

Ag-planner/IVtm

Ag-planner/IVtm is designed to give you, other owners, family members, and your advisors a picture of your situation, your farm or ranch operation, and a way to focus your dreams and hopes for the future. It allows you to create a foundation on which you can build a

plan for growth, profitability, and management succession using the approaches developed by specialists in the field.

Working through these pages is like having your own family business consultant. It can be useful in a number of ways:

- 1) It **opens up channels of awareness and agreement** necessary for achieving your individual and shared goals*
- 2) It **allows you to focus your dreams** for the future of your farm or ranch*
- 3) It **serves as an essential guide for your professional advisor** to help him or her understand your objectives, concerns, and desires as the important documents are being drafted*

*Specifically, **Ag-planner/IVtm** will help you deal with, and manage, important personal questions about . . .*

- Your **individual** points of view (not just the owners', but **everybody's**)*
- Your **joint and individual goals** (to help focus on direction and reach agreement)*
- Your **management, transition, security, and fairness** concerns*
- Your **advisors**, how to use them and how best they can serve you*
- Your "Understandings," the **owner agreements** which provide the foundation and forecast for your successful future together*

A tool to help farm & ranch owning families...and their advisors...

- Zero in on personal and business goals*
- Focus discussion on problem solving NOT disagreement*
- Define the critical management and succession issues*
- Uncover the most important questions*
- Address individual concerns and objectives*

See inside. . .

Ag-planner/IVtm

An Agreement Builder for Family Agribusinesses by Donald J. Jonovic, Ph.D, and Pamela Jonovic. (132 pp.: Jamieson Press: \$59.95)

This workbook provides family farms and ranches a comprehensive approach to transition planning that can be self-administered. Designed as a "consultant in print," **Ag-planner/IVtm** provides questionnaires, rating tools, and a step-by-step guide to scoring and interpreting survey results. **Ag-planner/IVtm** duplicates consulting techniques developed by the authors over more than three decades of experience with thousands of family businesses. It can be used independently or in conjunction with your professional advisors for more results-directed meetings.

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SURVEY FORM 6-1—Buy/Sell Agreement Objectives

Instructions

Circle the one number—and one number only—on that line that represents the best answer for you. **Try to avoid selecting "zero," which means you are truly undecided about relative importance.** Think more deeply; usually you will be able to decide which is more appropriate for you. Often it's best to follow your first inclination.

Example

1. What is the relative importance of the following reasons to own a family farm?

Chance to work together with family	4	3	2	1	0	1	2	3	4	Maintain personal independence
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Owners of a business, whether they are partners, shareholders, or members of a limited liability corporation have an obligation to each other to agree, in advance, how they will deal with significant "ownership" events. This requires looking ahead to the possibility of death, divorce, disability, retirement of owners, and agreeing upon how events like that will be handled. The questions on this and **Forms 6-2 and 6-3** are designed to help you determine how individual owners feel about these issues. This, in turn, will help you work with your advisors to draft a written Buy/Sell Agreement that best fulfills your individual and group intentions.

1. What are your preferences concerning distribution of ownership of the family farm or ranch business?

Operators of business only	4	3	2	1	0	1	2	3	4	Operators and/or non-operators of business
Direct descendants of founder(s) only	4	3	2	1	0	1	2	3	4	Any family member including spouses
Family members only	4	3	2	1	0	1	2	3	4	Employees and family members

2. What are your preferred approaches to valuing business interests when ownership of the business/assets transfers under this Buy/Sell Agreement?

Minimal value for estate tax purposes	4	3	2	1	0	1	2	3	4	Maximum value for liquidity
Value defined by specific formula	4	3	2	1	0	1	2	3	4	Value defined by negotiation
Negotiated value by professional appraisal	4	3	2	1	0	1	2	3	4	Negotiated value by agreement among owners

3. Should the business or other shareholders have a "call" on a partner's ownership share under the following circumstances?

