

# TOUGH CONVERSATIONS

*Succession planning is not easy, but it's worth it.*

*by Sara Gugelmeyer*

Maybe the younger generation doesn't want to be interpreted as hanging around with their hand out. Maybe it's because the older generation is a stoic, tight-lipped patriarch who keeps his business private. More than likely it's a combination of the two, plus additional complications that make the difficult conversations related to succession planning the toughest of any around the farm or ranch.

While those talks may be the most awkward and emotional of any family discussion, they very well might be the most critical to the business's longevity.

"Only 30-35% of family businesses successfully transition to the next generation," says Rodney Jones, Oklahoma State University extension specialist for ag finance and management and professor of ag economics. "There's a lot of reasons for that, of course, sometimes there's no successor that wants to take over; many other times though, there's some kind of failed attempt."

Succession planning and estate planning are often used interchangeably, but they're not synonyms, Jones

says. Estate planning is how to transfer assets, while succession planning involves "trying to pass a viable, thriving business on to someone else."

Assets are going to get transferred one way or another, and honestly, he says, that can be done with a very one-sided approach. A successful business transition involves a lot more nuance.

## FAILED ATTEMPT

That's not lost on Roy Wardell of Loya/Wardell Angus, Platteville, Colo.

Wardell and his four brothers were raised on the family's purebred Angus operation. He left home to pursue a bachelor's degree in animal science at Colorado State University and then a master's in large animal genetics at the University of Wisconsin before returning home in 1965.

"I came back and didn't have a business model in my head," Wardell explains. "I just showed up, and we didn't have an agreement. I came on good faith and no arrangements, so immediately there were issues that came up."

It wasn't long before Roy's mother stepped in and told him she didn't think he would be happy there.

Unfortunately this is a classic problem, Jones explains.

"If you want to transition a business to someone else, you have to make sure everyone is on the same page and has the same end goal in mind."

When working with a family, Jones says he typically does a strategic planning activity that involves a lot of

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communication about long-term vision and end results.

It's particularly difficult when there are multiple family members involved.

"We typically see situations where one member of the younger generation has expressed interest in taking over the farm or ranch, and there's two or three other siblings that either we know aren't interested or maybe we're just assuming they aren't interested," he says. "Often no one's ever actually asked them."

## FINANCIAL PLANNING

Jones typically consults on the finance side of farm transition and says there are three main sets of questions to address:

1. Is the business profitable? Does the business have or have the potential to generate a reasonable return on investment?
2. Is the business profitable enough to support new demands that will be placed on it?
3. What changes need to be made to facilitate the income for new families that need to be supported? How dramatic do those changes need to be?

Jones says he's seen the next generation want to come back well before mom and dad reach retirement age.

"At 55, they still need to draw some kind of an income off the operation certainly for the rest of their productive life, and maybe that's the only retirement plan they have as well," he says. "So, they need that income for many more years."

If a new college graduate is getting married and having kids, it adds to the income needed from the same land.

"All of a sudden, we are expecting that same asset base to support two families. That can create a succession plan failure because that business wasn't profitable enough to support the family draw that is now expected," he adds.

## TRY AGAIN

Wardell took his failed attempt and went back to school with a different plan. This time he studied psychology at the University of Wisconsin and entered into private practice in Minneapolis. For 15 years he worked as a counseling psychologist.

"Dad finally decided he was going to give it up. He was getting older by then, and I had come back to the ranch a few times a year and knew I still loved it," Wardell says. "I told him I was still interested."

This time around the Wardell family didn't rush into anything.

"I spent a year flying back and forth from Minneapolis to the ranch," Wardell says.

They had an attorney help with the details.

"That made all the difference in the world. We knew what was expected of us and where our place was."

Roy moved back and lived in a small "hired-man's house" while his parents continued to make their home where he grew up. When his mom and dad moved into town four years later, he moved to the ranch headquarters.

"At that point, we had already worked out the legal transition of pay and sharing of finances, and dad got busy and worked out his estate stuff," Wardell says.

The estate wasn't large, and liquid assets were divided equally among all five sons, he explains.

"Then the ranch was owned by a family partnership of which all five sons were partners," Wardell says.

The agreement was set so the other four brothers would rent the ranch to Wardell for his cattle business. He paid the family partnership for the lease, and that worked well for a while.

"It came to the point that it looked like we might have to sell the ranch to pay all the brothers what they felt like they were owed," he says. "That was a hard time for me."

The saving grace came from oil and gas development. Since the sons owned the mineral rights equally, Wardell was able to take his share of the royalties and buy his brothers out of the ranch.

In 2006 he "borrowed a pretty big sum of money," and bought the brothers out. The mineral rights stayed the same so that the five brothers or their families (three of Roy's brothers have now passed) continued to split the royalties.

## ALWAYS ANGUS

Taking over the ranch allowed Wardell to use his education and passion for cattle genetics to revive the purebred side of the Wardell Angus herd.

