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Institute for Family Business

Roots of the Soil: Strategies and Resources for Succession Planning

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Institute for Family Business

The Purdue Institute for Family Business (PIFB) provides multi-generational family businesses with research-based business management resources aimed at improving personal leadership performance and driving operational growth. Our ambition is to prepare family business owners, managers, and stakeholders (including non-owner spouses and future owners) to be effective stewards of their family enterprises.



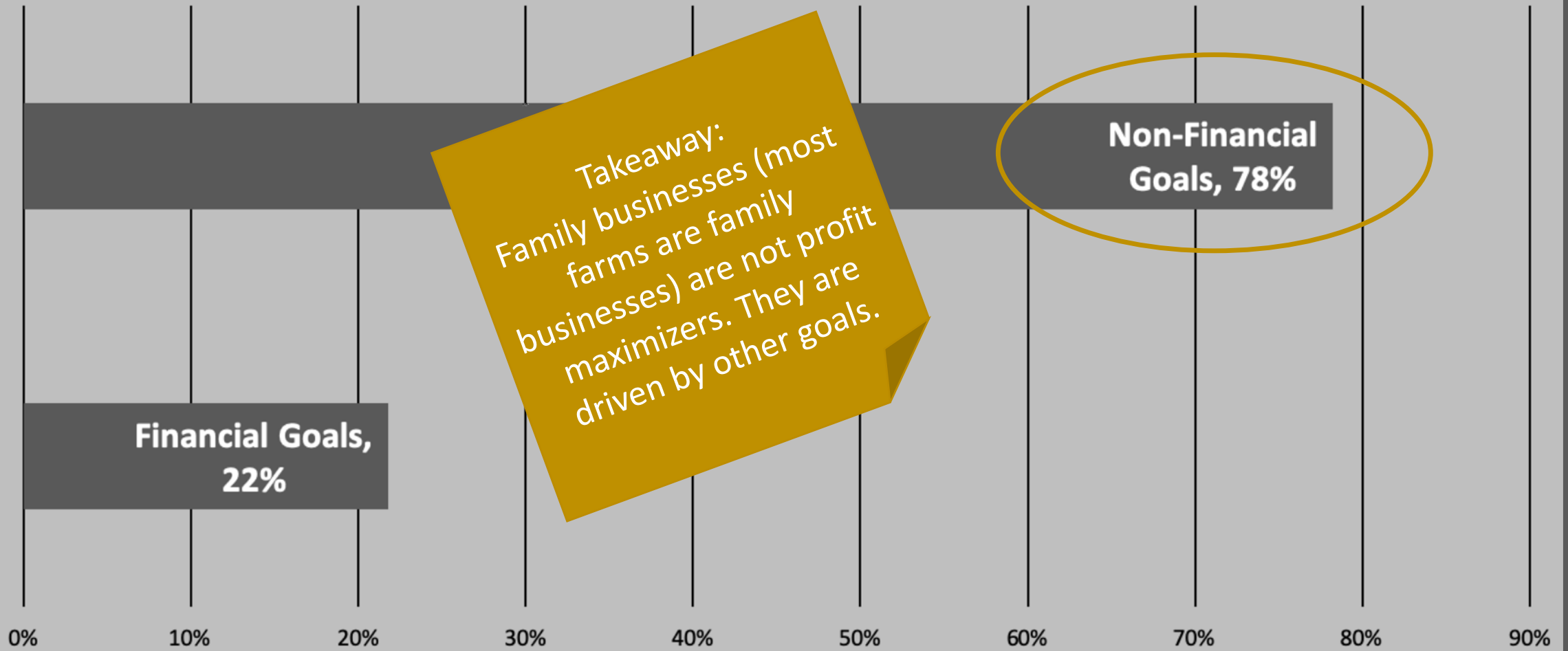
If you only get 2 things out
of this presentation...