Disability of owner?	4	3	2	1	0	1	2	3	4	No
Yes	4	3	2	1	0	1	2	3	4	No
Death of owner?	4	3	2	1	0	1	2	3	4	No
Yes	4	3	2	1	0	1	2	3	4	No
At any time?	4	3	2	1	0	1	2	3	4	No
Yes	4	3	2	1	0	1	2	3	4	No

Your name: _____ Date: _____

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Ag-planner/IVtm provides individuals with "gauge" sheets on which they can express their opinions and attitudes on a wide variety of relevant business topics. These are then summarized on worksheets like the one represented below to get a clearer picture of general agreement and disagreement—an essential starting point for problem solving.

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SAMPLE WORKSHEET B*—Alternative Choice Questions

Use this worksheet to summarize the results of individual rating sheets. Transfer the specific rating each individual gave to each goal to the fill-in box below their initials. For clarity, score zero ("0") only when that was the person's specific selection. Otherwise use a dash ("-") to indicate no answer was given. Then for each of the investment objective pairs, total the ratings for each item on that side, and place that total in the box below the alternative. Another copy of this worksheet can be used to score more individuals or to compute and compare averages over group responses.

Columns can be used to record scores of individuals or average scores of specific families, age groups, or any other subset you think is appropriate. For example, you might want to analyze the attitudes of in-laws and how they differ from blood family members.

Totals are intended to disclose the attitudes or priorities of all stakeholders or groups in the comparison. Similar totals, on right and left, as below, indicate that the purpose for building value may be unfocused.

Differences in scores among individuals or groups can help disclose areas that require discussion. Here, GOC has a very different priority with respect to value-building than his son. It appears he is more interested than his son in building value for the grandchildren, possibly because his son needs value himself.

1. Importance of investment goals and methods:

Individual/Group				Totals for Alternatives				Individual/Group			
GOC	LEB	...	MKC	GOC	LEB	...	MKC	GOC	LEB	...	MKC
4	-		3	7	0		2	4	2		4
4	3		2	9	0		2	4	3		2
-	-		0	0	10		0	2	0		3
-	0		0	0	0		0	2	0		3

Build owner equity for future generations vs **Maximize return for current owners**

Maximum investment of profits for growth vs **Maximum payouts to owners for liquidity**

Focus more on growth than on minimizing risk vs **Focus more on minimizing risk than on growth**

Use leverage (DEBT) to fund growth vs **Use current cash flow to fund growth**

General Note on Alternative Scoring and Interpretation: The point of using alternatives rather than rating single statements is to force the person responding to analyze findings, attitudes and opinions carefully and in depth. It also ensures that the respondent is aware of the full range of alternatives before answering. This gives the analysis particular power in comparing group answers (e.g., in-laws to blood family, generation to generation, or farm to off-farm).

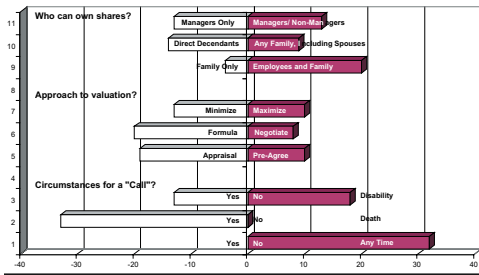
When comparing groups, it's usually best to use an average response for that group, rather than a total of responses. Averages take out some of the "noise" of individual answering styles, and also allow comparison of individual answers to group norms.

*The questions on this example correspond to Survey Form 3-1—Investment Objectives, on Page 85.

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Ag-planner/IVtm provides detailed instructions on both scoring of individual survey sheets and on interpretation of the results. The workbook is designed to be used by any member of the family, as well as professional advisors and facilitators. The workbook is spiral-bound, which makes it easy to copy survey forms on any office copier for distribution to all owners and family members.

