

CONTINGENCY PLANS: WHO NEEDS 'EM?

Learn to identify and correct tendencies
impeding succession-plan progress.

by David Specht

Life on the ranch is full of uncertainty. The only things you can count on are that things will change and you will have to adapt.

Of all of the changes you might consider, it is important to know what you can control and influence and what you can't. You can't control the weather or the price of commodities, but there are many things within your operation for which you can meticulously plan.

Jay Wolf, past president of the Nebraska Cattlemen and owner of Wagonhammer Angus Ranch shares this about contingency planning: "It is too easy to procrastinate. Poorly executed business succession can do more long-term harm, financial and/or emotional, than a drought or market downturn."

Ownership and management contingency plans should not be thought of as optional. The only way for a family to own a ranch in perpetuity is to begin with strong contingency plans.

To which succession superhero do you relate?

In working with ranchers, it has been observed that there are four major superhero archetypes that characterize how ranchers feel about continuity. Understanding these tendencies will help you to know how to deal with the uncertainty that surrounds you regarding ownership and management continuity. These superhero archetypes can be found in males and females alike, but I will characterize three as male and one as a female. Let me introduce you to our "Ranching Succession Superheroes."

► **Captain Immortal:** He has hair that never grays, energy that never wanes and willpower seemingly stronger than life itself. The pursuit of success is both a passion and a seductress.

While he is an intelligent man who at his core knows he will sometime vacate this mortal coil, he has convinced himself that day is years away, so investing time in planning or training the next generation is, for now, an

irrelevant task. Of course, on this count Captain Immortal lives only in the now.

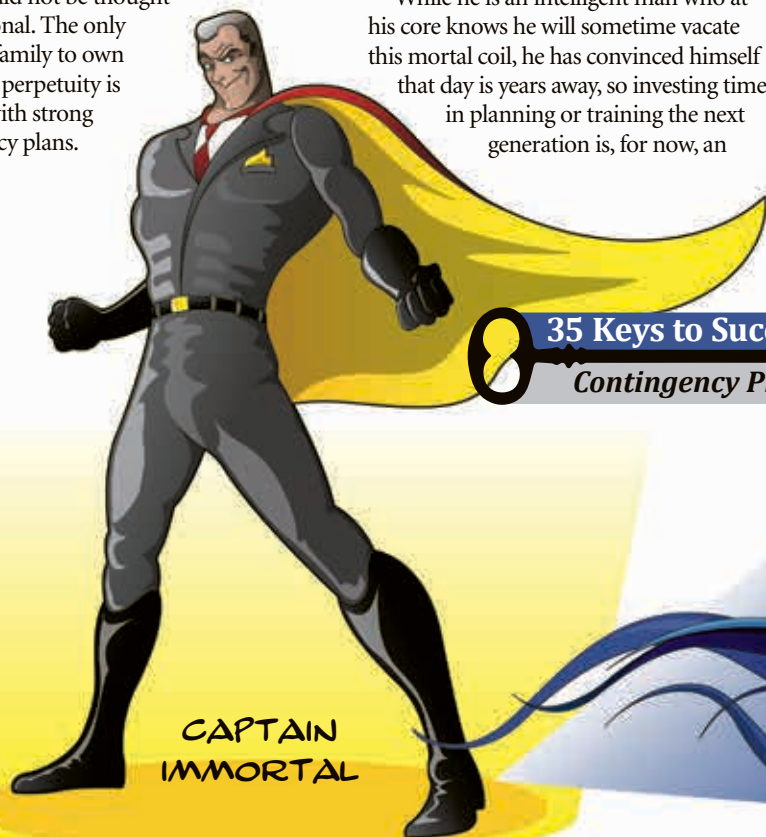
► **Dr. Shhhh:** This superhero has a plan for the ranch, but he values the power and freedom of privacy more than life itself. Dr. Shhhh enjoys the seclusion he finds in developing his proprietary business solutions. He does the same thing with his hopes and dreams for the future of his family and the ranch.

He knows that he is not completely immortal, but he doesn't want anyone else to realize it. In his mind he creates plans to continue the work he has silently pursued, but he refuses to share those ideas with his wife and children. He feels this affords him a great deal of freedom. He can modify his plans as circumstances play out and never upset anyone with a midstream shift. After all, why should he have to relinquish control and information before it is absolutely necessary?

► **Oblivious Man:** He is so consumed with doing his work that he doesn't even consider what will happen beyond his leadership of the ranch, let alone consider the consequences. He goes about his superhero tasks, providing the necessities and luxuries of life for his family one day at a time.

He has acquired a substantial reputation by virtue of the highly conscious manner in which he has built his operation over the years. On the other hand, he has no clue that he's laying the foundation for confusion, chaos and conflict for his family and employees by not making plans for the future of his ranch.