**Communicate often
&
Plan early!**

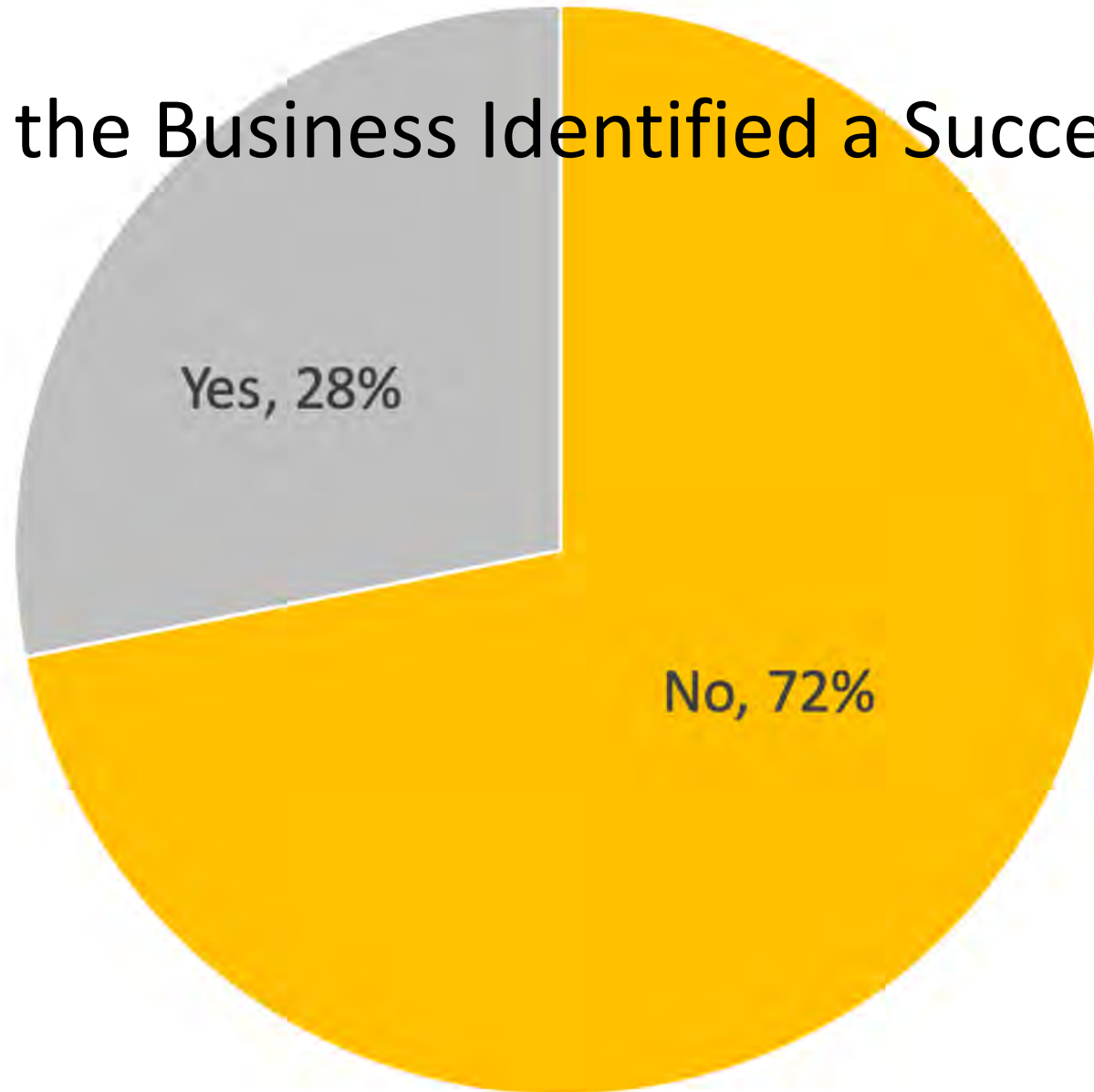
Background: 2012 Intergenerational Family Business Survey

Examples from the field

Which goals are more important: financial or non-financial?

