

# SUCCESS WITH SUCCESSION

BY MARK BRAWLEY, FARM CREDIT SERVICES SW

Does the following ranching/agriculture family sound familiar?

Mom and Dad have worked hard all their lives building up their business. Now with a grown married son working for the business and a recently married daughter, mom would like to see dad slow down and not work quite as hard. Maybe they could even take that trip they have always talked about. The son would like to take over as manager but the new son-in-law really wants a job in the family business and appears to be a hard worker, a natural leader, and has offered some really good ideas to improve business. Dad is in his late 60's and shows no signs of slowing down any time soon, much less, he doesn't want to. Mom has always kept the books and really doesn't want to do it anymore but Dad doesn't trust anyone else. Besides why should anyone else know his and mom's financial situation, especially the kids and in-laws? Deep down Dad realizes the business will not support the three families but just can't accept this fact nor does he want to see hard feelings or contention in the family, as a result, he thinks it best that he stays in control and just moves forward. Dad tells Mom not to worry... everything will work out.

I have always found the topic of Succession to be very interesting. The above family is just hypothetical but by no means unusual in agriculture or for that matter any other business. I have seen many variations of the above, and while the specifics may vary, the underlining challenges and mistakes made in transitioning a business are very common. One of the things I find so interesting is many of the steps in a successful succession plan are quite easy and pretty much common sense. However, if allowed, emotions, contention and mostly fear, will keep many from even attempting to address this important topic. I would like to share just a few ideas to consider before tackling the specific details of your succession plan.

## **Separate "Family" and "Business"**

I would suggest Sunday afternoon dinner with all the family and kids is not the place to discuss the upcoming week's business activities. Develop a method and schedule of "business meetings" separate from family time. Timing and structure, whether weekly, monthly, quarterly, etc., is not as important as the fact business is discussed formally and with purpose. Basic business rules and structure should be followed so everyone feels of worth and comfortable sharing thoughts and ideas. For example, think through the purpose and timing needs. Plan and share an agenda prior to the meeting.

## **Identify strengths and weaknesses**

We all have our strengths and weaknesses. Inevitably this is true in your business, family and employees. As head of the business you are responsible for

placing the right people in the right positions according to their strengths. Traditions like birth order, family vs. in-law, male vs. female, etc can lead to decisions that may not be supported by actual skills and abilities. If you identify glaring weaknesses address them. You may need to look to the outside for help. Invite your CPA, Banker, Attorney etc. to one of your business meetings. They may jump at the chance as it will help them better understand your family and business and ultimately help make their job easier while providing you improved valuable feedback and counsel. If possible, have all your professional outside advisors at the same meeting. This way everyone can be on the same page and understand the direction and goals of the company while gaining input from the other outside professionals.

Don't be afraid to identify and assign titles to individuals in the business. While at first this may seem silly and unnecessary, it can lead to a clearer understanding of roles and responsibilities while helping everyone create and maintain a more comfortable and professional working environment.



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**Understand the value in sharing and educating.**

Let me ask a few questions. Does your successor know your business plan, or goals? Do they attend regular meetings with your CPA, Banker or Attorney? Have they seen and understand all the company's legal documents like leases, deeds, notes, mortgages, permits, etc.? Do they see and review your tax returns and understand the legal structure of the business? If your successor answers "no" to these questions you should really take a step back and evaluate why. You are not being fair to them and are possibly setting up an unnecessary, frustrating, and time consuming transition down the road if and when you are no longer available.

**Improve the quality and complexity of your financial records and analysis.**

If balance sheets, working capital, net worth, debt coverage ratio and other financial terms are new to you then spend the time and become comfortable with them. I would suggest spending some time with your banker if needed. Your relationship with him/her should be one in which they welcome any time spent with you reviewing and analyzing your business. There is no doubt your successor will face a far different financial/banking environment than one you may have experienced. It continues to become more and more difficult to maintain consistent profit margins, thus making it more and more important to have and understand a quality financial analysis of your operation.

Just the thought or mention of a succession plan can be too overwhelming for some. I challenge you to not wait until it is too late to begin the process. Like your business the process will be unique to you and will take on its own characteristics. There will be things that work and things that don't. Most important is that you get started and understand and anticipate there will be set backs but keep going. The joy and satisfaction of knowing you have passed on a successful and healthy business to a capable and enthusiastic future generation awaits you. Best of Luck!

