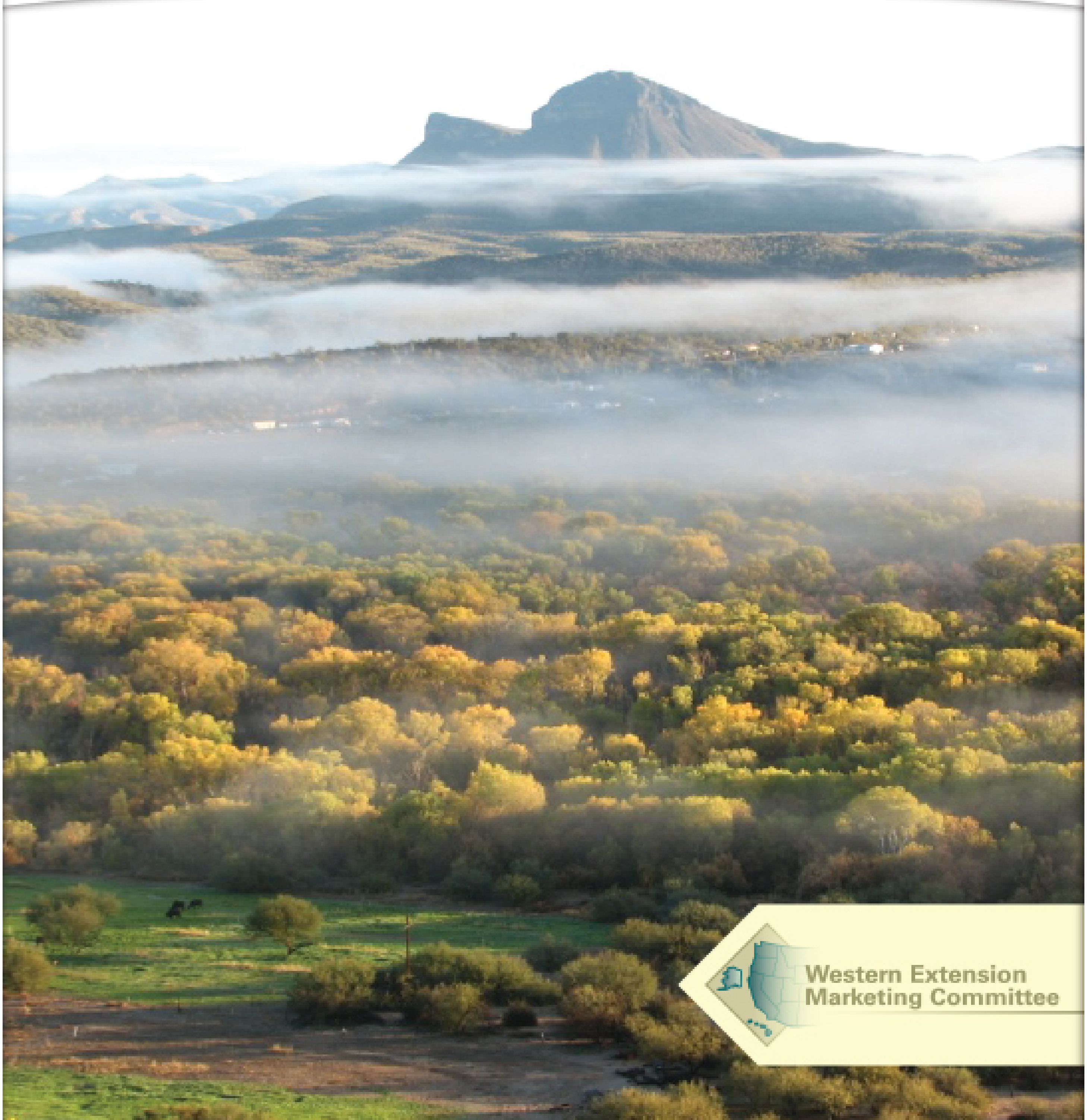
WESTERN FARM AND RANCH TRANSITION STRATEGIES



Western Extension Marketing Committee

Western Farm & Ranch Transition Strategies

Western Extension Marketing Committee Contributing Authors
Kynda Curtis, Utah State University
Cole Ehmke, University of Wyoming
Bridger Feuz, University of Wyoming
Karina Gallardo, Washington State University
Wilson Gray, University of Idaho
Russell Tronstad, University of Arizona

Outside Contributing Authors
Susan Slocum, George Mason University
Norman Dalsted, Colorado State University