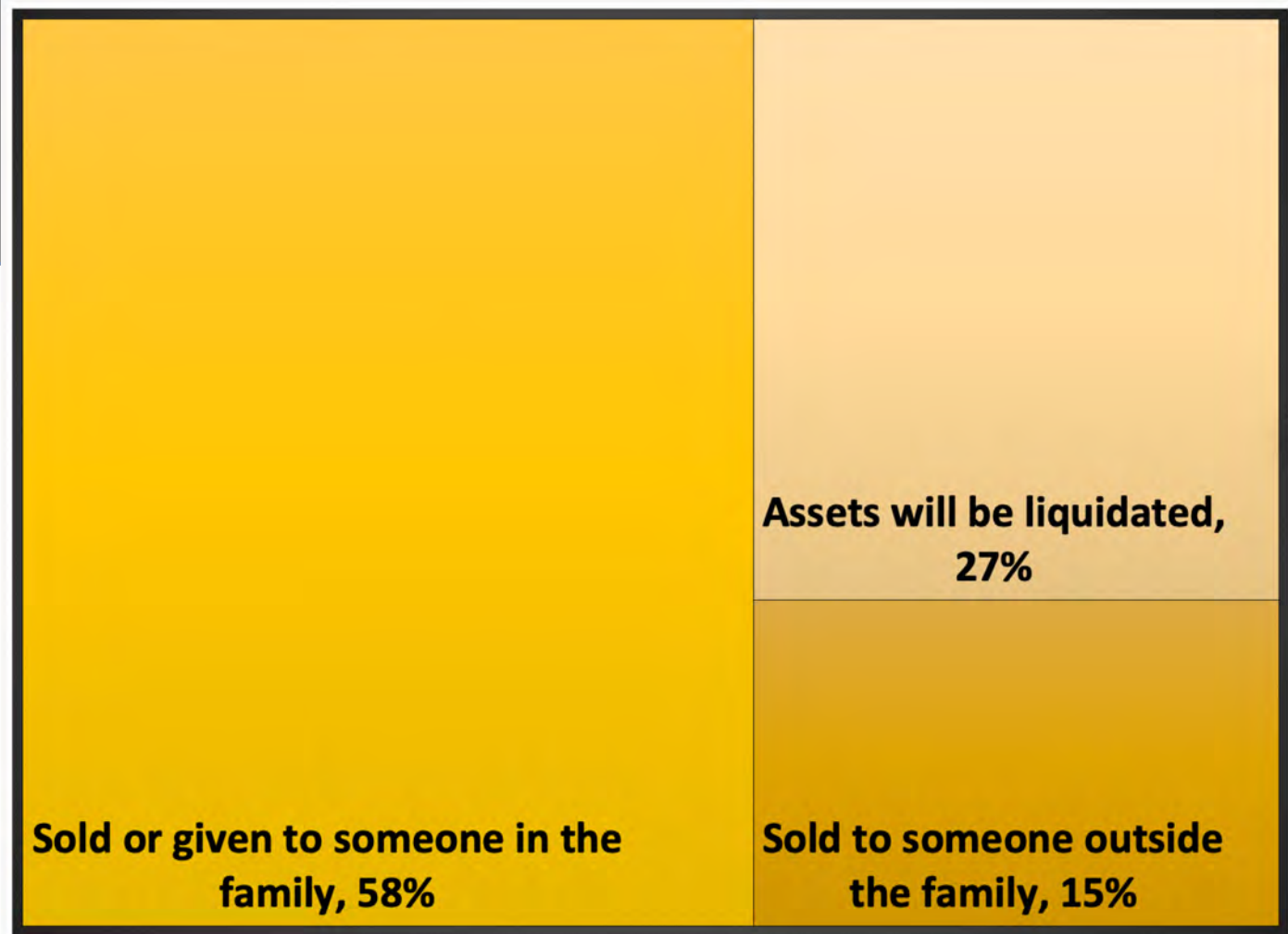


Has the Business Identified a Successor?

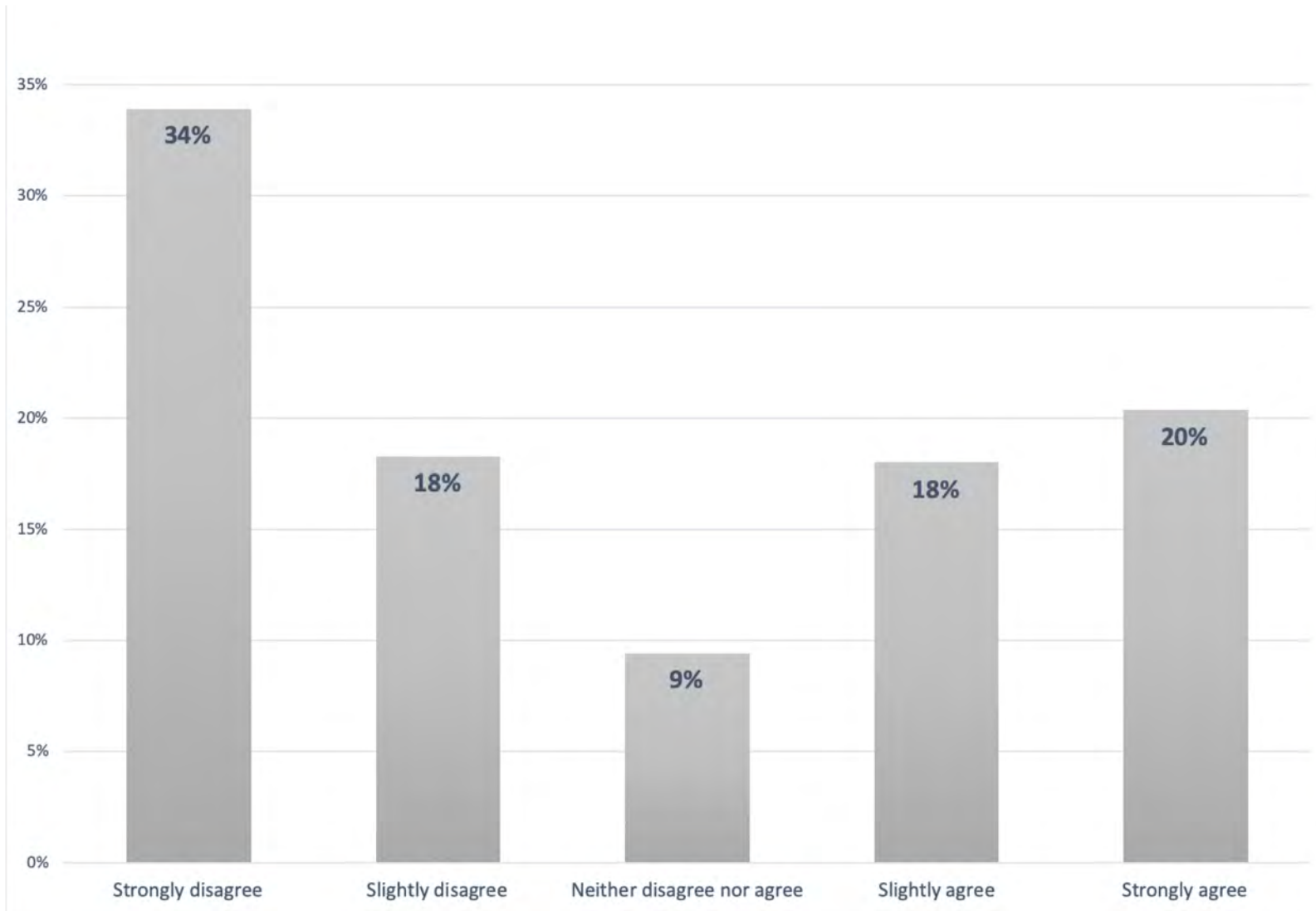


Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey

How do you expect your business to be distributed to the next generation?



