

## **Farmers Shifting Gears: Readiness, Planning and Communication**

by Roger T. Williams

Many farmers want to cut back on their farming enterprise as they grow older: they want to slow the pace, reduce their time commitment, cut back on the physical labor or managerial responsibilities so they have more time to enjoy life and cash in on the fruits of their labor. Since farming is deeply-rooted in their lives, they don't want to walk away from the farm or retire completely. But, they do want to "shift gears" and scale-back their involvement in farming.

Scaling-back often involves transitioning the farm to younger farmers—their own children or others who are willing to assume the farming responsibilities. And this raises the question of readiness: their own readiness to step back from the day-to-day responsibilities of farming and the readiness of younger farmers to take on these responsibilities. Getting these two "planets" to align at the same point in time can be a delicate or perplexing thing. It requires planning and communication. That's the focus of this paper.

Consider three scenarios. A farm couple in their late 60s are experiencing health problems and desperately want to transition to a scaled-back farming operation, but their children aren't sure they want to take over the farming reins. A young farm couple in their 20s want to assume responsibility for the management and labor of their family farm, but the parents just aren't ready to let go of the work or management responsibilities. And, a farmer in his late 50s—who was told "The farm will be yours" for decades and decades—starts pushing on his dad and his dad becomes so furious he sells the farm to another party.

All three of these scenarios could be prevented with advance planning and good communication. Farm parents need to take the lead in this planning/communication process. Yet, too often it doesn't happen. What gets in the way...what are the barriers to thinking and talking about this transitioning process? There are several barriers; thoughtful planning is needed to get beyond these barriers. Then, careful communication is critical to make the transition a success.

### Planning for Overcoming Barriers

1) Financial Viability: One of the biggest barriers to shifting gears is not knowing whether there is enough "gold for the golden years"...whether there is sufficient income to support all families involved in the farm transfer. One Wisconsin farmer said "This is paramount" when he described the need to have adequate money for both families as they were transitioning their family farm to his daughter and son-in-law. Two strategies can be helpful here. One strategy is to seek outside help in assessing your financial situation: your debts/assets, your cash flow and your needs for income in a scaled-back level of farming. You simply can't make plans without solid numbers in each of these three areas. An independent, outside person—Extension agent, technical college farm training specialist, DATCP farm credit adviser or trusted farm management consultant—can help you achieve some objectivity in arriving at these numbers.

A second strategy, best implemented early in your farming career, is to set aside money in IRA, 401K or SEP accounts so you don't have to liquidate farm land, cattle or machinery to achieve the financial independence you are seeking. If you view the farm as your Social Security, your

pension, your IRA and your 401K, you may need to liquidate some of your assets and this could jeopardize the farming operation for the next generation.

2) Financial Arrangement: There are a number of financial arrangements for transferring farm assets. Since they all have advantages and disadvantages, this creates another barrier to shifting gears. An outright sale of land and other assets is the simplest transfer method, but most younger farmers don't have the capital to purchase these assets unless the older farmers are willing to finance the transfers through a land contract arrangement. Two other forms of transfer are common: 1) rent of land and sale of cattle/machinery, and 2) gradual transition of farm assets through shares of stock or interests in the farming operation. The sale of cattle and/or machinery may require outside financing or financing by the older farmers. The transition of assets through the sale of stock or interests in the farming operation requires setting up a corporation or limited liability company (LLC). Two strategies can be helpful in dealing with this barrier. First, seek the advice of tax, accounting and legal specialists and, most important, talk to other farmers who have transitioned their assets in various ways. Second, talk to the younger farmers involved in this farm transfer and try to find a win-win solution for both parties. Be clear about whether you would be willing to finance the farm transfer through the use of a land contract arrangement before entering into this conversation...it could help facilitate the discussion.

3) Legal Arrangement: The financial arrangement and legal arrangement are often intertwined and, because most of us are not legal experts, this can create another barrier to shifting gears. The three most common legal arrangements are sole proprietorship, partnership and limited liability company (LLC). Sole proprietor is perhaps the simplest and most flexible legal arrangement since it can be established, bought, sold, modified or terminated quickly and easily. Partnerships often evolve through the operation of the farm business over time; to be effective, partnerships should have a written agreement that specifies how decisions are made, how income and expenses will be divided and how issues will be resolved over time. Limited liability companies (LLC) have become popular with new farm businesses since they offer the simplicity of a partnership for income tax purposes and the limited liability afforded to corporations. The same two strategies can be helpful in dealing with this barrier. First, seek the advice of tax, accounting and legal specialists and talk to other farmers who have used these legal arrangements. And second, talk to the younger farmers involved in the transfer to find a win-win solution for both parties.