Project Directors
Kynda Curtis, Managing Editor, Utah State University
Ruby Ward, Utah State University

Technical Editor, Layout, and Design
Amy Bekkerman, Precision Edits

Cover Design
Brady Hackmeister, Utah State University
Front Cover Photo Credit - Paul Schwennesen

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Hecht Creek Ranch

Cole Ehmke, Extension Specialist, University of Wyoming

In 2012, there were more than 5,600 cattle ranches in Wyoming, a state in which the harsh Western environment and production conditions have traditionally challenged producers. The state has a short growing season (average Zone 4, a 140-day growing season), clay-bearing soils, and the highest mean elevation in the United States. Hecht Creek Ranch, a family business owned by Art and Dorothy Sigel, is nestled in the foothills of Wyoming's Medicine Bow Mountains. The Sigels ranch full-time, raising stocker cattle with their two sons and their families. Art and Dorothy bought Hecht Creek Ranch—which was originally homesteaded in 1887— in 2005, when Art was concluding his career in the chemical industry.

Background

Hecht Creek Ranch sits at about 8,000 feet above sea level and is beautifully situated in the Centennial Valley, with its rolling hills and nearby mountains. The ranch is not large by Wyoming standards—about 2,400 acres plus leased land. The Sigels's primary business is raising stocker cattle (calves or older animals maintained, often on pasture or rangeland, to increase their weight and maturity before being placed in a feedlot), some of which they own. In their first years on the ranch, they operated as a cow-calf operation, but they have decided that raising hay and feeding

animals for six months of the year at their elevation was not a good fit for their ranch resources. The ranch has also added a direct-marketing venture for grass-fed beef and a small guiding venture.

Dorothy and Art are almost seventy, and their two sons are both married and approaching forty. In Art's words, "It's time to back out and to bring them into full management of the ranch." To do that, they are embarking on what they anticipate will be a five-year training and transition period before a final successor takes over the ranch.

Beginning with the End in Mind

Art studied chemical engineering in college and spent forty years in the industry both as an engineer and running a company. His business background is exceedingly valuable to the ranch. As Art and Dorothy were concluding their industry careers, they found and bought the Hecht Creek Ranch. Their son Ed, then a commercial airline pilot, moved to the ranch with his wife. Within a year, Dorothy and Art moved into the other house on the property. And soon after that, younger son Matt moved into a third house. Art and Dorothy are clear about their long-term goal: they want the ranch to stay in the family, hopefully for several generations.

Ideally, each transition has at least three stages. The first is the testing phase, in which the older and younger generations work together on the property and get a feel for how well things work among all those involved. The second is the transition phase, which refines the successor's training. The third is the exit phase, in which the older generation leaves the labor, management, and ownership of the ranch in the hands of its successors.

The Sigels are keenly aware of the issues associated with the second, transition phase of succession. A primary concern in the transition is control. For Art, control is about who calls the shots. Uncertainty for the Sigels and their two sons lies in the fact that both sons are interested in running the ranch. For that reason, the Sigels are planning for a transition period of three to five years in order to provide time to determine the nature of the exit and how to allocate managerial responsibilities.

Communication

Open lines of communication have been important to the Sigels since they began the transition. Several times a year, the Sigels have family meetings in which they get together for an hour or two to deal with larger issues. How did they do over the last year? What is the budget for the coming year? What does the general schedule look like? When they are going to have roundups? When do they anticipate shipping cattle? They include their two daughters-in-law in all meetings as well. “It’s important that we talk about when things are going to be busy so that everyone is on the same page.” Art tries to publish those schedules so that everyone has a sense of what’s going to happen in the year. At a more operational level, the Sigels have a fifteen- to thirty-minute morning planning and operations meeting three to five times a week while sitting around the kitchen with a cup of coffee to set priorities and update everyone on what is happening on the ranch.

The transition has been addressed in some of their morning discussions, but also informally when they are out working on the ranch and when they are sitting around in the evening having a drink. “We keep talking about options, different ways that we could do it, interests and so on, but we just don’t want try to push it to a conclusion before its time. We don’t mean to make a decision right now. This is one of those things that needs to simmer.” Hence the five-year plan.