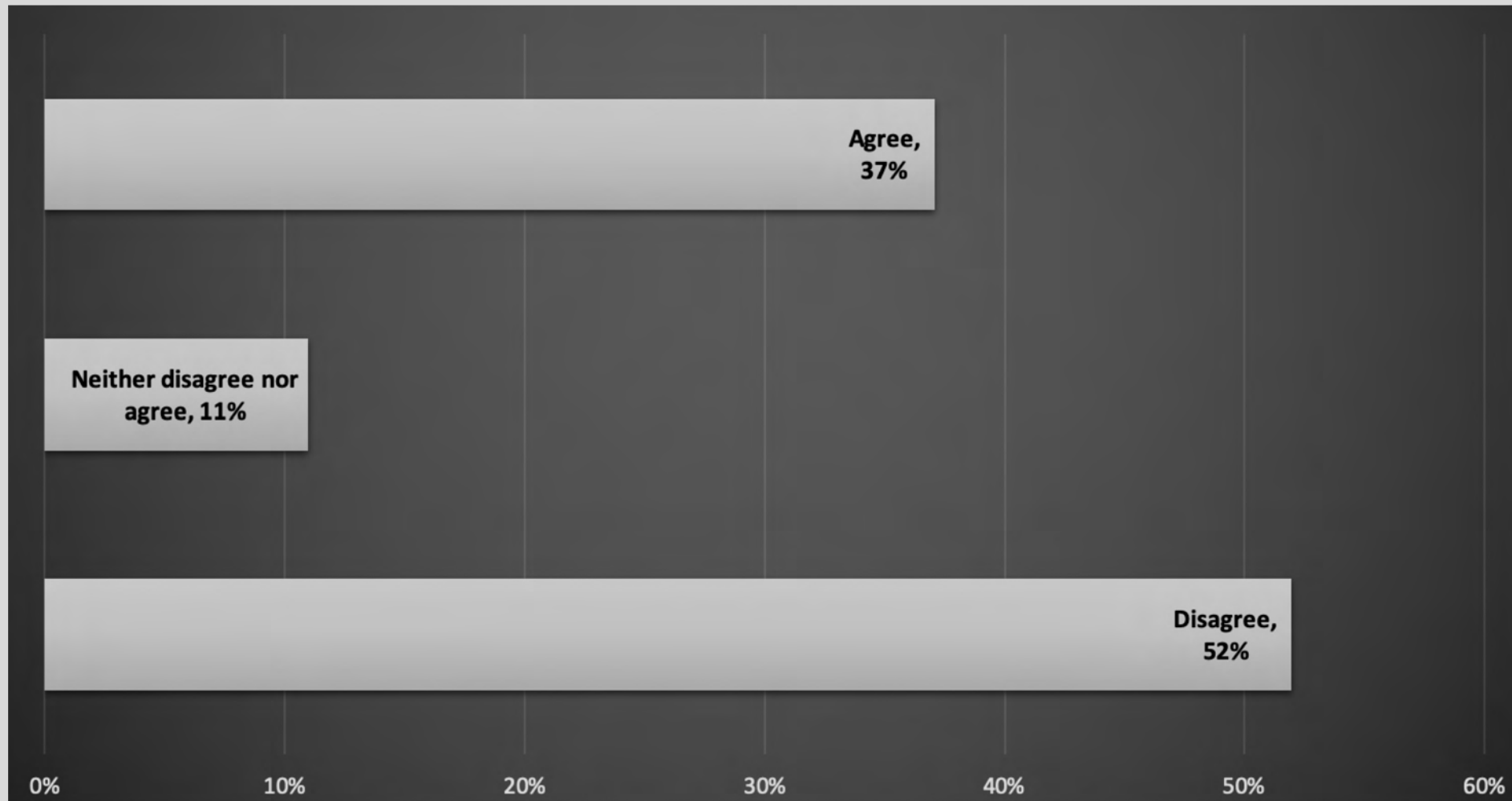
Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey



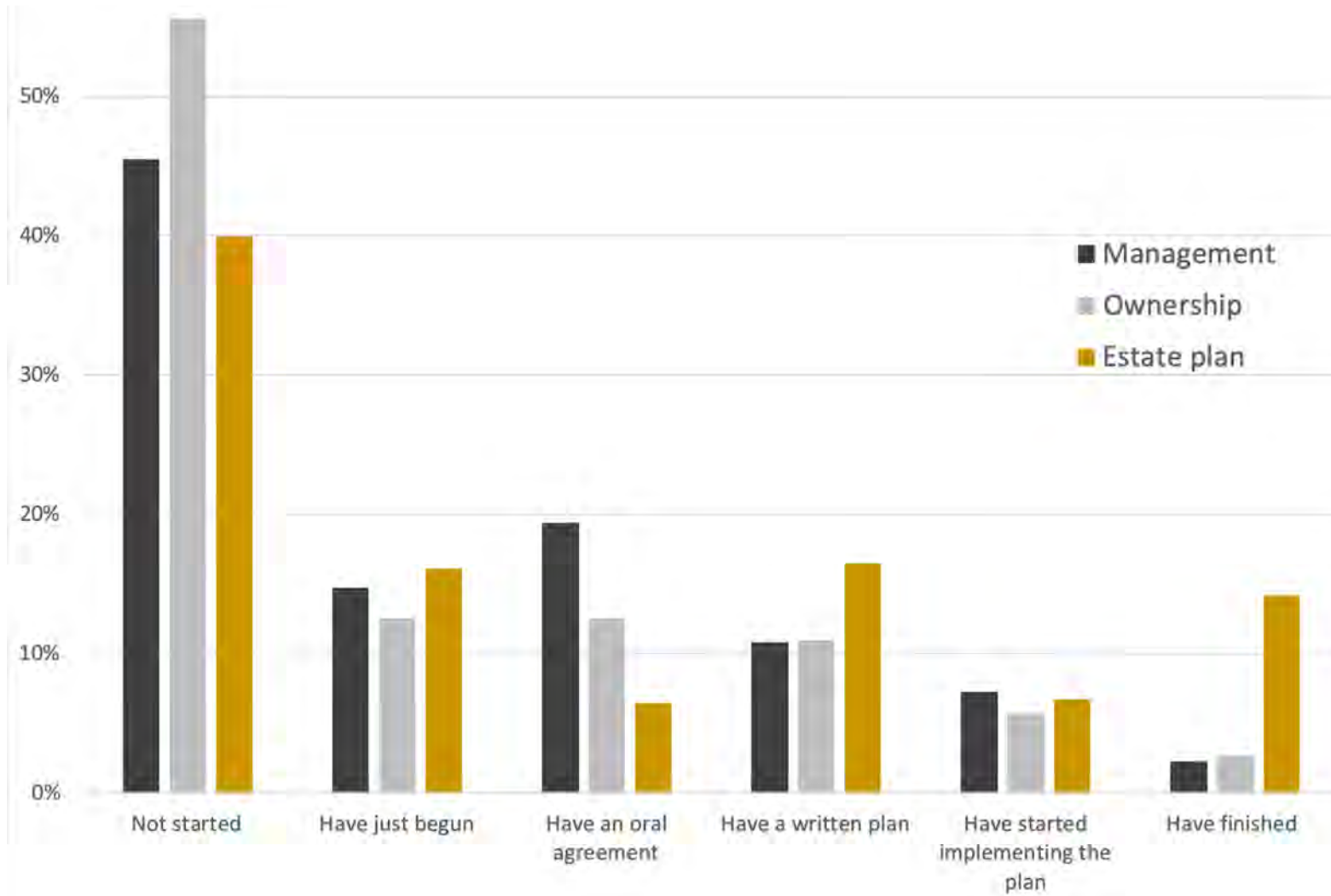
I worry that my heirs can afford to purchase my family business.

Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey

I plan to transfer the family business to a family successor even if it puts my own personal wealth and livelihood at increased risk.



Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey



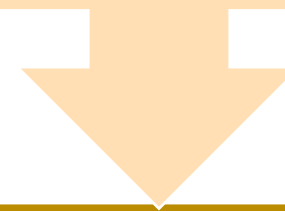
How far in the transfer process?

Source: 2012 Intergenerational Farm and Non-Farm Family Business Survey

How can your farm/family business
be successful?

Stumbling Block For Family Businesses

**Why are the odds of succession
so low?**



No management succession plan!

80% of all business founders
intend to pass their companies
on to their children.

But . . . 54% do *not* have a
formal management succession
plan!

How can your family business be successful?

1. Keep the business strong enough and healthy enough to last into the next generation.

2. Continue a healthy **family** into the next generation.

Successful Family Businesses Have:



SHARED VALUES



SHARED POWER



TRADITION



A WILLINGNESS TO
LEARN AND GROW



STRONG FAMILY
TIES

Pour Family Values into the Business

Farm and family businesses are unique in the fact that they have a deep-rooted history

- History and heritage hold a special place to farm and family businesses
- Communicating values can grow a strong, effective culture
- Culture can ultimately be communicated to family members, owners, employees, and customers (value creation)
- Farm and family businesses can use their historic values to guide their current culture

