Good afternoon … and thanks for joining us … I'm Judy Simpson. One of the issues critical to the future of farming is farm succession. While the transfer of any business presents challenges, the uniqueness of an intergenerational family farm makes transferring the farm even more complex. To begin, Keith Silva visits with a Vermont family that’s tackling these tough issues.

At the Richardson Farm in Hartland, the driveway is often where decisions get made. It’s an informal process, but in the end the work gets done.

Reid Richardson/Woodstock, VT: “What makes it work? What makes it work is everybody shows up and works and does their share … and being able to take an ownership role in the business and convey our ideas to one another and actually move forward with them is what’s making it work.”

The farm ranges across four-hundred-and-fifty acres of hilly pastures, fields, and woodland. Along with a small herd of dairy cows, the Richardsons have diversified their business to include maple sugaring and a company that produces hand-made split rail fencing.

When the Richardsons were recognized as the Vermont Dairy Farm of the Year in 2009, Gordon Richardson told Across the Fence that he was born to be a dairy farmer.

Gordon Richardson/Woodstock, VT: “It’s what people do around here, it’s what we knew how to do, it’s what fits with the landscape, cows eat grass, grass grows well here so it makes sense.”

Gordon and his brother James own the majority of the farm’s acreage. After years of deliberation they began to work through the process of transferring the cattle and equipment to Gordon’s sons, Reid and Scott. This was the first and an important step in the intergenerational farm transfer … but a major challenge still exists: determining how to transfer the real estate.

Reid: “Scott and I are majority owners of the farm business, cattle, equipment, buildings, but we don’t own any of the land. And the land transfer is the current challenge because there’s many, many, many people involved which makes it more complicated and so were working to reduce the complication there.”
As the primary landowners, Gordon and James Richardson are facing the challenge of how to be fair and equitable with their family legacy and their children’s birthright.

Gordon Richardson: “My brother has 3 daughters who do not participate in the farm, I have 3 sons, 2 of them are in the farm and one is not so there is definitely a problem built into that situation and they have their rights to some of their share of the value so we can’t cut them out. Particularly my brother—he owns half of the value of the land so I can’t tell him what to do so that is a difficult situation and that’s what we’re trying to figure out.”

Reid Richardson: “It’s just as much their farm as it is mine because their father owns half the land and they’re our cousins so of course we love them as much as we love own family our closest family and they’re always welcome here. Do they have a say in what goes on here? No, because this is where we are working to make our living … you have to operate in a respectful manner and that goes along with family and cousins and it’s a juggling act for sure.”

Scott Richardson/Woodstock, VT: “The family communications are definitely tough, but they are not something that we can’t get over or get through. I think we do pretty well at that really. It comes to a head sometimes, but we get past that.”

Bob Parsons: “It isn’t going to go anywhere if people can’t communicate with what they want to do.”

Bob Parsons is the University of Vermont Extension Agricultural Economist.

Bob Parsons: “These families have to come to grips with what they want to do with the farm and let everyone in the family know what their intentions are, what people’s objectives are and how you can be creative enough to try to work this out, if somebody in the family wants to keep the farm operating as an operating farm. One of the problems we have in agriculture is that agriculture is not that profitable. And land values are extremely high. And so when the land values are high in comparison to the value of the profit that’s going to come from that farm we have a situation that we call ‘land rich, cash poor farmers.’ They own real estate that could be worth a million dollars and they don’t have enough money to fix the porch roof. It’s a very classic example all across the country.

The Richardsons know that transferring their land to the next generation is going to be a long and at times difficult process, but it has to happen … for this farm and for this family.

Gordon: “The worst possible thing you can do is nothing. That’s a terrible decision. You’ve got to try to think of what you’re going to do and head in some direction, maybe wrong, but you got to do something.”

Scott: “The farm transfer is nowhere near complete and I would say the greatest challenge is going to be to make sure that all parties are fairly recognized for their contributions.”

Reid: “The older generation, I’m not saying that I don’t have patience, I have a lot of patience, but they have unlimited patience. They know that, they’re confident that a land transfer will occur, they’re not necessarily one-hundred percent clear on how they’re going to get from point A to point B but they know they’re going to get there and they know that if they just slowly,
steadily work towards that, the goal will be accomplished. It’s kind of a lesson of patience in that, Rome wasn’t built in a day, but that’s just how it is, sometimes, you have to move forward.”

Gordon: “I wish I had a lot of answers for you and a lot of good advice. We’re in the midst of that and just how it’s going to work out. I’m pretty confident we’ll figure out something.”

For a family with four generations in farming … this will be the most important decision that the Richardson family has ever made … ensuring that there will be a farming opportunity for the next generation. In Hartland, I’m Keith Silva with Across the Fence.

Thank you, Keith. UVM Extension provides educational workshops on farm transfer issues, and one of the key points of the workshops is planning:

Hello. I’m Bob Parsons, University of Vermont Extension Ag Economist. In this segment of our “Transferring the Farm Series” I want to provide you a sample farm business transition plan that may help you develop your family transition process.