Bringing in the Younger Generation

As with many family business transitions, financial viability is a factor. Art and Dorothy have achieved what they started out to build: a stable, self-supporting financial entity. Considerable planning has been key to their success. As the Sigel families shifted to working on the ranch, Art put together *pro forma* balance sheets and income statements to figure out whether operating a ranch could be profitable. Art describes their annual planning process this way:

> We have an accountant in town that does our taxes for us. After he’s done our taxes, he gives us a balance sheet and a P&L and depreciation schedules, and that’s what we share with everyone. Then, every year we develop a budget for operations, a profit and loss statement, and our own balance sheet. We also create a list of projects which we cost out, so we know what those projects are going to require, both in dollars and time. And we spend a fair amount of time working to evaluate the changes that we are going make in the ranch and how much each is going to add to the bottom line of the profit and loss statement. Then between the budget, which is kind of a baseline, and the projects, we have our operating plan for the year.

While the summarized budget and their projects list generally fit on two pages (making it convenient to put side by side and see how things look), the background information generated to create the summarized budget can require significant detail. If they are looking at a project that might earn an extra $10,000, then it may take several pages of calculations and assumptions to describe their plans exactly. Once everything is laid out, the plan is clear and everyone can commit to it. An important part of developing the budget is making sure that everybody is able to buy in early. As the Sigels move into transition planning, documents like these are proving invaluable and help Art include his sons in the business aspects of ranch management. The younger generation has also been involved in other ways. Matt markets beef from the ranch's small herd of grass-fed cattle at local farmers' markets, and Ed takes advantage of Hecht Creek Ranch's location to offer hunting and guiding.

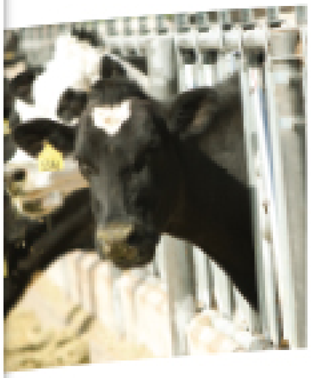
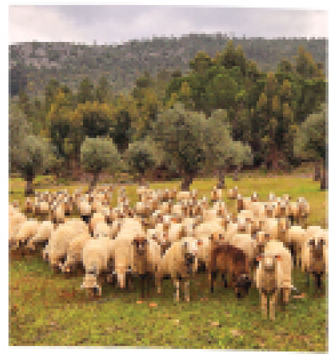
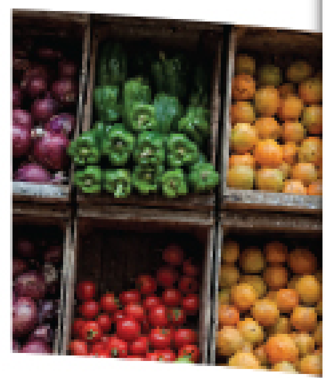
One component of the transition training is the ranch's grazing plan. The ranch is divided into forty pastures; based on accumulated knowledge about each pasture's productivity, the Sigels assign cattle to each pasture. Older son Ed currently builds the plan, and Matt is learning the details. As a stocker operation, some of the biggest decisions in the year are about which cattle to buy and at what price. Derivative decisions are how many days the cattle will be on grass given a certain average daily gain. The Sigels have built a spreadsheet calculator to help determine the return on investment of every lot of cattle; transferring knowledge about how the process works is part of transition training. "With this transition process, Dorothy and I are trying not to assume that the kids have all the tools and skills to take over the operation of the ranch in every respect. That's a killer assumption," says Art. The Sigels are thinking purposefully about how they can build capabilities through training, seminars, and their budgeting and grazing plan efforts. All of these steps are important to Hecht Creek Ranch's five-year transition.

An area of particular concern is the transfer of the business relationships. Farms and ranches may have excellent business relationships, but these may be built largely on one person. As the older generation transitions and eventually exits from operation management, the successors will want to be sure that business relationships are not damaged. For instance, it could be disastrous if the ranch's banker were to decrease their line of credit because of uncertainties about the new management's capabilities. Art observes that that would be a nasty surprise that any rancher would want to avoid.

Moving Toward a Decision

In many ways the Sigel sons are complementary, not conflicting. They are both college graduates, they both like to read, and they are both former hockey players. But they have different areas of interest. Ed is very much interested in the cattle and grazing, and he has a natural affinity with cattle and horses. Matt is more interested in the facilities and has a background in business; he enjoys working with computers and planning with spreadsheets. The brothers have been enthusiastic about working together from the beginning.

The Sigels's sense is that whatever conflicts there might be about how the transition might unfold, these are not overwhelming. Art says, "I think that we'll give it a bit of time. Time will help us to come to a consensus view on what ought to be done."



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