regarding skills and abilities that can be sorted out by utilizing job descriptions. Furthermore, when an individual is considering phasing out of the business, a position description provides a detailed checklist regarding what skills will be needed to fill that void, and what timeline and training strategies can be employed to bring someone into that role if considering an existing business stakeholder, or what acquisition strategy needs to be employed if there is a need to find someone currently outside the business to fill that role. Without going into a lot of detail here, any job description should provide detail regarding the specific job duties, responsibility, and authority, broken down by functional area (operations, management, planning, etc.). Qualifications should be listed, as well as the work environment within which the various tasks will take place and who the person will report to (where the position fits within the organizational structure of the business).

As we have outlined above, in principle the human resource compliment should be evaluated just like any other category of resources to see if the current workforce responsibilities need to be redefined, if current resources need to be replaced with resources that are a better fit, or to see if other resources can be substituted for labor, or vice-versa. In practice, this is a very difficult process to implement objectively, especially in a family business. Disagreements about decision making authority, and jealousy among stakeholders is simply more pervasive in family businesses due to the difficulty in separating the family, ownership, and operational roles that each stakeholder simultaneously plays in the family business.

The point of this entire resource evaluation and planning exercise is two-fold. First, has your business exhausted all the possibilities for improving efficiency from the existing resource base? Second, is there a combination of under-utilized resources that might create an opportunity that has not yet been considered? Only through a comprehensive evaluation and planning process that considers all alternatives available can the business zero in on these efficiency question, and maintain a high level of resource use efficiency through a transition or major change in the business.

5.2. Preparing your stakeholders to move forward

As you may recall from Section 2, keeping in constant communication with your stakeholders is crucial to developing a transition plan with sound "buy-in" from everyone involved. Now, as you begin to implement your transition plan, you will need to "cash in" on that buy-in as those stakeholders now prepare to move into the new roles to which the transition plan will call them.

As you move toward the implementation phase of your plan, you can help prepare your stakeholders by thinking about what skills they will need relative to the skills they have now. Will additional training or experience be needed? How can that training or experience be provided in a way that is affordable? How much time does the stakeholder have to prepare for their role? What can be done if there is a gap between the time the training or experience can be obtained and when it is needed?

These matters are important regardless of the transition plan you have chosen, but it is also critical that you prepare at least one (if not more) stakeholders for what should be done in the event of your death. To some extent, these questions are similar to those in the preceding paragraph, but with more urgency. Would the person who needs to step into your role in the event of your sudden, accidental death have the experience and expertise needed to take over quickly and with a minimum disruption to the operation of the farm? Would they have access to the funds and equipment they need to continue the farm operation? Do they have relationships with the vendors, consultants, and professionals you rely upon in the operation (and if not, how can those relationships be developed)? Talk through all these points with the person who would be your successor in such an event, ask if they have questions, and help them work through the preparations needed.

Another step that can aid your successor in the event of a sudden death of a manager is to have a clear, plain-English plan for what should happen in the event of that death. Include step-by-step instructions for what needs to happen with the farm operation, as well as what needs to happen with regard to the farm operation, as well as to the estate of the deceased person. Include directions on where to find needed resources, who to ask for help, a list of records to keep (including where to find your current inventory for the operation), and a list of the kinds of tasks and decisions that can be made without any assistance, what can be done only with the help of a professional (such as an accountant or attorney), and what can be done only with the permission of the court or some other legal proceeding (such as actions that require approval of the probate court).

These conversations may be difficult, but should the information be needed, they will also be immensely valued by the entire family.

5.3 When is the right time for a checkup on the transition plan?

You've worked hard to develop your transition plan, and feel good about what you have accomplished. That's the good news. The challenge is that your transition plan will need continuing care to remain effective. A number of events can require revisions to your plan. These include:

- Birth of a new family member
- Death of a family member
- Marriage of a family member
- Divorce of a family member
- Disability of a stakeholder
- Acquisition of an asset of significant value
- Sale or other disposition of an asset with significant value
- Major legal change (such as a change in taxation, estate, or business entity laws)

Any of these occurrences can change the effectiveness of your plan in achieving your goals. Further, even if none of these changes occur, your plan should be evaluated on a regular basis. Ideally, your plan should be reviewed each year in the context of your family's annual business meeting (though such meetings should occur more than annually) to determine the progress that is being made toward your transition goals; this will also help you determine if any modifications or revisions should be made to the plan.

5.4. Conclusion

Remember, the payoff for all the work you and your family have invested in your transition plan is the successful implementation of the plan. Don't be content to have a good plan that gathers dust in a binder on the shelf – you'll have to invest as much (if not more) effort in implementing your plan as you did developing it!

ENDNOTES

[1] Adapted from Worksheet 2.3 in "Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses", Minnesota Institute for Sustainable Agriculture.

[2] Adapted from Worksheet 4.14 in "Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses", Minnesota Institute for Sustainable Agriculture.

[3] Adapted from Worksheet 4.18 in "Building a Sustainable Business: A Guide to Developing a Business Plan for Farms and Rural Businesses", Minnesota Institute for Sustainable Agriculture.