4) Management/Labor Decisions: Farmers wanting to scale-back will probably go through various phases as they transition labor and management to the younger farmers. In the early phases, they may provide most of the management decisions while the younger farmers provide mainly labor. Then, as the younger farmers become more experienced with the farming operation and more responsible, the management decisions can be shifted in their direction. The most important strategy in dealing with this barrier is to keep talking with the younger farmers involved in the transition. Create agreements about who will be making the important management decisions, who will have input into these decisions and what the decision-making process will be at each point in the farm transfer. And create agreements about who will be doing the work at each point in the transfer. It might be helpful to outline the specific tasks of each party at various stages in the farm transfer so there are no misunderstandings about who is responsible for the major farm tasks. Many farmers want to maintain involvement in farm management and/or day-to-day chores on the farm. Regular farm family meetings can help you make this transition with a minimum of tensions or conflicts.

5) Personal/Business Relationship: You will probably want to sort out what type of relationship you would like to have with the younger farmers involved in your transition. Will it be a close, personal relationship where you are interacting with the younger farmers and sharing personal information on a regular basis? Or, will it be a distant, business relationship where money is exchanged, agreements are modified on an occasional basis and there is little personal sharing? If the younger farmers are family members, your relationship is more likely to be close and personal, thus allowing for greater flexibility in day-to-day functioning. But regardless of whether the relationship is with family members or non-family members, there is something to be said for the clear expectations that come with a business relationship. The key strategy here is to envision or imagine the relationship you would like to have with the younger farmers in the immediate and more distant future. Then, work toward achieving this relationship over time.

6) Identity as a Farmer: Most farmers have been involved in farming so long—doing simple farm chores as a young kid and farming seven days a week for decades—they have a difficult time imagining a life outside this field of work. But this is precisely where you might want to start. The first strategy is to imagine or visualize yourself doing something other than farming: traveling with your spouse, getting more involved with recreational activities (fishing, golfing), running for public office, doing volunteer work or pursuing an alternative career (running a gardening center, working with a farm-related organization, providing consultation in areas where you have expertise). Some farmers have a basic desire to help others or be more social. This is the time to let that social or helping “animal” out of his/her cage, to envision a life where you are helping others, serving in public office or interacting more with others. The second strategy, of course, is to begin doing some of these alternative pursuits in small ways to see how it fits with your personality and current needs in life. Many people dream of a leisurely life on the golf course or fishing along the bank of a trout stream, but then find that the routine wears thin over time. Your goal should be finding the right mix of activities that results in a satisfying and meaningful life.

7) Relationship with Your Spouse: Any scaling back of the farming operation will probably involve a change in the relationship with your spouse (if you are married!). When you are fully engaged in farming, you may have hectic schedules and may be going in different directions...to the point where you have little contact or little genuine communication with your spouse. This may be a wonderful opportunity to improve your relationship with your spouse. You can start by sitting down over a cup of coffee or tea and discussing your hopes and goals for a life that involves less farming. You may want to create a weekly “date night” together or a regular outing with an activity you both enjoy. Since farming often puts a crimp in vacations and/or travel, this may be a time for more extensive travel together—domestic or international. If communication is strained, there are various forms of “marriage encounter” or “marriage enrichment” that can be helpful in reconnecting with each other. Counseling or therapy can be another tool for deepening and enriching your marital relationship. Check with your doctor, your church or your local human service agency for resources related to marriage enrichment or counseling.

### Communicating with Younger Farmers

For several years now, I have been mediating farm family conflicts throughout Wisconsin. Many of these conflicts involve intergenerational farm family disputes: conflicts between parents in their 60s, 70s and 80s and their “kids” who are in their 30s, 40s, and 50s. Some of the disputes involve intergenerational farm transfers, but all of these disputes involve difficulties in communicating hopes, wishes, goals and expectations.

I've learned that the starting point in almost all of these conflicts is rebuilding trust between the involved parties. Trust involves four critical elements: respect, responsibility, active listening and honest sharing. Think of each of these elements as one leg of a four-legged stool: if any of the "legs" are missing, the stool will tip and the person sitting on the stool will topple to the ground! I'll comment briefly on each of these critical elements:

Respect: Respecting the intelligence, talents, contributions and schedules of other persons in the relationship; Treating others as unique, contributing members of the farming "team."

Responsibility: Taking responsibility for individual actions that help the team succeed and "pitching-in" to cover responsibilities that fall between the cracks; Doing your "fair share."

Active Listening: Actively listening to the thoughts of others and to the feelings behind the thoughts; Using "active listening" phrases ("I hear you saying \_\_\_\_") to clarify what you heard.

Honest Sharing: Sharing your hopes, wishes, goals and expectations in caring vs. hurtful ways; Using "carefrontation" vs. "confrontation" to express differing views on issues.