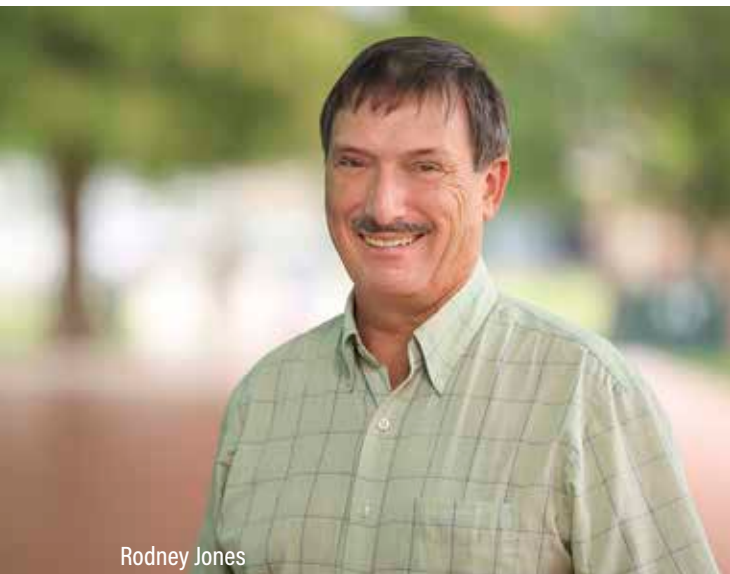
"Dad started with half a dozen Angus heifers in 1936," Wardell explains. "He wasn't much of a paperwork guy, so he didn't keep up with the registrations."

Even though they were unregistered, they were purebred, and the Wardell name became synonymous with quality Angus cattle. The sires did well at bull tests, and he sold about 15 to 20 bulls a year from his 100- to 120-head cow herd.

Wardell essentially started from scratch in 1990.

"I've been very careful about choosing cattle with

*Continued on page 30*



Rodney Jones



Roy Wardell (far right) considers Juan, his wife Yariela, and three daughters to be family. Here they are celebrating Father's Day.

structural soundness (feet and legs), quiet dispositions, correct udders, calving ease, and well-above-average growth and meat-quality genetics,” he notes. “Our customers have been appreciative of our genetics for practical, long-lasting cattle that still have genetics for fast growth and high carcass quality.”

## A DIVINE INTERVENTION

All that progress could have come to a halt if not for Juan Loya.

“I was about to give up ranching,” Wardell admits.

He needed ranch help, and person after person didn’t work out.

“Juan had heard that I was looking for help and showed up at my door,” Wardell says. “He didn’t speak much English, and I was a little bit reluctant to hire him on the spot.”

A skeptical Wardell told Loya to call back Monday if he was still interested. He did, and it wasn’t long before he was a valuable asset to the operation.

Loya knew livestock from being raised on a ranch in Mexico and was working on a turf farm near Greeley, Colo., when Wardell hired him.

Loya says he was glad to get back to cattle.

“Pretty soon he started treating me like family,” he says. “I remember I hadn’t worked there long and we were doing some farming in tractors, and he had one of my daughters ride with him and the other rode with me.”

Excellent work ethic and willingness to learn made him a perfect employee, Wardell says.

A willingness to teach made Wardell the perfect employer. Early on, Loya expressed interest in learning to artificially inseminate (AI).

“The next year he sent me to AI school, and I started practicing on his cows right away,” Loya says. “Since then, I have been doing all the AI.”

It seemed the ideal matchup, until Loya came to him with a confession.

“I had always told him I would deal with anything except dishonesty,” Wardell says.

Then one day the employee — even though he feared he could lose his job — told his boss that his green card was not valid.

“I told him, ‘Thanks for being honest,’” Wardell says, explaining it was common among Mexican immigrants to fake a green card when they couldn’t get a legal one to work in the U.S. “Juan knew of a program where employers could help illegal alien immigrant employees get legal. He put up a significant amount of his own money, and I helped too, and we hired an attorney.”

Loya and his wife, Yariela, got their legal green cards, waited the five years required by law to apply for citizenship, and became legal U.S. citizens in 2015.

“They are a huge gift to this country and to me,” Wardell says, fighting off emotion as he calls them a blessing. “They are better citizens than a lot of us who have lived here our whole lives.”

## ON TO THE NEXT GENERATION

Wardell was married, but he and his ex-wife (and still best friend) who lives in Minneapolis never had children. Loya became like the son he never had. In fact, the Loyas’ three daughters call Roy “grandpa.”

“I always say I had the opportunity to choose my kid, and I got to pick the best one in Juan — probably better than anyone I could have raised,” Wardell says.

Loya became like a partner to Wardell from the start.

“Right after he began to work with me, I began to share my day-to-day thoughts about this ranching endeavor,” Wardell admits. “He learned early on the good and the bad of the operation — what I was worried about and what I valued.”

After about a decade, Wardell asked Loya if he was interested in doing this as a lifetime career.

“At that point I admired him and cared about him and knew he was a good person,” Wardell says. “He said yes, and from that point on it was an emerging design of how to incorporate him into the long-term plan.”

