

# Ideas for setting up a solid partnership

By JOSH FLINT

**G**ARY Goodwin, FBFM field staff, has brokered many prosperous farming partnerships throughout his career. At the same time, he's seen partnerships that looked great on paper go up in flames.

So, what's the key? Goodwin says a successful partnership runs deeper than deciding on green or red equipment. The first, and most important, step is finding a compatible business partner.

"You are joining forces here, kind of like a marriage," Goodwin clarifies. "If you have a couple of personalities that aren't compatible, you're going to have a problem right away."

## Build it strong

### ■ Match work ethics.

Unfortunately, many failed partnerships are a casualty of contrasting work ethics. "I've seen some where one guy would go home every day at 5 p.m.," Goodwin explains. "The other guy would stay out each night until 10 p.m. That can cause a lot of problems, especially with the wife."

One way to remedy this

### Key Points

- Farm partnerships only work with compatible personalities.
- Remember to include the family in business plans.
- Smaller farmers could benefit more from a partnership.

problem is by keeping track of hours. Then, one farmer is reimbursed for working overtime. However, this isn't a fail-safe method. Goodwin says it's hard to put a price on a farmer's time. Plus, planting and harvest work hours are worth more than routine maintenance hours during downtime.

On the other hand, Goodwin has seen some successful partnerships that hinge on differing work hours. For example, one farmer may work from 6 a.m. to noon, and then the other takes over from noon to 6 p.m. In a case like this, Goodwin says, farmers have more time to tend to tasks outside the farming partnership, such as a livestock business.

### ■ Involve the family.

Too often, farmers will go into business without consulting

their families, especially spouses. Not a good idea, Goodwin says, since the partnership essentially ties two families' assets together.

In the event one farmer dies, the remaining farmer could now be in business with the surviving family. Or, Goodwin asks, what if a son/daughter decides to return to the farm? Is there a plan in place for including them?

"I've had a lot of partnerships that were started, then something changed, and the partnership had to be dissolved," Goodwin adds. "For that reason, it's as important to know how to get out of it as it is to get into it."

In addition, both farmers' families must be on board with the amount of debt they are willing to accept. Since banks don't repossess half a tractor, Goodwin says both farmers must realize they are on the hook for the entire debt. Therefore, they need to discuss what's acceptable prior to entering into a partnership.

### ■ Prioritize fieldwork.

Goodwin still remembers a partnership that never got started because of harvest timing. The three farmers were very compatible, but each grew soybean seed, which threw a monkey wrench in their plans.

"In the end, they couldn't save any money on equipment because they each needed access to a combine to ensure the soybeans were out in time."

Essentially, Goodwin says, more specialty crops results in a tougher harvest schedule. Of course, a planting season like last year's isn't exactly favorable to sharing equipment.

Interestingly enough, he says a successful partnership doesn't necessarily hinge on the proximity of the partners. He's seen successful businesses where two owners lived 30 miles apart.

"It's amazing how it doesn't cost that much more to travel further," Goodwin notes. He speculates a more distant partnership makes both owners more efficient.

### Joint ownership trends

Over the past few years, he has seen a trend to farmers with 4,000 acres or more forming

partnerships so they can expand even further.

In an increasing number of cases, Goodwin has observed a willingness to form a partnership with a non-family member. A lot of times, this means a farmer with a large operation will approach a longtime employee and offer him or her the opportunity to become a part owner.

In other situations, Goodwin has noticed larger farms absorbing smaller operations. In these cases, the farmer with the smaller operation still wants to remain active and have something to offer the partnership, such as labor or machinery.

That being said, Goodwin believes smaller farms could benefit greatly by joining forces. "The cost of machinery gets so high when you only have around 700 acres," he notes. "The smaller farmer really ought to watch his operating costs more than he actually does."

It all boils down to spreading the machinery costs over more

## Try it out

**B**EFORE you jump head first into a partnership, Gary Goodwin, FBFM field staff, recommends testing the waters first.

For example, he suggests starting with a fairly inexpensive piece of equipment, such as a folding-wing lawn mower. "If they get through the ownership of a bat-wing mower, then maybe they're ready to move onto bigger equipment," he adds.

Still not ready to buy a full line of equipment with someone? Goodwin suggests buying a couple more pieces of machinery and sharing for a couple of years. If it works, then maybe a partnership is a good idea.

To get an idea of machinery costs, Goodwin suggests starting with farmdoc's Machinery Economics FAST Tool. To download the tool, visit [www.farmdoc.uiuc.edu](http://www.farmdoc.uiuc.edu) and go to the FAST Tool section. The Machinery Economics tool is under the Farm Management heading.

The FBFM staff is another great place to start when considering a partnership. Visit [fbfm.ace.uiuc.edu](http://fbfm.ace.uiuc.edu).

acres. Goodwin sees two viable options for doing this: acquire more acreage or share equipment. "In almost all cases, sharing equipment is the easier of the two," he adds.

# Contingency plan: the cornerstone of farm alliances

By JOSH FLINT

### Key Points

- With partnerships, be sure to have a buyout clause in place.
- Insurance can help partners through tough times.
- Sit down periodically to go over the business's ups and downs.

**F**ARMING partnerships can be a great way to maximize labor and financial resources. However, it's essential to include a contingency plan, just in case something happens to one of the partners.

Brigitte Franzen, a certified financial planner with AXA Financial Protection in Springfield, has seen poor planning turn many farming partnerships ugly. She recommends the business arrangement include a buyout clause.

If a partner dies or decides he or she wants out, it allows the remaining farmer first crack at purchasing the business's assets. While

buyout plans are great, Franzen says, many farmers forget a key aspect of the plan: the funding. She's seen many arrangements broken up among several investors after the original business partner wasn't able to come up with the necessary cash.

In the case of premature death, an easy way to fund the buyout is through life insurance. Both business partners take out a policy on each other.

## They said it

"The key to farming partnerships is finding two farmers who want to work together. Then justify it with the cost of machinery."



**Gary Goodwin,**  
FBFM

"People should always remember who they are in business with. If the No. 1 contact goes away, who is standing behind him to take his place?"



**Brigitte Franzen,**  
AXA Financial

"You don't have the stress of taking care of every single thing. You are able to concentrate on your own responsibilities."



**David Sale,**  
CJSW LLC

"If you were a marginal operator before, the big guys are going to slice you up and cut you into pieces. This [a farm partnership] is the only way I see for a small to medium size farmer to survive."



**Larry Wernsing,**  
CJSW LLC

"To make these things work, you have to have an open mind and be very flexible."



**Joe Chappellear,**  
CJSW LLC