Cleavers' Buy/Sell Agreement Results (Form 6-1)

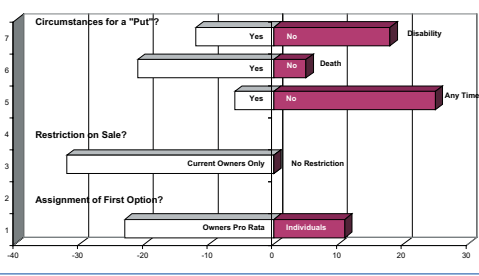


NOTE: The negative numbers only denote opposite direction, not a "negative" answer on the particular issue being rated.

Everyone agreed that management structure, compensation, even strategic issues could wait until future meetings. Estate planning and the shareholder agreement, however, were considered emergency issues, and the Finance Committee decided to get right at that by immediately beginning the drafting of a shareholder or buy/sell agreement.

Looking at the results of the family survey, it seemed that the family was somewhat comfortable with the following directions:

Cleavers' Buy/Sell Agreement Results (Form 6-2)



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Ag-planner/IV™ also includes a "Tools" section, which contains useful examples like sample buy/sell agreement wording (with explanations), descriptions of forms of financial planning, and ways to analyze and describe estate asset distributions, such as Mary Doe's plan, illustrated on the right.

Ag-planner/IV™ helps you explore the key issues of shared ownership, transition, and estate planning. On the left is a detailed analysis of individual answers on key buy/sell agreement issues, part of the illustrated discussion of an example farm family's situation that's included in the workbook. Presenting these results graphically provides a focus for productive discussion about areas of agreement and disagreement. Since many of the terms involved will be new to many, a complete Glossary is included.

An Excel® scoresheet, which includes the option to generate graphs like those to the left, is available on request, to registered owners of Ag-planner/IV™.

This may not be important in a business where all the owners are employed with equal responsibility within the business, but there aren't many farm or ranch operations that are structured that way. In most cases, either not all the owners are employed in the business, or the ones who are so employed have very different responsibility levels—and, likely, contribute very differently to the end result.

The illustration on the previous page is an example. In this plan, the partners have set a minimum return on equity of 10% (1). At or below that level, there is no bonus pool. Above that, they share in profits on an ascending scale (2). They're basically saying to each other that, as managers, they should at least be able to generate a minimum return for themselves as investors before they earn any bonus. Once that minimum is achieved, they agree to pay themselves bonuses that can reach up to 60% of profit.

Note that they just barely made the minimum the prior year (3) and paid a small bonus, and are now projecting two potential outcomes for the current year, "budget" and "optimistic," with corresponding bonus pools. The table above shows the salary, bonus, and partnership distributions under both plans.

This plan steps firmly away from the typically socialistic pay policies found on so many ag operations, where everyone gets paid about the same and each partner/family draws what it needs from the partnership. The most important decision these partners have made is to differentiate what they receive as managers (salary and bonus—4) from what they receive as investors (partnership share—5). They've decided to set their salaries based on responsibility level, dividing the bonus pool according to that difference in salary.

A compensation system founded on this kind of philosophy can go a long way toward minimizing conflict and resentment among partners and their spouses. Basing incentives on achieving shareholder value objectives also establishes a culture of accountability, something essential for a partnership to survive and thrive.

Separating incentive bonus from partnership share

Bonus Pool (Budget): 21,125		Profit*: 346,375		
KEY EMPLOYEE BONUS - FYE	200y Salary	Proj. % Bonus	Partnership Share	Total
Partner 1 (General Manager)	40,000	7,545	86,594	134,139
Partner 2 (Subsidiary Manager)	30,000	4,527	86,594	122,252
Partner 3 (Farm Manager)	24,000	3,395	86,594	115,121
Partner 4 (Field Hand)	18,000	3,395	86,594	107,989
Level Totals	112,000	21,125	346,375	479,500

Bonus Pool (Optimistic): 89,850		Profit*: 385,150		
KEY EMPLOYEE BONUS - FYE	200y Salary	Proj. % Bonus	Partnership Share	Total
Partner 1 (General Manager)	40,000	32,089	96,288	168,377
Partner 2 (Subsidiary Manager)	30,000	24,067	96,288	150,354
Partner 3 (Farm Manager)	24,000	18,050	96,288	138,338
Partner 4 (Field Hand)	18,000	14,440	96,288	128,728
Level Totals	112,000	89,850	385,150	587,000

*Profit is pre-tax income net of projected 200y bonuses. Bonus is based on relative salary level.

