

Chico financial planner offers advice for bequeathing the family farm

Biblio File

Chico's Kevin Spafford is a certified financial planner who specializes in farm "succession planning" defined broadly as "what is best for the family-owned business."

He writes that "farming is the quintessential family business. No other business endeavor is as emotionally charged as the family farm." But deep feelings can often prevent owners from thinking clearly about "the inevitable transfer of ownership" that comes sooner or later.

To help farm owners make wise decisions about that transfer, Spafford has published "Legacy By Design: Succession Planning for Agribusiness Owners" (\$29.95 in paperback from Marketplace Books). He will be speaking and signing copies at 6 p.m. Friday at Lyon Books in Chico. The public is invited.

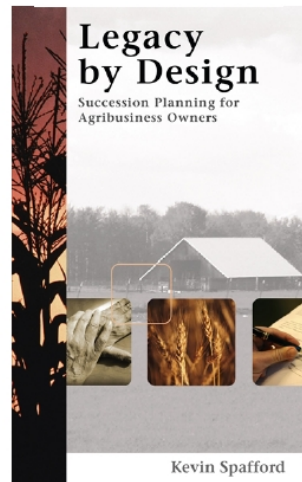
The book presents all the steps necessary to develop what Spafford calls a "comprehensive succession plan." The creation of such a plan, he writes, "may require a multi-disciplinary team of professionals, including a financial planner, an attorney, an accountant and possibly a banker among others. It involves planning and advice for multiple generations of the family. It includes financial, estate, retirement and business planning," each of which is covered in a separate section. In addition, "Legacy By Design" includes a large appendix with checklists and charts, a comprehensive glossary and a bibliography.

While the sections on estate and retirement planning are pretty detailed, even there Spafford maintains a conversational tone and includes a variety of case studies that connect with the real world.

The chapters on business plans and succession were the most interesting to me.

A business plan helps spell out how that particular agribusiness fits into its environment and what its prospects for growth might be. The environment has changed. "In the agricultural world of

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Kevin Spafford

yesterday," Spafford writes, "commodities ruled. Today, there has been a significant change. Consumers are now willing to pay extra for unique and specialized products. Customers are seeking individual relationships with suppliers and vendors as never before. They want safe, healthy, and convenient food sold through a personal relationship of trust." Think farmers markets.

Something else has changed. Time was when labor was viewed as a cost and farm machinery as an investment. But the author points out that "when you factor in the benefits of long-term employees dedicated to business success, it is difficult to imagine them as an expense. Labor must be regarded as an investment. Like other systems on the farm, a skilled labor force improves the bottom line." (He also notes that it's better to view farm equipment as an expense rather than an investment.)

Family farmers may have developed a knack for making money over the years so it's hard for them to understand why a business plan is so important. But "farmers' earnings are squeezed today as

never before. You are asked to do more with less. Input costs increase as commodity prices decline. Foreign competition exerts pricing pressures on all commodities. There seems to be a never-ending string of bureaucratic challenges each grower must navigate before applying many of the fertilizer or herbicide inputs that make agricultural practices so prolific. Automation which promotes efficiency in agricultural practices also increases capital expenditure."

All of these things and more need addressing in a business plan, especially if the farm is to be turned over soon to the next generation. "The way it's always been done" won't work anymore.

Just who will take possession of the farm is another significant issue, and Spafford focuses on the inevitable family difficulties when some members wish to remain active in the business and others do not. Active members may be interested in long-term investment whereas "passive" members may want short-term return. Conflict and rivalry are inherent in the process of choosing a successor, and the author offers a way through by considering not equal distribution of assets but "equitable" distributions to various family members. Those not involved in the business may well settle for a lower cash sum when the transfer comes, leaving the farm intact to be run by active members. Spafford is good on helping family farmers take a more objective look at the talent available to them, encouraging them to look to trusted employees or outside managers if family members are unwilling or unable to continue the business.

"Legacy By Design" offers a sensible and careful approach to a complex and emotional "passing of the baton."

Dan Barnett teaches philosophy at Butte College.

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