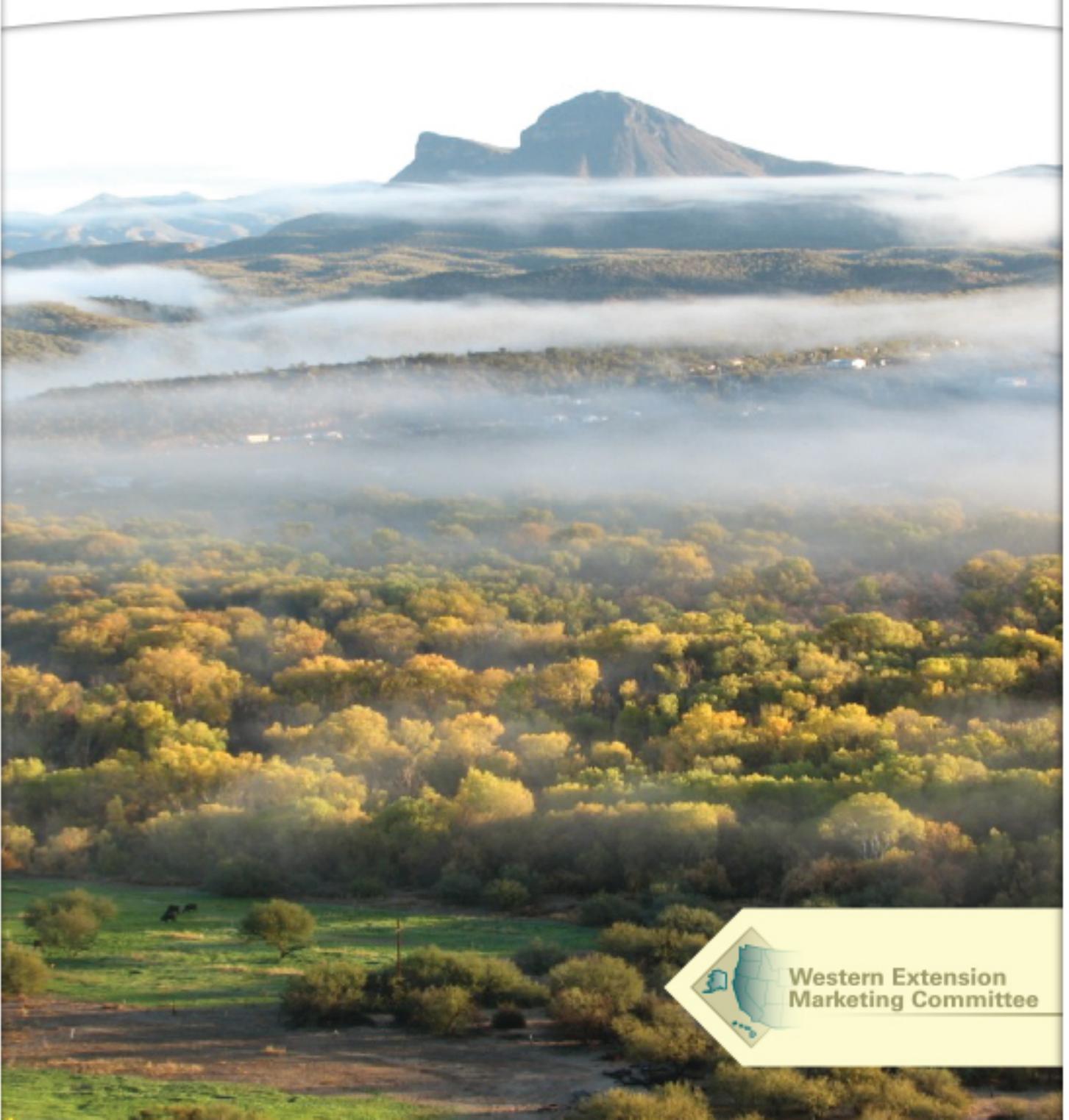


WESTERN FARM AND RANCH TRANSITION STRATEGIES



Western Farm & Ranch Transition Strategies

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Stennes Orchards

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Background

In 1894, Britanus Stennes emigrated from Norway to the Methow river valley in Okanogan County, about 200 miles northeast of Seattle, Washington, where he founded Stennes Orchards, an operation that has continued for four generations. The business has grown over the past decade by 400% and now consists of 575 acres. Stennes Orchards Inc. is an S corporation that is solely an operating company. The Stennes operation owns about 60% of their orchard properties and leases fifteen others from ten entities, six of which are family owned. Keith Stennes and his sons, Kevin and Mark, manage the business. Keith is the general manager, Mark is the farm operations manager, and Kevin is the financial and marketing manager. Kevin works for the family business on a half-time basis, as he is also the organic sales manager for Chelan Fresh Marketing.



