Ever Thought of Selling Your Family Business?

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In late 2008, Farm Journal conducted an on-line survey about succession planning. Of the 369 respondents, 33.9% rated "Not having a younger generation interested in participating in the operation" as the top barrier to leaving a legacy. In general, about one-third of family businesses survive into the second generation and only 10% survive into the third generation of family ownership.

In agriculture, if no successor exists to transition management and ownership to, the usual options include:

- Scaling back operations to something smaller and less intense (for example, going from dairying to heifer raising);
- Quitting operations, selling the machinery and livestock and renting out the ground (and, if you're lucky, a building or two);
- Having an auction to sell the assets – lock, stock and barrel; or
- Some combination of the above.

Selling the family farm business as a "going concern" – not just the asset base – is somewhat unusual. However, this exit strategy is actually a fairly common occurrence in the life cycle of non-agricultural family-owned businesses.

Selling any family-owned business is an emotional and well as a financial event. Property may have been in the family for generations. Grandpa, or great-grandpa, may have built the original facilities at the "home place." Therefore, the first step in considering business sale is to define both the family and financial goals. These goals then become the guiding principles which lead the entire process. Questions here typically include:

- How will my family feel if I sell the business?
- If I sell my business, how much will I have after taxes?
- What income will I need after I sell my business to do what I want to do?
- Will I have enough to live on after I sell my business?
- I had always hoped to keep this land in the family . . . can I do that AND have enough income to be comfortable?
- What will I do with my time after I sell my business?

Once the goals and wishes of the selling family have been outlined, the process can get down to the work of defining the playing field – what kinds of valuation, buyers and tax structure can combine to meet the family's goals?

Step two determines the value of the business. Traditionally, the worth of an agricultural business has been defined by its asset base – land, buildings, machinery and inventories. However, the relationships and "brand" of some ag businesses make them worth more than the sum of their assets. For example, most row-crop farms typically have a fair bit of rented ground. The reputation of care for landlords and the relationships owners have built with these key "suppliers" do have value. Sometimes these relationships are significant enough to make an ag business worth more as a "going concern" than as a collection of assets.

If the business does indeed have some potential increased value as a going concern, the next steps outline what sellers should do to prepare the business for sale and begin to identify the likely and qualified buyers. Once buyers have been identified, a transaction structure can best achieve family and after tax financial goals is outlined. Sometimes the additional value over and above the asset base can be developed by having the buyer and seller cooperate on the terms of sale. The details of the sale structure are critical to minimizing tax liability.

Once the family's goals have been discovered and a value for the business established, selling a family-owned business can (and should) turn into a bit of a numbers game - strategy, negotiation, tax structures, etc, etc. However, to ensure a successful outcome, the process needs to maintain a focus on the selling family's goals – back to Step One again!

A key part of the original goal identification should include development of a personal exit plan for the sellers. Many owners leave the question, "What is next in my career and what is next for my spouse?" unanswered until just before the sale is complete. Often business owners have devoted a major portion of their life developing their business. Selling the business – often an extension of themselves – may bring remorse, especially if proper planning concerning life after the sale was not addressed.

Regardless of the way a family-owned business exits – scaling back, renting out the ground, selling all the assets or selling as a going concern – develop clear and detailed personal exit plans for the selling family. And develop them before starting the selling process. Selling a family-owned business is never easy – there are lots of financial and emotional aspects to consider and the process can take up a lot of time. However, by clearly defining the goals and considering some non-traditional sales possibilities, the selling family should enjoy peace of mind as well as financial security when they wrap up the process.

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