► **Ms. Reality:** This superhero has always been good at taking care of her business. While she enjoys the daily thrill of her work, she is highly aware that someday she will not



35 Keys to Success

Contingency Plan

DR.
SHHHH



be able to leap tall fences in a single bound or stop an oncoming bull with her bare hands. Ms. Reality has a strong drive to succeed personally, but she has an equally keen awareness of the responsibility that she must make long-term plans for her family and ranch. She is just as driven to create and execute her contingency plan as she is to succeed in the short-term because she sees planning as critical and inevitable to longer-term success.

Two types of contingencies

One uncertainty that every rancher faces is their ultimate death and its timing. It is almost comical to hear a “Captain Immortal-type” rancher say, “if I die or if I retire.” It is important to remind ranchers that there is no “if” about either of those statements, only a when. While most people have some ideal in mind as to how they will live out their life, health issues, accidents and life in general can change those plans.

Two types of contingency plans need to receive special attention when it comes to perpetuating a generational ranch. With each of these contingency plans, there are some critical questions to consider. Here are a few to help you get started.

1) Contingency plans for ownership transition

- a. How will ownership of assets flow when one of the current owners passes away?

- b. How has this expectation been communicated to the family and other important parties?
- c. What are the tax implications of this transition?
- d. How will your heirs feel about how you structured your plan for future ownership of the ranch?
- e. How much debt will your heirs inherit, and do you want to cover all or some of that with the purchase of life insurance?

2) Contingency plans for management transition

- a. If the top manager didn’t show up on Monday and decisions on the ranch needed to be made, who would make those choices?
- b. How big is the knowing/doing gap between the top leader and the next in charge regarding buying and selling cattle and the financial aspects of the cattle operation?
- c. What can you do now to minimize the risk inherent with much of the ranches’ working knowledge being in the mind of the owner?

Rescuing the superhero

While creating these contingency plans for ownership and management seem straightforward, they are often difficult to complete for many ranch owners. It all comes back to these superhero archetypes.

So what do we do to “save our ranching superheroes?”

Captain Immortal: The key to rescuing Captain Immortal is to keep him from focusing on himself and get him to start focusing on immortalizing his legacy.

Randy Johnson, an insurance professional of Ash Johnson in Ashland, Neb., shares, “Convincing the rancher that sees [himself] as immortal of the opportunity to make his legacy ‘bulletproof’ is a good first step to getting him to create a contingency plan.”

One way to begin this process is to ask questions like, “What has to happen over the next 20 years to be able to continue to call the ranch a success?” Questions like this take the focus off of the person’s mortality and move it toward the opportunity of creating an immortal legacy for the ranch.

While Captain Immortal-type ranch owners may never acknowledge their own mortality, spending effort and energy on enabling him to celebrate and perpetuate his legacy will advance the planning necessary to protect his family and his business.

Dr. Shhhh: This superhero’s biggest fear is that his long-term plans will not be accepted and embraced by all parties. Dr. Shhhh is concerned about keeping the peace and not creating attitudes of entitlement in the next generation. He needs to understand that if he is no longer around to explain his desires and motives, his desired outcome may never be achieved.

One question you might consider asking is, “What is the most important non-financial objective you hope to accomplish with your estate plan?”

Johnson explains that in his years working with ranchers, “Great questions take the focus off of the money and move it to the family or emotional side of what they feel is most important to accomplish.” As they vocalize those things, Dr. Shhhh might become more comfortable sharing his hopes and dreams for the family and the ranch. When he realizes that open communication is the best way to avoid negative

CONTINUED ON PAGE 100



Contingency Plan: Who Needs 'Em? CONTINUED FROM PAGE 99

consequences for the family and the ranch, he will likely become less guarded.

Oblivious Man: The saving grace for Oblivious Man is his love for the ranch and his family. He doesn't actively avoid planning; he just assigns a higher value to "getting the work done." Once he takes the time to begin working "on" his ranch business rather than always working "in" his ranch business, the likelihood of accomplishing significant long-term planning and documenting his contingency

plans for management and ownership increases dramatically.

Avoiding the kryptonite

Which superhero do you most relate to? What is your kryptonite? All of us have conflicts between what we need and want for ourselves and for our families. We constantly battle with what's expedient and prudent, between the easier path and the harder one, between our desire to live on and on and the reality that we are mortal.

The question is: Do we deny these conflicts or take them head-on? What contingency plans and long-term decisions should you be making for the benefit of your family ranch?



Editor's Note: *Dave and Taneil Specht are the creators of the iPhone App, Inspired Questions-For Farmers. www.inspired-questions.com. Dave is also founder of Advising Generations LLC, a family business consulting firm located in Connell, Wash.*