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# CONTROLLING THE FUTURE OF YOUR FARM WITH EFFECTIVE ESTATE PLANNING

BY BRETT CROSBY, CUSTOM AG SOLUTIONS

I spent much of the last week preparing court testimony for a common situation. Parents couldn't decide how to split up the family farm and left it to their four children to work things out. The parents died, the siblings disagreed, arguments escalated, and the children eventually filed civil suits against each other over the estate. Now, a judge will decide how to split up the family farm. The children's relationships with each other have been permanently altered, and they have spent thousands of dollars on attorneys, accountants, appraisers, and economists. This situation is all too common and could have been avoided with an effective estate plan.

An effective estate plan helps maintain family harmony and keep heirs out of court by managing expectations and directing the orderly division of property. Effective estate plans also accomplish other important goals like minimizing estate tax burdens, providing retirement income, and providing asset protection. Still, many people do not have an effective estate plan, or any estate plan for that matter.

People generally avoid planning their estates because they feel overwhelmed. Problems such as tax burdens and equitable treatment of family members sometimes seem insurmountable, so people simply don't address them. Unfortunately, much like an aching tooth, these problems only get bigger with time, and addressing them sooner is always much better than addressing them later.

The good news is that creating an effective estate plan is not impossible and is often not even that difficult. Most obstacles can be overcome with open communication, creativity, and the help of legal and tax professionals. The important thing to remember is that ignoring estate problems will only make them worse.

Effective estate planning begins with effective communication. The needs, goals, and expectations of the people affected by an estate transfer must be understood before a plan can be created. Remember, communication isn't a one-time event, and affected parties should communicate continually through the planning process to ensure that the proper objectives are being pursued. Finally, once a plan is completed, all adults affected by the transfer should understand how the plan affects them so that unrealistic expectations are not created. The probability of future litigation is substantially reduced with effective communication in the present.

Once everybody communicates their needs and goals, creation of the actual estate plan can begin. This step requires help from legal and tax professionals who will attend to the details and help minimize legal and tax liabilities. The costs associated with this step can sometimes scare people away, but the professional work required to plan an estate can almost always be completed in affordable steps over a period of time. Professional fees are very cheap insurance against taxes and/or legal fees that may be incurred if no plan is ever implemented.

Estate planning is not the mystery some believe it to be. It begins with communication and understanding of the affected parties' goals and needs. Next it requires help from competent legal and tax professional. With this foundation, creative solutions can be created to solve the most vexing of estate transfer problems. Tax liabilities can be reduced, retirement income can be protected, and the expectations of heirs can be managed. Most importantly, an effective estate plan will keep the family in control of the family farm and keep the courts from deciding how it will be divided.

For more information about estate planning issues, please visit [http://farm-riskplans.usda.gov/index.aspx?action=riskman.human\\_risk](http://farm-riskplans.usda.gov/index.aspx?action=riskman.human_risk) and <https://www.agtransitions.umn.edu>.

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*Brett presented at the 2011 Summer Convention and will join us again in Prescott, July 26-28, 2012 to present again.*

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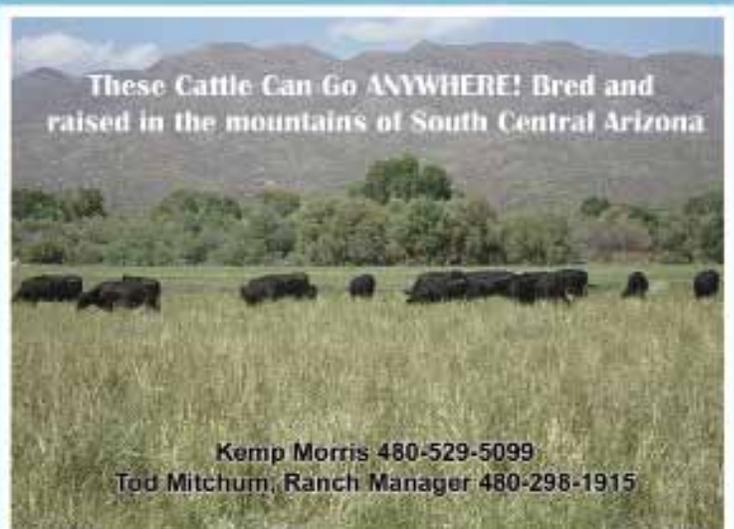
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