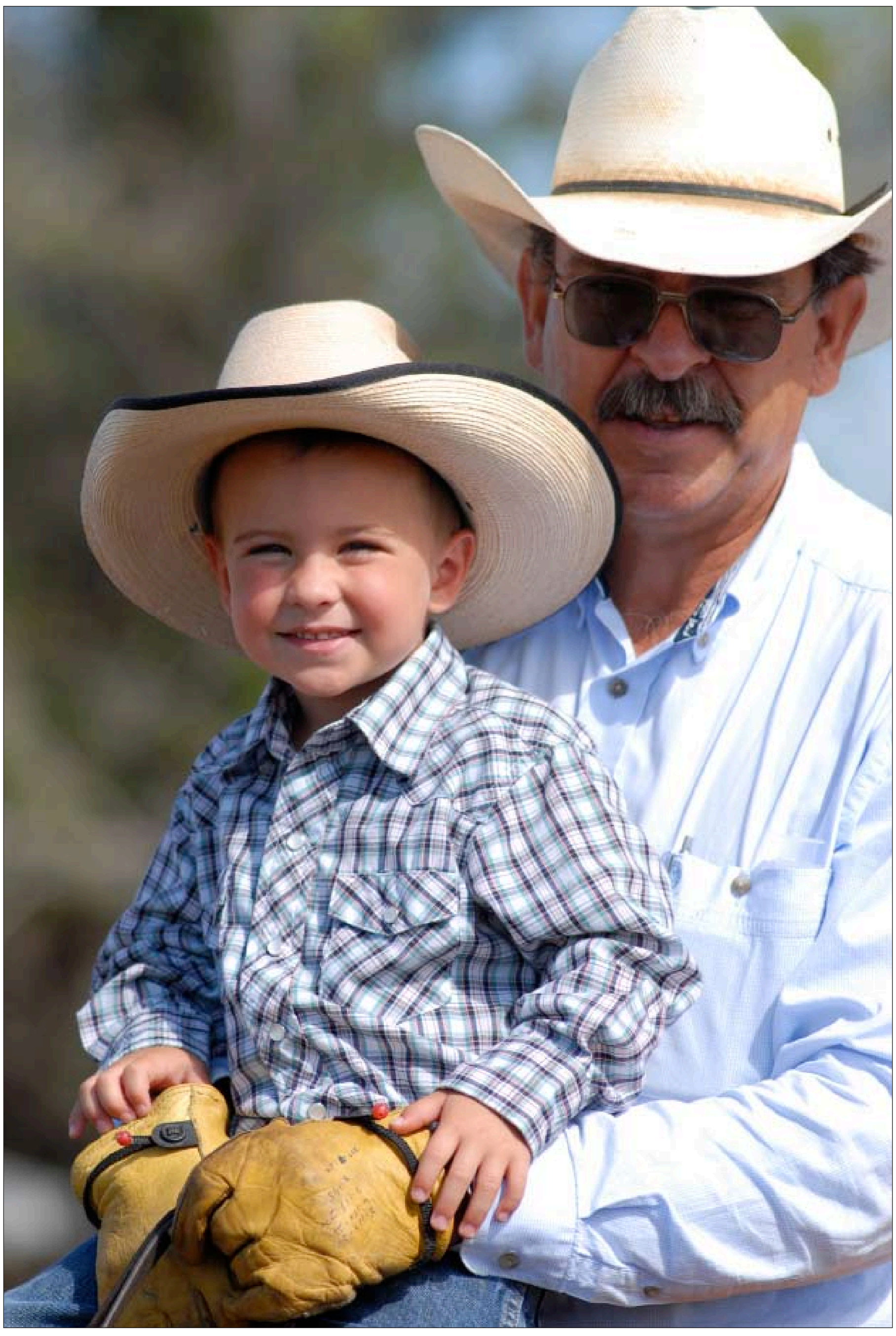
Creating Your Ranch Legacy

Successfully passing a ranch from one generation to the next requires transferring management responsibilities as well as financial assets.

by ***Kindra Gordon***



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►The common thread in multi-generation ranch transition success stories is the ability to be proactive, says Barry Dunn, executive director of the King Ranch Institute for Ranch Management.