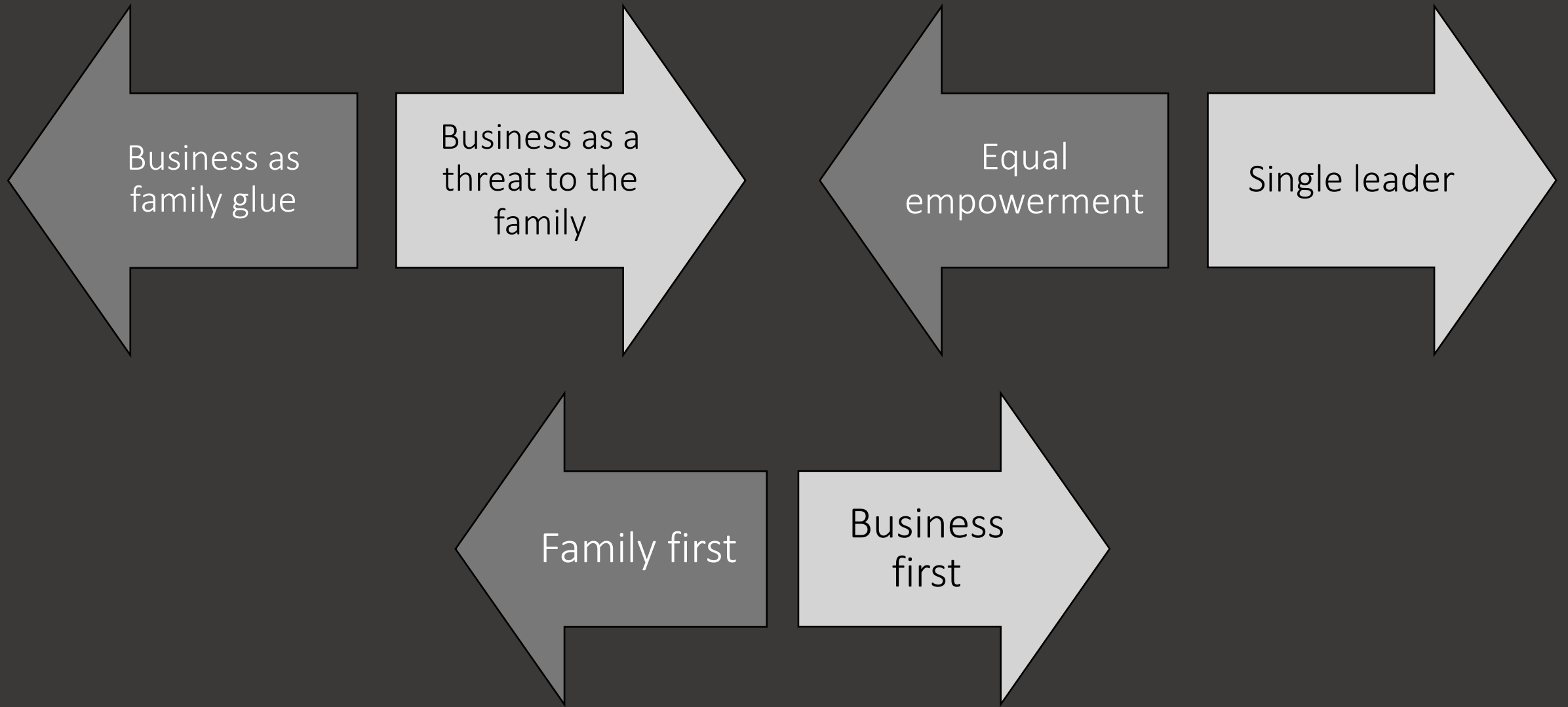


Translate, Operationalize, and Express Family Values into the Business



1. The family may value integrity.
2. Families can express the value of integrity to business members.
3. Business leadership can empower employees to translate that integrity to customers by treating customers and co-workers with respect, being courteous, and being fair in business.
4. Thus, the business can operationalize integrity in their business.