The attorney-authored estate plan would include the Loya family.

## OPEN DIALOGUE

Wardell learned what Jones would like every producer to know: communication is key.

“Getting the conversation started is sometimes the hardest part,” Jones says. “Talking about what needs to happen, what everybody’s role is going to be and how off-farm heirs are going to be treated are critical topics.”

The situation between Wardell and Loya is unique in that there aren’t any heirs, but similar ideas can be adjusted to fit the situation. Wardell also cautions their arrangement wouldn’t be possible without the oil and gas royalties.

“When I hired Juan, I didn’t have much income,” he admits. “When the family partnership still owned everything, Juan probably had more income than I did. But the oil and gas development changed that.”

Each brother or their surviving family receives one-fifth of the mineral rights royalties.

*Continued on page 32*

## STARTING THE CONVERSATION

*Communication isn’t exactly an ag economics professor’s area of expertise, but Rodney Jones has learned through hands-on experience. Here are some pointers the Oklahoma State University professor and extension specialist has learned from trial and error:*



### PICK A TIME TO DISCUSS.

Pick the location to have these tough conversations, and pick the time.

Holidays are when families get together. The worst thing you can do is start that conversation around the holiday dinner table. Schedule a time to talk. Don’t do it around the family dinner table, because we all know what the power structure is going to look like in those situations where we all grew up. Even though we aren’t children anymore, we are all going to assume the same roles we did when we were young, because we are all sitting in the same seats we did when we were kids.



### RECOGNIZE DIFFERENT PERSONALITY TYPES AND ADJUST.

There are all kinds of ways we assess different personality types.

To start these conversations, recognize we all think differently, have different priorities and different ways of thinking about what’s important. Recognize different approaches to the problem. These are very hard things for farmers and ranchers to do. We are trained to be producers. We are all out there doing the hard, physical work. But this communication is really hard for us.



### BRING UP SENSITIVE TOPICS A LITTLE BIT AT A TIME.

Everyone has a threshold for the amount of stress or change they can accommodate at a certain time. Once you push too far, people negatively react or shut down.

Bring things up in a sensitive manner, not all at once. Don’t use blanket statements like, “We need to decide what we are going to do with the farm sometime.” That just leaves everybody wondering, “Why? Are you sick? Are you going to die?”



### ASK FOR HELP.

Many land grant universities have a farm transition workbook or suite of tools that can be helpful. Oklahoma State University developed the Oklahoma Farm Transition Manual (<https://extension.okstate.edu/programs/farm-transitions/index.html>). Even local county extension staff can help you or steer you in the right direction. Also, an ag estate attorney may have a communication specialist he or she can recommend to facilitate the discussion.

“Under our transition agreement, Juan does not pay rent, and he uses the entire ranch for his seedstock Angus business,” Wardell says.

Loya is responsible for all ranch expenses such as taxes, utilities, repair and maintenance.

“He also helps me with the time-consuming management of the ongoing oil and gas operations on the ranch,” Wardell says.

Because Loya will someday own the ranch, he invests in improvements and maintaining facilities already in place. He has gained leases on neighboring lands and grown the herd to around 200 cows.

Wardell has moved off the ranch, but is still nearby and remains a big part of the management decisions.

“We work together with the genetics,” Loya explains. “We debate between him and I; we find the bulls we are going to use for AI every year and sort through bulls we raise to decide which ones we will market for our annual bull sale and which ones we will band and send to the feedyard.”

Wardell credits their success with two-way communication.

“Juan was always really open, wanted to learn and he listened. Early on even, he would have ideas too, and we worked together,” he adds. “It made problem-solving that much better.”

Loya still visits his family in Mexico about once a year, where his dad still runs a ranch. Loya even shipped some bulls to Mexico a few years ago, including one for his father to try Loya/Wardell genetics.

“It’s fun to go there and see how they run the business compared to how we do it here,” Loya says, but he’s not interested in returning to Mexico permanently.

“This is home to me now,” he says. “When I go to Mexico and come back, when I cross the border, I say, ‘Thank God for bringing me home.’ One thing I can say is I love this country. I feel proud that this country and Roy adopted me. I feel lucky that Roy has made this home for me, my family and future generations.”

After one failed attempt, one successful attempt and one transition currently in progress, what advice does Wardell have on succession planning?

“Good luck,” he says with a laugh. “Seriously though, communicate with whoever you are making the deal with. My dad was a great man, but he was not good at talking about his business with his kids. That was just his style. My personality is different.”

The person in charge of the transition has the power share in a way that could make a huge difference for the next generation.

“Let them in on the details of managing the business as you struggle with it,” Wardell says. “You may not have all the answers. For sure you don’t, but if you are raising kids, share with them the misgivings as well as the successes, so they can learn, and they’re not surprised when the struggle becomes theirs.” **A**

*Editor’s note: Sara Gugelmeyer is a freelance writer from Lakin, Kan.*



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— ROY WARDELL



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