The transfer of a ranch business to a succeeding generation is a topic that often weighs heavily on the minds of ranch families, but because they don't know how to initiate and complete the succession-planning process, many don't take the action to put a plan in place.

As a result, there are countless stories of ranch families who were not able to successfully transfer ranch ownership and management from one generation to the next. The reasons behind these unfortunate examples seem to range in a scope as big as the West itself. Often the blame is placed on problems with family communications; estates that were divided equally but not fairly; the expenses associated with the process in taxes, insurance or buyout arrangements; a business structure not conducive to passing the ranch on; or the untimely death of a critical family member.

However, while these examples are real, they are only one side of the issue. There are also stories of ranch families who have successfully dealt with succession planning — sometimes multiple times — and, as a result, have created a legacy for their family ranch, emphasizes Barry Dunn, executive director of the King Ranch Institute for Ranch Management.

The common thread in multi-generation ranch transition success stories is the ability to be proactive, Dunn says. Specifically, he says, while the individual solutions vary, a positive attitude toward problem solving before a problem occurs is the hallmark of successfully passing on the ownership and management of a ranch.

Under Dunn's leadership, the King Ranch Institute for Ranch Management hosted its annual Holt/Cat Symposium in late October with this year's topic focused on estate transfer for ranches. Participants had the opportunity to listen to speakers and then work through a new workbook titled *Sustaining the Legacy: Management and Wealth Transfer Planning for Ranches.*

The workbook breaks the succession-planning process into manageable and realistic phases with a focus on creating a positive legacy for the family ranch, Dunn explains. The steps include:

Phase 1: Begin with an inventory

The first phase of the succession-planning process should focus on an inventory of the people and assets encompassed by the ranch. "This provides a big-picture view of who is involved, who will eventually be the successor of the ranch, and what wealth and management roles must be transferred," Dunn says.

Specifically, the inventory process should include three steps.

"Succession planning can be the crowning achievement of a productive career, or the Achilles heel undermining a lifetime of hard work. Succession planning … requires excellent communication, a deliberate process, and openness to objective advice."

— From "Planning for Ownership Succession," prepared by the Ohio Employee Ownership Center, Kent State University

Step 1: An inventory of the people — those who represent family, management and ownership of the ranch.

Step 2: An inventory of the wealth — the assets of land, livestock, equipment and financial resources that are owned by the ranch.

Step 3: An inventory of the management — the knowledge, skills and expertise fundamental to the ranch's success that must be transferred from one generation to the next.

Phase 2: Develop a team of professionals

Once the ranch inventory has been conducted, the second phase of the succession-planning process is about gathering information.

"To make educated decisions about the future transfer of your ranch to the next generation, it is essential to understand what estate-transfer options exist and utilize advice from a team of estate-planning professionals," Dunn says.

This process requires considering goals for the ranch, the incoming generation, and for the retirement of the older generation. As well, the options available through different estate-planning tools should be weighed — such as the use of a will, trusts, business structures like an LLC, partnership or corporation; and even conservation easements.

Because the options can be broad and vary greatly by individual operation, Dunn says seeking the advice of professionals such as a lawyer, accountant, financial planner, etc., is essential. Since estate-planning tax implications and legalities differ by state and will change from year to year, working with a team of professionals also becomes critical in keeping succession plans up to date.

In selecting your team of professionals, Dunn suggests talking with other ranchers who have gone through the estate-planning process to find out who was helpful to them.

He adds that professionals who have a good reputation, but also have insight into the agricultural industry will likely be best able to meet the needs of your ranch.

Also, make sure you are comfortable with the professional and that your personalities complement one another. You want to be able to ask questions without feeling intimidated, Dunn says.

Phase 3: Identifying the ranch vision and goals

The rubber begins to meet the road in the third phase of the succession-planning process. With the ranch inventory conducted and insight accumulated on the estate-planning tools that appear most beneficial to the future transfer of the ranch, it is now time to use that information to develop a future vision for the ranch and to establish goals to achieve that vision.

Dunn stresses that working with the entire ranch team of family, owners and managers is essential to this process. And, because that may mean differing opinions among everyone involved, effective communication is also paramount.

