Plan Your Exit

How will you transition to retirement and hand the reins over to the next generation?

by ***Kindra Gordon***

In their hearts, most farmers and ranchers often dream of handing over the reins of a successful operation to a son or daughter, niece or nephew, or a young person with a zeal for agriculture and the future. But how does that dream become a reality?

Bob O'Hara, a business consultant and financial planner, emphasizes that such a transition requires advanced and detailed planning.

"You must spend as much or more time working on your farm's or ranch's future as you do being involved in current daily operations," he says.

Overcoming the obstacles

O'Hara notes that statistics do not favor business transitions — farm, ranch or otherwise. In fact, only about one-third of businesses are successfully handed down to the next generation, and that number drops further when a business is being transferred from the second to the third generation.

O'Hara believes those numbers are largely the result of a lack of planning.

"Making arrangements for the 'end' of farm or ranch ownership can seem overwhelming," he says. "It's not easy to think about the farm or ranch you nurtured being in the hands of someone else."

He adds, "Fear of losing control is high on the list of why ranchers or farmers — and other business owners — place exit planning on the back burner. With the amount of sweat and time that goes into cultivating a productive ranch or farm, the idea of being replaced — and determining who would do the replacing — can be overwhelming."

Additionally, current owners often believe that the farm or ranch will fail to succeed in the absence of their leadership, says O'Hara. Or, they may feel torn between choosing a son or daughter, or someone from outside the family, to head the charge once they're gone.

To overcome those concerns, O'Hara suggests that owners realize that stepping down does not necessarily translate into stepping away completely. He says, "A role can still be maintained, albeit to a lesser degree. Farmers and ranchers should map out a realistic timetable for retirement several years in advance, one that includes the desired level of participation — if any — within the farm or ranch once it is sold or transferred."

►"Making arrangements for the 'end' of farm or ranch ownership can seem overwhelming," says Bob O'Hara. "It's not easy to think about the farm or ranch you nurtured being in the hands of someone else."

Financial preparation

In addition to planning leadership and ownership transitions, O'Hara says financial planning is also critical. "Owners must quantify the amount of revenue needed to leave and realize a financially comfortable lifestyle," he says.

As an example, he suggests a cattleman planning to sell his ranch in seven years should devise an exit plan now that includes a current ranch valuation and a current accounting of the non-ranch assets that are available to help fund living expenses after the ranch ownership has been transferred. "With this information you can begin to make a determination if you will have enough money to fund your annual living expenses after you sell your ranch," explains O'Hara.

The assistance of a financial professional can help ascertain a genuine gap-closing figure.

O'Hara explains, "Let's say that a business owner concludes he will need $4 million at the date of sale to generate the income needed to fund his living expenses. He projects $500,000 of available non-business assets and an estimated net proceeds of $1.5 million after taxes based upon the current fair-market value of the ranch."

He continues, "What it boils down to is this owner has a gap of $2 million that has to be made up. This can be achieved through building the ranch's value and/or by increasing the non-ranch savings rate between now and the projected time of sale. Typically, a combination of these two efforts will result in the ranch owner achieving his financial goals."

O'Hara points out that a financial professional can assist individuals with developing a realistic assumption for a rate of return on investments, a projected rate of inflation and estimation of life expectancy to determine how much money will be needed at the date of "exiting" the business.

Of the above example and the "gap" that exists, O'Hara says, "This is an example of why it is vital to quantify all resources well in advance of exiting. The more time an owner has to work on building business value and saving for his/her retirement, the better."

He continues, "You need to drive value to create value. This takes time, planning and effort to increase cash flow, develop and improve operating systems, pay down debt, implement growth strategies and build a strong management team. These fundamental elements must be in place to ensure a smooth and lucrative exit plan."

Leadership decisions

Equally important to the financial planning is the leadership planning, says O'Hara. "Owners should decide early on who will run the ranch or farm upon their departure. This can be a very emotional step, but it is vital."

Making an honest assessment of your children is key, and, you may consider having them reviewed through outside analysis to offer objective perspective, he suggests.

The bottom line: "It makes no difference if the plan is to someday transfer ownership to someone working now within the farm or ranch, or to sell to a third party. As owner you must take measures to include those key individuals on decisions that will affect the future of the farm or ranch and provide the appropriate incentive to guarantee they will work with you toward the goal of building value," says O'Hara.

Likewise, by sharing authority and decision-making responsibilities, the owner begins to make the ranch or farm capable of operating in his/her absence, he points out.

"Making arrangements for the 'end' of farm or ranch ownership can seem overwhelming," he says. "It's not easy to think about the farm or ranch you nurtured being in the hands of someone else."

In the end, O'Hara stresses that the time spent now to preserve and increase the value of your farm or ranch will pay off.

"With the proper guidance and a firm grasp on realistic expectations," he concludes, "your exit plan could be the start of something very good — for your future and for that of your farm or ranch."

Bob O'Hara is founder of a Massachusetts-based financial firm that specializes in guiding businesses through their exit planning process. Visit his website at *www.exitplanning-edu.com.*

AJ