The irony is if farm families used these four elements in their day-to-day communication—and especially when they are talking about transitioning the farming operation—there would be less need for mediation to deal with conflicts between families. So, make every effort to use these four elements—respect, responsibility, active listening and honest sharing—in your communication about transitioning the farm. Here are some other thoughts about communicating during this important transition period.

- 1) Be clear about your hopes, wishes, goals and expectations: Give some thought to each of the issues outlined in the previous section. Seek input from farmers and others who have experience with farm transfers: extension agents, farm management consultants, farm credit officers, tax/accounting specialists, attorneys and others. Quite simply, you need to be clear about the direction you want to go if you are to achieve your goals. If you are married, be sure you and your spouse are in agreement about the directions you are taking.
- 2) Call a meeting and invite the most important actors: The younger farmers—whether they be family members or non-family members—need to be invited. If it is family members, you might consider inviting other family members who have a stake in the farming operation, but be aware of how this might affect the dynamics of the meeting. If it would have a chilling effect on the discussion, it might be better to inform these family members after the meeting. Be sure to include food; it is the best way to demonstrate hospitality!
- 3) Begin by acknowledging the difficulty of talking about this issue: Farm transfers are complex and, thus, not easy to discuss. By acknowledging this up front, you will help set everyone at ease—yourself included! Choose words that feel right to you while communicating this message: "It's not easy to talk about farm transitions, but we're not getting any younger and it's time we talked about it." If it's your kids that are involved in the farm transfer, they may think its past time for talking about the topic, but they should at least give you credit for initiating the conversation now!
- 4) Honestly share some of your hopes, wishes goals and expectations: Don't dump the whole load on them; just give them a 4-7 minute synopsis of the direction you are heading! Be honest about what your goals and expectations are, but do it in a caring way that invites them to share in your vision about how the transfer might occur. Make sure you mention something about the financial and legal arrangement you envision, something about management/labor decisions,

something about the personal/business relationship you are seeking and something about your hoped-for activities as you scale-back with the farming operation.

5) Attentively listen for their reactions, especially their concerns. Transferring a farm is complex. The younger farmers are likely to have concerns. One of their greatest concerns may be the financial viability of the farming operation—whether there is sufficient income to support them and you as you scale-back your involvement in the farm. They may have real anxiety about some issues, so it's important that you not gloss over their concerns. Instead, acknowledge their concerns ("I understand why you might be feeling anxious about that") and offer to do problem-solving around the issue.

6) Initiate problem-solving, seeking a win-win solution for everyone. Problem-solving involves four things: a) a clear definition of the problem, b) a look at what options are available, c) an exploration of which option will work best, and d) creation of a specific course of action. It's important that you try to find win-win answers: solutions that help everyone come out a winner. If the concern is financial viability, can you find ways of converting assets or increasing cash flow so everyone comes out a winner? If the concern is division of labor, can you find a winning solution for everyone involved?

7) When you reach common ground, be sure to write up an agreement. Given the complexity of family farm transitions, it's important that agreements be written down on paper. Recognize that it might take two or three drafts to reach an agreement that works for everyone. So, do a draft and seek feedback, then do another draft and seek feedback. Emphasize that you want this transition to work and it can only work if all the participants involved in the agreement understand its provisions and feel comfortable with them. You might want to seek the advice of an attorney to make sure the agreement doesn't violate basic principles of law.

8) Seek outside help if you experience bumps along the way. The Wisconsin Farm Center (1-800-942-2474) at the Wisconsin Department of Agriculture, Trade and Consumer Protection has resources that can be helpful to farm families in transition: Mediation Program, Beginning and Transitioning Farmer Program, Farmer Assistance Program (cash flow, feasibility analysis, enterprise analysis, business plans). Extension offices, technical colleges, agricultural lenders, farm management services, tax/accounting services and attorneys can also bring needed expertise if you experience problems in planning your farm transition. Feel free to reach out to these important resources if you experience bumps along the way.

#### Readiness to Scale Back: Aligning the Planets

As I suggested earlier, scaling-back often involves transitioning the family farm to younger farmers and this requires a readiness on the part of those wanting to scale-back as well as a readiness on the part of younger farmers. Getting these two "planets" to align at the same point in time can be the tricky thing.

When the timing is not in alignment, the older farmers may try pushing the younger farmers or the younger farmers may end up pushing the older farmers to retire or scale-back. This is not a satisfying experience for either party.

To prevent this from happening, try to anticipate when you would like to scale-back your involvement in farming. Then plan for this by addressing the barriers outlined earlier in this paper and communicate your hopes, wishes, goals and expectations to the younger farmers. You

can't control the actions of younger farmers, but you can invite them to be a part of your family farm transition. If this transition is done in a thoughtful way, it can provide an exciting opportunity for both parties: those scaling-back and those scaling-up!