6 Succession Planning Essentials

1. **Start business succession planning early.**
2. **Involve your family in business succession-planning discussions.**
3. **Look at your family realistically and plan accordingly.**
4. **Get over the idea that everyone has to have an equal share.**
5. **Train your successor(s) and work with them.**
6. **Get outside help with your business succession planning.**

Source: From "Succession Planning Issues for Family Businesses" by Susan Ward, on Small Business: Canada.

For example, Dunn says almost every owner of a family ranch has a mental image of how they'd like the business to look and operate into the future. And, chances are, the next generation has their own unique vision for the family ranch as well. Sometimes these two visions are similar; sometimes they are very different. But, without communication and allowing for everyone to give input, it's virtually impossible to establish an effective and successful ranch plan.

Dunn adds that family meetings tend to be a useful format for establishing an overall ranch vision and goals. With that said, ground rules and an agenda are important components to enhance communication and improve the outcome of family meetings.

In developing the vision statement, Dunn says to consider a "legacy vision" with a timeframe of a generation or more — as opposed to a traditional business vision statement that may only look ahead five to 10 years.

As this process is initiated, questions to ask may include:

Five or 10 years from now …

- ►What will be the family's strengths?
- ►What will be the family's legacy?
- ►Who will own the family ranch?
- ►What will the ranch provide for the family?
- ►How will the family contribute to the business?

Dunn says to keep in mind that as the family is exploring its vision, there can be a wide range of outcomes. The entire family may agree to keep or sell the business. Others may want to be a passive owner or might consider selling to other family members. The family may discover that the business does not have the strategic resources it takes to succeed in that industry, and it is time to sell the business.

Thus, as the vision for the future is explored, be aware that if the next generations are unwilling or unable to take on the responsibility, it may be best to consider alternatives for the ranch business, Dunn says.

Once the future ranch vision is defined and agreed upon, you should assess the "gaps" that exist — those areas where the current situation doesn't match the expected outcome or desired vision.

Dunn explains that this is called a "gap analysis" — a reality test between your current situation and your vision. "It simply means taking stock of where one is with regard to a particular issue or skill and setting goals for where one wants to be," Dunn says.

As an example, risk management is a critical skill for ranch managers in today's volatile times. The individual who is being groomed for succession needs to evaluate their skills in this area in conversation with the current management team. From that evaluation, a plan can be developed for educational activities, training and opportunities to gain experience in using the tools of risk management.

Other examples of gaps that may exist can include family communication, lack of estate tools in place to help reduce taxation, lack of a will or inadequate transfer of decision-making power from the senior generation to the returning generation.

As the existing gaps are identified, a list

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of strategies and timelines should be developed to close the gap and achieve the ranch vision. These become the step-by-step goals for implementing the ranch succession plan.

Dunn also suggests that two separate lists of strategies might be developed — one with a focus on the financial transfer of the ranch; the other with an emphasis on the management transfer of the ranch.

"The ranch transition process is about much more than having the proper legal and financial documents in place. By dividing the ranch goals into two categories of financial and management, it may better ensure that the appropriate decision-making control is also being transferred," Dunn says.

Phase 4: Implementation

Implementation is perhaps the most important phase of the succession-planning process. Action must be taken — which includes assigning specific duties to individuals and setting timelines to make your plans reality.

With regard to the financial assets of a ranch, turning those assets over to the next generation should never be a one-day event.

"It is a process that requires planning and will likely take place over a series of years," Dunn says. However, it should not be an elusive deadline that is put off with no established timeframe, he adds.

Equally important is the transfer of management to the next generation. "This requires training the next generation to make decisions — and then having the ability to transfer that control," Dunn says. Here, too, a timeline for transferring the management decisions from the current manager/owner to the successor should be well-defined.

Dunn reiterates the importance of effective communication in the process of transferring ranch wealth and management.

"Passing a lifetime's worth of work to the next generation is a task that will require decision-making, communication and dedication. And, for every ranch family, the succession-planning process will be its own unique journey. There is no one plan that fits everyone. But in the end, the reward is the family ranch legacy that is sustained," he concludes. "And, once in place, a comprehensive estate plan can provide peace of mind for the entire ranch family."

The *Sustaining the Legacy: Management & Wealth Transfer Planning for Ranches* workbook is available by contacting Dunn at the King Ranch Institute for Ranch Management at 361-593-5401 or barry.dunn@tamuk.edu.

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