Family Perception of the Business



Business Strategy Formation



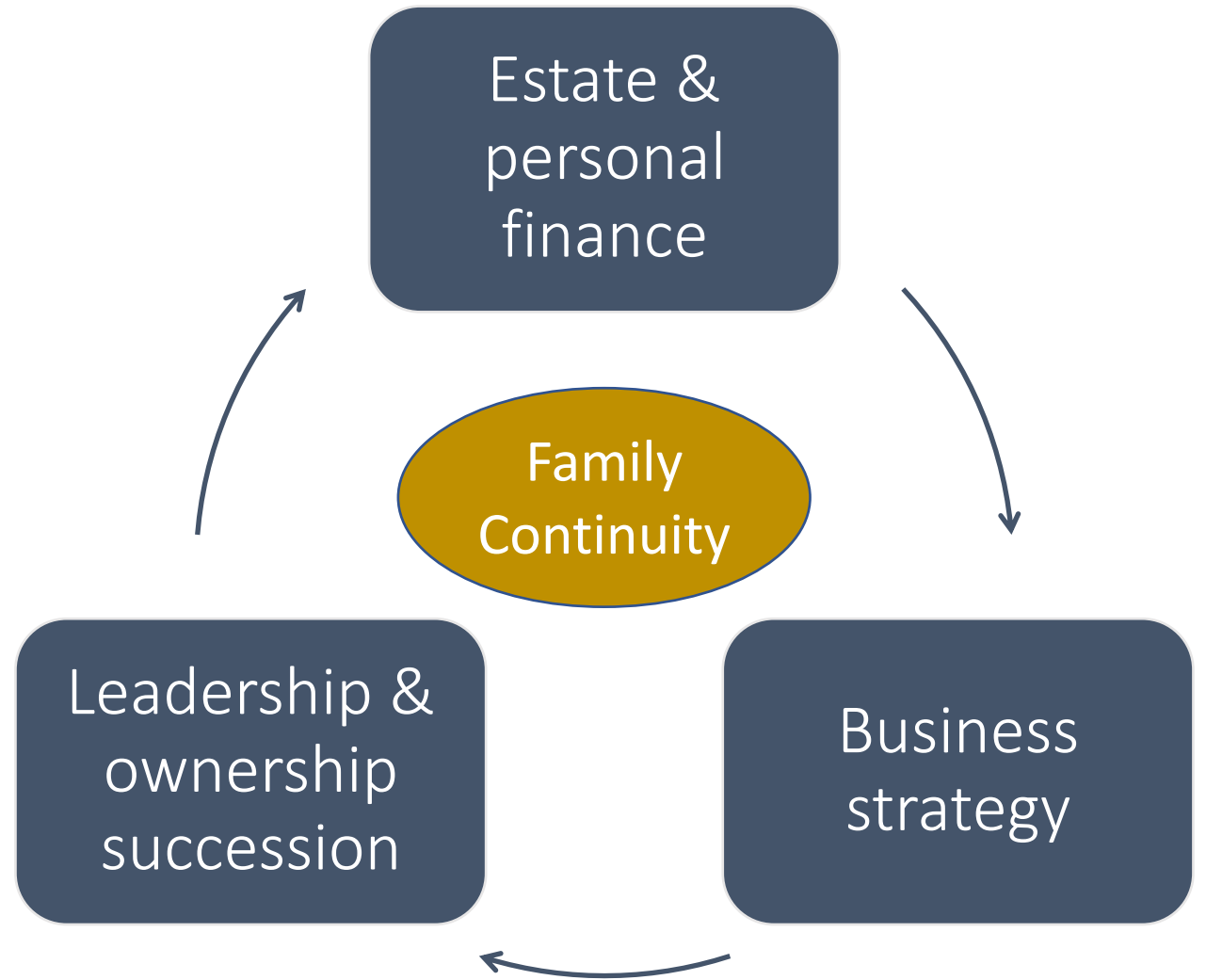
Family
beliefs

Family
vision

Form of
ownership

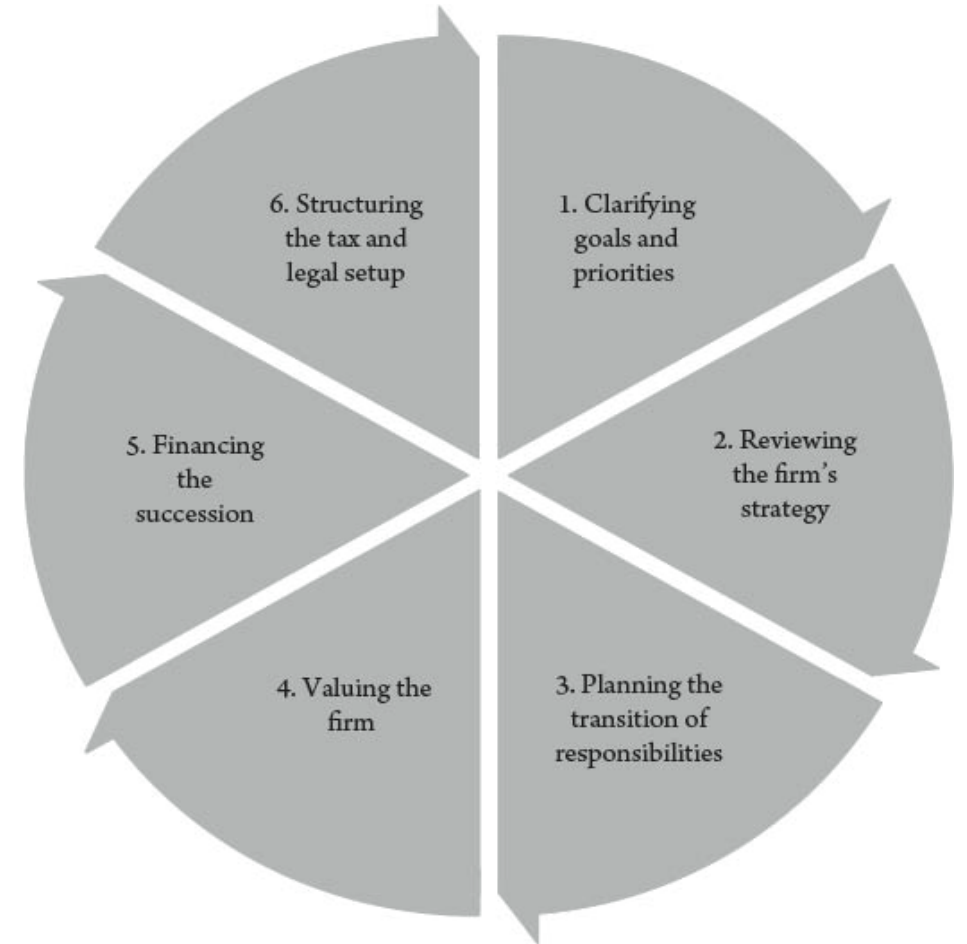
Business
strategy

Continuity Planning Triangle



What aids in the succession process?

- Strong foundation:
 - Discussing goals
 - Identifying a successor
 - Educating the owner on how to start the transfer process
- Family businesses need to focus on communication
 - Survey: only 44% of succession transfers that had been completed were deemed as successful



What are the succession options?



In a 2012 survey of farm and family businesses, Marshall et al. found the following expectations:

