

# Working together works

By JOSH FLINT

**T**ODAY, 1,200 acres and 18,000 finish hogs is a good-size operation for one farmer. However, Larry Wernsing isn't sure this will be enough in the future.

"A few years ago, the 600- to 800-acre farm was in trouble," Wernsing explains. "Now, I think it's the 1,200- to 1,500-acre farm. He's the one on the edge."

When Wernsing's son-in-law, Joe Chappellear, asked to come back to the farm, it only reinforced Wernsing's growth plans. Rather than go it alone, he saw a golden opportunity with neighboring farmer, David Sale.

Sale was farming 1,500 acres and also looking to grow. In January 2007, Neil Jordan, an ag lender, connected Wernsing with Sale. The following year, Chappellear, Jordan, Sale and Wernsing formed CJSW LLC.

Jordan currently farms 500 acres with a farmer who's nearing retirement. Once the farmer retires, CJSW will farm Jordan's acreage.

The group consolidated to one line of major equipment. However, each member retained individual land ownership. During planting and har-



**SUCCESSFUL UNION:** David Sale (left), Joe Chappellear (center) and Larry Wernsing formed CJSW LLC in 2007. The partnership has created a more efficient operation.

### Key Points

- Three farmers are proving that partnerships can pay off.
- Pooling assets has led to growth opportunities.
- They suggest sizing equipment for near-term growth.

vest, members pay the limited liability corporation a per-acre fee for equipment rental. Yet, Wernsing, Sale and Chappellear all work together throughout the season.

In the beginning, Wernsing and Sale's main goal was to look and act like a larger farm.

They've achieved this and more. Inputs are pooled and purchased together. Grain is typically marketed together. Plus, the money saved by sharing equipment is funneled toward future land acquisitions.

When a new piece of ground is purchased or rented, it goes to the LLC.

"We wanted to keep our own farms separate, but any future growth is pushed toward the LLC," Sale adds. "I never would have had the opportunities for future growth without this."

The partnership has also opened new technological avenues. Last year, the group purchased GPS and autosteer capabilities for the planter — something that was previously too expensive for Wernsing or Sale alone. "We've gotten our hands on some new technology, and we're craving more," Wernsing says.

For those considering an equipment share, Wernsing says it's important to size equipment correctly. Last year, CJSW LLC purchased equipment based on what the group felt was the maximum capacity they would need for the coming year.

"If you buy in year one for what you think you'll need in year three, the equipment costs will eat you alive," Wernsing explains. In their case, they figured they could always tweak a few things here and there to add speed and capacity if needed.

Last year, CJSW demonstrated smart equipment growth when it purchased a 24-row planter. After careful analysis, the group decided Sale's 16-row Kinze was too small; but, a 36-row would have been too big. "After the spring we had in 2008, we were all glad we purchased the 24-row," Chappellear says.

If one dies, the payout will allow the living partner to assume control of the business. At the same time, the farmer's heirs are able to receive prompt payment for their half.

In this situation, Franzen also recommends an in-depth appraisal process to satisfy both parties. She favors averaging two appraisals.

### Worse than death

For a farming partnership, Franzen says the only fate worse than death is disability. "The disabled farmer needs continued income while no longer contributing to the bottom line," she explains. At the same time, the business needs to hire and pay for a replacement.

Even though farming is a dangerous occupation, Franzen says many farmers are unwilling to purchase disability insurance.

"If they are young, healthy and easy to insure, they tend to think they are bulletproof," she adds. For many, considering disability insurance may come after a scare. Depending on the scare, Franzen says it's usually tougher to insure a farmer at that point.

For the sake of a partnership, disability insurance may be necessary to help pay the bills while a co-owner recovers. There are two types of disability policies: own occupation and any occupation.

With own occupation disability, the insurance company reimburses the farmer for a portion of his or her income as a farmer. Franzen says policies pay up to 60% of the farmer's annual income, based on the past two years.

In a farmer's case, she says, it's important to work with a company that understands the cash flow and assets of a farming operation. Depending on the insurance company and policy, the farmer may be forced to find a job within his or her reduced abilities after a couple of years.

With any occupation disability, the insurance company reimburses the injured farmer for a portion of income. After the accident, the company will expect the farmer to find a job within his or her reduced abilities. Once the farmer's new income level is established, the insurance company reimburses a portion of the difference in

the old and new income level.

While disability insurance can be confusing, Franzen suggests making sure the policy is explained in clear language. "Do not be intimidated by an insurance agent if you didn't understand the first time he explained the policy," Franzen adds. "It doesn't mean you're dumb. It means he didn't explain it right."

### Trust issue

In the end, checks and balances cannot replace trust in a farming partnership. "Ultimately, you are on the honor system," Franzen reminds farmers.

To keep the partnership happy, she recommends a business meeting once or twice a year on neutral ground. At the meeting, go over the good and bad from the past year. Franzen says it's a time to put all the cards on the table and strategize for the coming season.

Also, she suggests making the meeting a tradition early on in the partnership, when everyone is in good spirits and is optimistic about the business.

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