

RIGHT RISK™

R I G H T R I S K N E W S

Farm and Ranch Succession: Wisdom from a Ranch Owner

Farm and ranch succession is the transition of ownership and management from the retiring generation to the successor generation. The legal transfer of assets may occur through inheritance, gifting, preferential sale, other means, and/or a combination of strategies. These transfers tend to be straightforward, especially if the family has communicated throughout the process. However, the transfer of management decision-making for day-to-day operations can be much more problematic.

It is critical to understand that farm and ranch succession is a process and not an event. It takes time to develop a plan and then to implement the plan. Not only will retiring operators and successors need to be involved in discussions and planning, but the entire family will also need to be included in the communications.

“Succession planning is not for cowards. Everyone has to agree 100 percent to communicate, let go of egos, and to understand that everyone is going to make a thousand mistakes. Reevaluate and refine the processes, then move on without making it personal – it’s business!”

Colorado Ranch Woman

Helpful Documents

Business Planning 101 states that every business should have a mission statement and set of goals. The mission statement should be a brief description of the business’s fundamental purpose. It is used to describe to outsiders the business’s current capabilities, customer focus, activities, and business make-up. Goals outline what the owners want to achieve. For a family farm/ranch, the goals should relate to both the business and the family.

A Code of Conduct is also helpful to family businesses. A Code of Conduct provides a set of rules and policies that help guide family members in their personal, business, and family relationships.

Wisdom from a Ranch Owner

A ranch woman (we’ll call her Linda, though not her real name)

How Much Risk is Right for You?



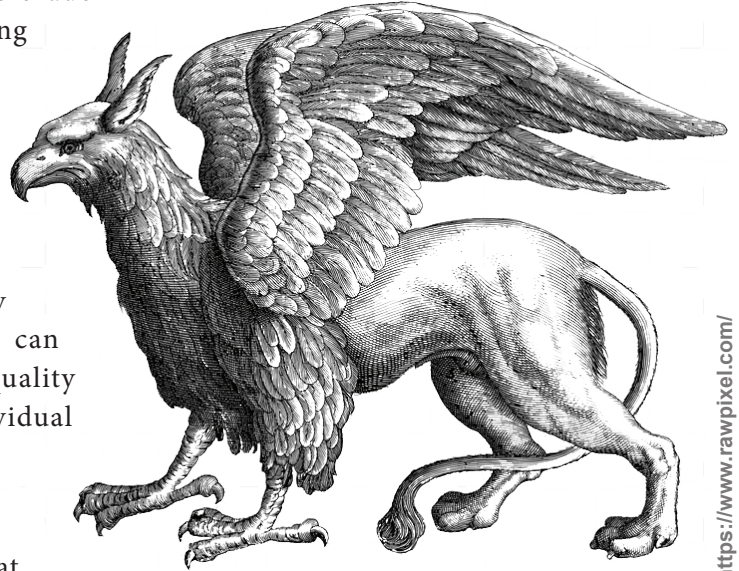
attended a Lasting Legacy workshop offered by Colorado State University. Linda wrote a short paper describing her family's experience of transitioning the ranch to the next generation. She gave permission for her comments to be shared to help other farm and ranch families.

As is typical for many farm and ranch families going through the succession process, what they thought would happen and what actually happened can be quite different. Lots of effective communication (quality and quantity) can help smooth the process, but individual perceptions and actions can and do create problems.

Myth Busters

Linda created a list of "myth busters" describing what she thought would happen and what actually happened.

Not all families will experience Linda's Myth Busters, but the points she makes are common for many farm and ranch families involved in transitioning the business to the next generation.



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Myth 1: I thought it was going to be an event. Work out some details, then hand over the bank account.

Reality: It took 3-plus years of practice.

Myth 2: I thought if I made detailed maps, timelines, etc., it would help them manage the ranch.

Reality: The papers sat in a file box and they practiced "trial and error." This was (and still is) a major ego buster for me.

Myth 3: They would practice managing and I would take on a consultant role. I could be a wise resource of past information and what had worked and what had not worked in the past.

Reality: I heard "Mom, get out of the way;" "We will figure it out;" "We have better ideas."

Myth 4: They love the agricultural way they grew up and would continue in ag.

Reality: I heard "Ag doesn't pay;" "We don't need animals anymore;" "We should tear down all the fences to have open space."

Myth 5: All three children would get along and find their special contributions.

Reality: A spouse of one of the managers leased a plot of land for a personal business but expanded into non-lease ranch land. Resentments build when boundaries are not honored. One child stepped down from management and moved away.



Myth 6: I (matriarch and mother) would graciously step out of the picture and trust the three children to manage the ranch.

Reality: I, after running the ranch by myself for 15 years, keep jumping in and fixing things without talking with management. I have always been the point of contact for leases, and I continued to give permissions and make decisions as if I was still the manager. It took me four years to realize I needed

to tell people to talk with my children. I am no longer the manager.

Myth 7: I thought they would realize how much there is to manage and appreciate all that I had done.

Reality: It took them four years of taxes, bankers, accountants, creating lease agreements, etc. to understand the difficulties of managing a ranch. One point of interest is that my son, during a family lunch said aloud “Mom, I bet it was really hard taking care of this ranch and us after Dad died!”



Linda concluded her paper by writing “Our family has run our ranch for 100+ years and it can go for another 100 years if we work at it. Flexibility is our friend. Our enemy is the complaint ‘But we’ve always done it this way’”

Additional Considerations

Linda captured several key points about family farm and ranch succession. Four additional points critical to developing and implementing a successful succession plan include:

1. Control is an illusion. Trying to keep control causes problems.
2. Don’t test your children (successors). Treat them like partners and as if you had “raised them right”.
3. Your farm or ranch is not an extension of your (retiree’s) self-worth.
4. Separate family decisions from business decisions.

Farm and ranch succession can be difficult but the process is manageable. Families need to learn more about the process and to seek effective, outside coaching throughout the process. They must learn to communicate! Communicate! Communicate!



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NEWS RELEASE - JULY 17 | RIGHTRISK

Federal Reserve Beige Book Summary on the Agricultural Sector

OVERALL ECONOMIC ACTIVITY increased slightly since late May. Five Districts reported slight or modest growth, five noted no change, and two reported slight and modest declines . . .

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**HIGHLIGHTED PUBLICATION:
AG LEGACY**

Ag Legacy materials and online learning modules are constructed from resource materials intended to assist farm and ranch families develop a complete legacy. These include helpful worksheets, planning guides, electronic tools, references, and a host of other information assembled to provide the tools for a successful legacy. More information about Ag Legacy is available at AgLegacy.org.



To read more or to access the site, see: RightRisk.org > Products > AgLegacy

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How much risk is right for you and your operation?