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Distributing equity and assets...and explaining the decisions

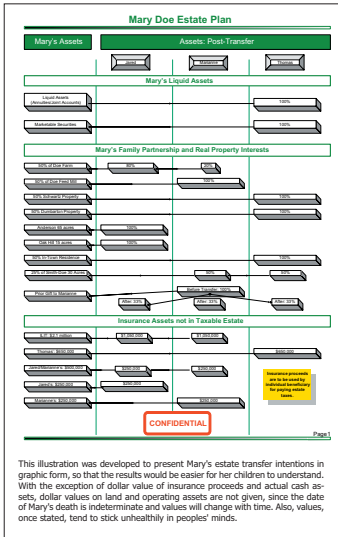
For their size, farm and ranch asset structures are often very complex. This makes ownership transition planning very complex, also. Not only are the tax considerations difficult to analyze accurately, the issues of control, balance, and fairness are usually exceptionally tricky for what, otherwise, are relatively moderate estates.

When parents begin thinking about these issues, it's not unusual to give up in frustration and decide to "get to it later." Bad decision, and even they know it.

It's at times like this that the Advisory Board can show its true value and power. In the illustrations on this page and the next, we present an example of what resulted from a full year of intense conversation between "Mary Doe," a widow with three children (the names and asset descriptions have been changed to protect the family's privacy) and her advisory team.

We realized that there was considerable tension in her family arising from the lack of understanding how everything would look after Mary's death.

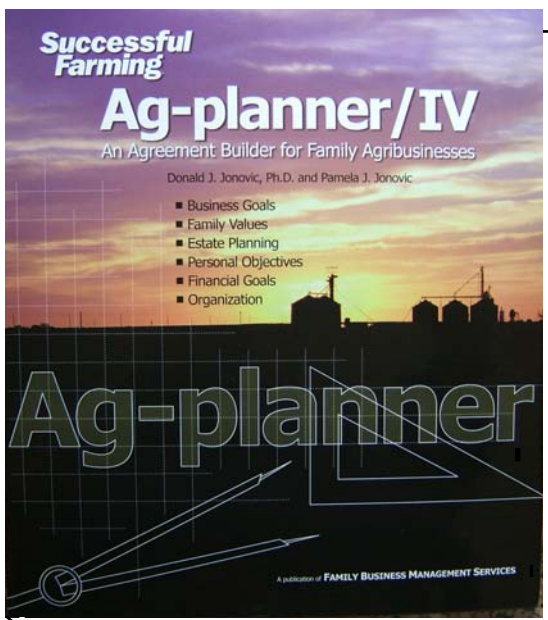
It wasn't that her children desperately wanted her assets now (and they certainly didn't want to give her that impression). Instead, her son, Jared, who operated the farm needed to know whether the farm would be his eventually and whether he would have his brother and sister as partners. The other two children were concerned about their financial future and whether or not they could count on a continuing connection to assets



This illustration was developed to present Mary's estate transfer intentions in graphic form, so that the results would be easier for her children to understand. With the exception of dollar value of insurance proceeds and actual cash assets, dollar values on land and operating assets are not given, since the date of Mary's death is indeterminate and values will change with time. Also, values, once stated, tend to stick unhealthily in peoples' minds.

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Ag-planner/IV™ is not just about estate planning or succession, important though those issues are. It also focuses on what it takes to make a family business partnership work and stay harmonious. This is why there are survey forms dealing with overall concerns about the future, strategic goals (e.g., should we own or rent land assets), return on investment expectations, and desired ownership structures. The workbook even deals with standards and approaches to wages and bonuses for owners and partners, providing specific examples such as the tables on the left.



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