Numerous Extension educators and lenders have worked with farmers over the years and have seen many family farm business transitions work and many fail. From these observations, I want to present some steps that we have observed to more likely lead to a successful transition. There are some things that should occur before any family member should return to the farm to join the family business.

In phase one, they should have some post high school education. It does not matter if its business education or technical production but expanding education and exposure to others is important. Also in phase one, work somewhere else for non-family for at least a year. It’s important to learn what it’s like to work for someone other than Mom and Dad. Another farm, away from home, even the military provides the younger generation with a different view of the world.

Phase two involves a trial work period of at least one to two years with Mom and Dad that ends with an honest evaluation by all parties. Business is business. Being of flesh and blood does not give one a right to be in the business. Deciding a business arrangement would not work does not expel them from the family. The toughest part for farm families is to separate business and family. It’s not easy but essential if the business is to remain viable. When evaluating the trial work period, you must consider spouses and other children that may be involved in the business. This can be nerve-racking if there are multiple children who want to be involved in the business and it’s obvious that they will not get along. The family has some tough decisions to make.

There are several other points that also reduce spousal and personal conflicts:
Have the younger generation live out of sight of the parent’s home.
Any labor contributed by spouses/significant others is compensated with fair wages.
If the business has multiple children involved, it may be best to let them own their own homes instead of being provided by the farm.
Keep private affairs private. What matters are affairs that affect the business.
All of these recommendations can be difficult to practice but remember we are running a business as partners, not as parent/child. If the trial period works out, it’s time to get down to the nitty-gritty of developing a roadmap for the entry of the younger generation into the farming operation.

This third phase begins the path to management and ownership. This does not necessarily mean the planned departure or exit of the older generation. It’s important that the younger generation has a road map so they know what should occur when. They are on the path to business partner and possibly sole ownership. They are not signing on to be a lifetime laborer with a possible reward that they may be owner someday.

One step that is quite common is that the younger generation is given some authority to make production or marketing decisions in at least one area of the business. No one learns if they are not given the opportunity to make mistakes. It also allows them to specialize and become the expert in one part of the business. For example, the younger generation could take over the livestock production, crop production, or some aspect of the marketing.

Farmers who have experienced successful transitions say it’s important to get the younger generation on the road to ownership by allowing them to start building equity in the business. And this should be considered as part of their total compensation. Having ownership makes them realize what they are building. Paying some amount, even at a deep discount, is also reported key to understanding the role of debt in building equity.

Phase four involves advancing toward management and ownership. After a few years, the younger generation tends to take charge of at least one area of the farm business and needs to gain a view of the entire business. This often involves bringing them into the money side of the business if this has not already been shared. Get them involved in purchasing decisions, marketing decisions, and meeting with lenders. If they are to become the business manager someday, they must become aware of the financial constraints and challenges of the business. In numerous cases, we have seen farm business transitions fail at this point. The younger generation may be running the production side of the farm but have never been brought in to the financial side of the business. Some parents seem to do this due to fear of losing control. Remember, the idea is for the farm to be a viable business. To be lasting, it has to be profitable, and owners need to understand where the business finances stand. Remember, sharing does not mean stepping away. Successful transitions have a younger generation that realize the older generation has knowledge and experience that money can’t buy.

Phase five is becoming majority manager and owner. In this phase, the older generation is scaling back due to age and possible physical infirmities. The younger generation has gradually taken over more decision making and managing the business. Also by this point the generation operating the business is now a significant owner of the business. Land ownership often varies depending on strategic estate plans. What is common in this phase is to have another generation beginning Phase One. It’s also common in Phase 5 to see the older generation still active in some part of the business, either operating equipment, operating the sales center, keeping records, or serving as a reliable “walk around” manager, solving problems as they arise, from labor to mechanical to public relations.

For farms that succeed in transitioning the farm business to the next generation, there seems to be one characteristic. These phases are followed but in such a seamless manner that it’s often
difficult to determine when one ends and anther begins. Many of the operators in phase 5 cannot determine what year any stage began. For the older generation, they have gradually handed over management and ownership without feeling they were forced out.

Successful transitions have also kept the business separated from family. Growth is common as all businesses need to grow to provide income for additional family members. No one is holding a job just because they are family. They have a business agreement that has been followed and adjusted as needed to meet changing market circumstances.

The five phases are found to be common in successful transitions. It does not mean that this is the only way for success … but consider how they may work for you. Business transitions take more than 20 to 30 years so be sure you make it as smooth as possible. With the Transferring the Farm Series, I’m UVM Extension Ag Economist Bob Parsons.

[Judy] For more information on farm transfers, contact your local Extension office.

That’s our program for today. Thanks for joining us; I’m Judy Simpson. I’ll see you again next time on Across the Fence.

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