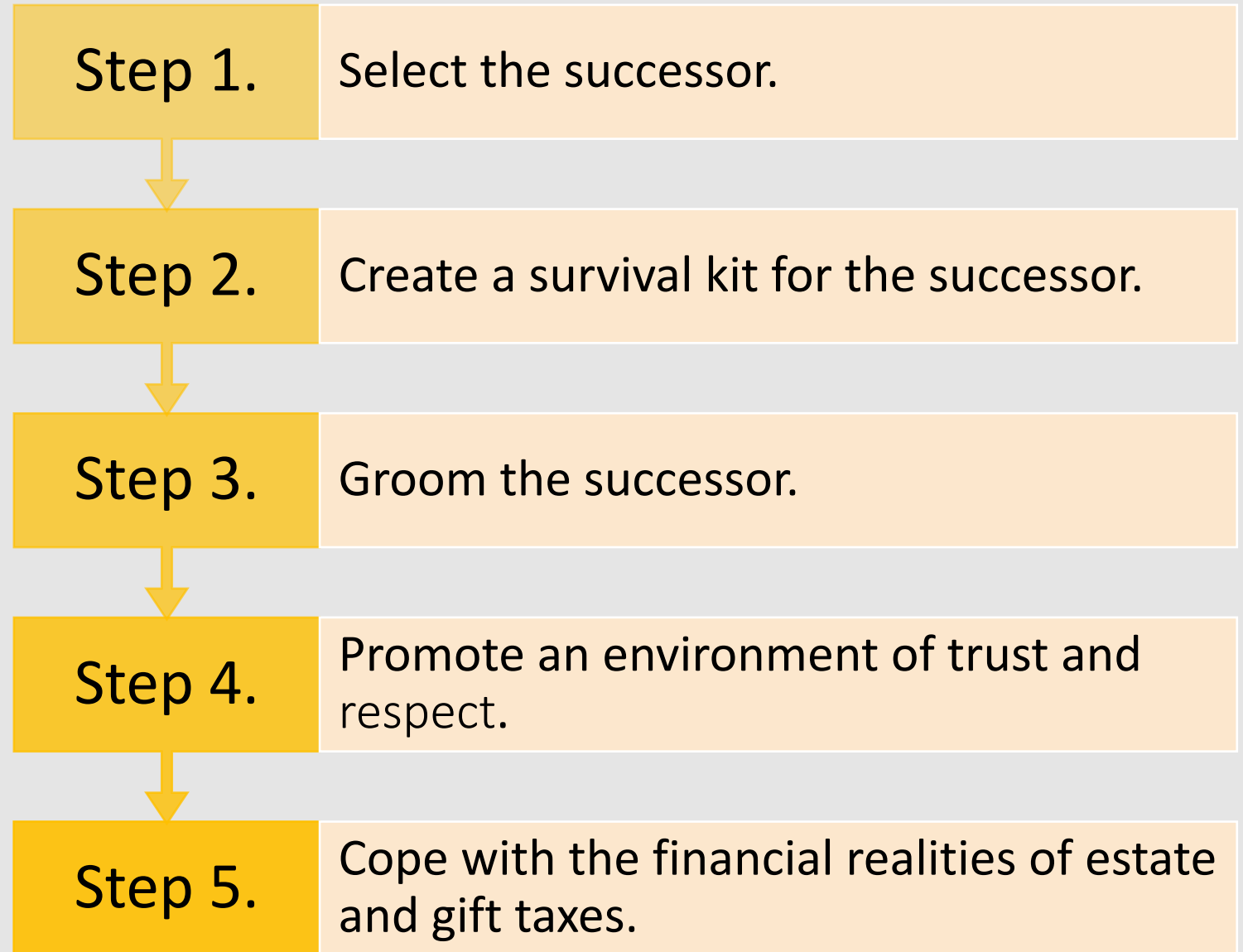
1. Business assets will be liquidated (sell the business): ~27%
2. Business will be transferred to someone outside the family: ~15%
3. Business will be sold or given to family successors (intra-family succession): ~58%



Planning for Responsibility Transfer

- Usually management and ownership are passed along in sequential steps
- Time usually elapsed between initial discussion about succession and the actual handover of both management and ownership control
 - Intra-family succession is about 6.5 years
 - Transfer to employees is about 3.3 years
 - Sales are about 1.6 years

Developing a Management Succession Plan



Resources for Farm/Family Businesses

Resource: FB-BRAG Assessment



FB-B

Family Business Balance

R

Resolve

A

Aadaptability

G

Growth



PURDUE
EXTENSION

WOMEN IN
AGRICULTURE

Code Red

"Contingency Planning for Your Family and Farm Operation"

Objective: The goal of this lesson is to prepare participants to have an organized and safe place to keep critical personal and business information.

Resource:
Code Red

What's in Code Red?

Farm/Business Section

Farm Business Structure
Farm Finances
Important Farm Documents
Farm Business Contacts
Farm Social Media
Farm Inventory
Farm Employment Inventory

Personal Section

Personal Information
Personal Social Media
Personal Business Contact List
Power of Attorney
Important Personal Documents
Non Farm Personal inventory
Personal Investments
Personal Medical Information
Final Arrangements

Update as Needed

Something new will always come up!

- Where are your financial documents stored?

You can modify your file to meet your needs

Be sure to update at least annually and keep multiple copies

What is a succession roadmap?

Setting goals and tracking your family's progress through the succession process



Resource: Succession Roadmap

Roadmap Example

		Year T	Year +1	Year+2	Year T+3	Year T+4	Year T+5	Year T+6
Age	Incumbent: Peter	65	66	67	68	69	70	71
	Successor: Ruth	35	36	37	38	39	40	41
Governance Transition								
Ownership Percentage	Incumbent	100	100	80	80	20	20	0
	Successor	0	0	20	20	80	80	100
Board Management	Incumbent	CEO	CEO	CEO	CEO	Advisor	Advisor	Advisor
	Successor	Manager	Manager	Manager	Manager	CEO	CEO	CEO
Transition of Functional Responsibilities								
Human Resources		Peter	Both	Both	Both	Ruth	Ruth	Ruth
Business Strategy		Peter	Both	Both	Both	Ruth	Ruth	Ruth
Marketing		Peter	Ruth	Ruth	Ruth	Ruth	Ruth	Ruth
Transition Miscellaneous								
Dividend		100K to Peter	50K to Peter	0	0	0	0	0

Roadmap Activity

		Year T	Year +1	Year+2	Year T+3	Year T+4	Year T+5	Year T+6
Age	Incumbent:							
	Successor:							
Governance Transition								
Ownership Percentage	Incumbent	100						0
	Successor	0						100
Board Management	Incumbent							
	Successor							
Transition of Functional Responsibilities								
Human Resources								
Business Strategy								
Marketing								
Transition Miscellaneous								
Dividend								



Resource: PIFB Website

Contact Maria and Renee:
PIFB@purdue.edu

It takes time, patience, and preparation to locate a suitable successor, strike a deal, and make the transition.

The keys are
communication &
planning!

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