Stennes Orchards Inc. produces several varieties of different fruits. Production includes apples (Honeycrisp, Gala, Golden & Red Delicious, Cameo, Fuji, Braeburn, Granny Smith), pears (Anjou, Bartlett, Bosc, Red Anjou, Concorde, Starkrimson), sweet cherries (Lapin, Early Robin, Sweetheart, Rainier, Santana, Benton, Bing, Skeena, Cristalina, Chelan, Tieton), and pluots, an apricot-plum hybrid (Dapple Dandy, Flavorich, Amber Jewel, Flavor Grenade, Santa Rosa).

Approximately 15% of the farm's production is certified organic. The fruit is sold through Chelan Fresh Marketing to wholesale and retail outlets in the United States and exported worldwide.

Keith raised Mark and Kevin on the farm and mentored them to have a love and passion for farming. Both sons

double-majored in Business Administration and Tree Fruit Management at Central Washington University and Wenatchee Valley College, respectively. They participated in the business decision making through their high school and college years, which facilitated their transition into management after graduation. Both Kevin and Mark are passionate about growing and adapting the business. They have become Global GAP certified and are utilizing the H2A worker-visa program. They are motivated to keep improving the business for future generations.

Transition Plan

The Stennes transition plan focuses on improving and enlarging the existing operation. When Mark and Kevin joined the business in 2003, the family decided to make Stennes Orchards an S Corporation. Stennes Orchards Inc. has grown from 100 acres in 1999–2003 to 575 acres in 2013. To facilitate expansion, Mark and Kevin started an intensive lease program and have hired key people to manage the new operation.

This business development is possible because of the availability of ideal lease properties as well as multiple purchases by some of the family's LLCs. Keith, Kevin, and Mark own the LLCs in differing percentages and lease the properties to Stennes Orchards Inc. Equipment, labor, and financing are all necessary to assist growth. The Stenneses finance their investments and operating expenses through commercial banks; they have not used any USDA programs or loans. To build human capital for the operations, the Stenneses invest in training programs for their personnel, including funding an educational program for their orchard at Wenatchee Valley College. Mark also practices hands-on training and transfers orchard-related knowledge directly to his crews.

Responsibilities within the Business Framework

Keith manages the general business details for Stennes Orchards, Mark runs the operations and human resources, and Kevin oversees the finances and marketing. Major decisions are based on "management by committee." Day-to-day decisions are left to the individual in charge of the given responsibility. Considerable trust exists among the partners.

Passing Management Skills to the Younger Generation

Keith's philosophy is that if one wants the next generation to be part of the business one needs to give up some control. Initially, it is important to find an appropriate level of responsibility sharing. Keith feels that the next generation should have a voice in the decision-making, and they should be allowed to experiment and learn from their own mistakes. Moreover, Keith feels it's important to provide the younger generation a sense of ownership based on trust and respect. It is noteworthy that Keith asked his sons to obtain business degrees before taking over all or portions of the business management of the operation. He felt that an education in

business management would contribute to risk mitigation. Mark believes that his degree in business helps him manage the operation, and he frequently uses the concepts and principles learned in his day-to-day management. For example, Stennes Orchards has both a business and marketing plan. Before venturing into a new lease or purchasing new equipment they conduct a thorough profitability analysis.

Additionally, the Stenneses believe very strongly in keeping communication channels open. Trust and respect are the basis for all business interactions. The family feels that there have been no major issues to overcome since Mark and Kevin became part of the management. They work toward preventing conflicts and come to a consensus and agree on all major decisions. Communicating the transfer of leadership to the workers is essential. It is important that subordinates know from whom the guidance will come and to whom they should report.

Conclusions

The process of estate planning has facilitated an early transfer of ownership. The Stenneses use the services of a Certified Public Accountant (CPA) to help with the financial planning. They would like to make sure they are being “equitable” without necessarily being “equal,” since not all of Keith’s children are involved in the business. Keith’s daughter and her husband are not involved in the business.



The Stenneses’ transition strategy is working for them. Their business is growing in an environment of strong family relationships. While some families would prefer that their children gain experience working for other, similar organizations before taking a management position in the family business, they feel that for their specific case the best model is the approach they have used. Their strategy has been to motivate the next generation from a young age, build the love and passion for working at the orchard, give them a sense of ownership and responsibility, and let them take part in the decision-making process. It was important to the family that their sons earn four-year college degrees and return to management positions. Trust and respect are essential elements in their relationship and have prevented conflicts within the business and family.



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