The Morgan Family: A Successful Transition Plan

Ted and Sally Morgan owned and operated a small beef operation for the last 40 years. The ranch consists of 200 beef cows, 40 acres of hay, and some pasture land. The Morgan's sell their calves through the local sale barn.

Due to increasing expenses, the cow-calf enterprise has not been very profitable in recent years. The lack of profit has prevented Ted and Sally from saving much money for retirement.

Sally also owns another small business in their community. She does not take a salary, but simply uses money from the business to help pay family living expenses, as needed.

The Morgans have three adult children. Their oldest daughter, Joyce, is married and has a son. They live in a large city about 70 miles from the ranch. Middle child Jim and his daughter live in a small nearby town and Jim works at Sally's business. Jim's managerial responsibilities increased as Sally took more time off.

Their youngest child Jill and her family live in a modular home located on the ranch property. Jill has a job in town and her husband, George, is the only full-time employee of the ranch. Currently, Ted manages the ranch, while George does most of the physical work.

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Passing on Management

The Morgan family wanted to figure out a way to pass the management of their ranch to the next generation and secure the resources needed to ensure that they can retire. At the suggestion of a business advisor, Ted called the entire family together to discuss the future of the ranch. Ted and Sally wanted to express their desires and hear what everyone else was thinking about the future of the business. Everyone was encouraged to express their thoughts, but they also had to be open to everyone else's comments.

Ted expressed an interest in slowing down or even retiring. Sally wanted to have more time to spend with Ted, so she is interested in selling her small business, too. Joyce said that she likes living in the city. She is not interested in participating in the operation of the ranch, but wants to be sure her parents have enough money to be comfortable in their retirement. Jim is interested in taking over Sally's business. Jill and her husband enjoy ranch life and would like to take over operating the ranch. However, they would like to make several changes to the operation to make it more profitable. They are concerned about Ted's willingness to relinquish managerial control.

During the meeting, Sally revealed that her business was worth about $225,000. Since she and Ted had little savings, she needed to sell the business outright. The family agreed that while it would be nice to keep Sally's business in the family, it must be sold to help fund Ted and Sally's retirement. Jim realized that while he would like to take over the business, it was not realistic since he did not have the funds to buy it. He agreed to help Sally find a buyer for the business.

The Best Successors

The family also agreed that Jill and George were the best successors to manage the ranch business, but all the children should have an ownership interest in the land. They agreed that Ted and Sally should set up a plan that would gradually transfer ownership of the land to the siblings and the ranch operations to Jill and George. Everyone agreed to meet every year to evaluate their progress and discuss future strategies.

Years ago, Ted and Sally developed a vision statement, mission statement, and goals for the ranch business. They documented them and shared them with the family and business advisors. They used these documents to guide their decision-making and strategic planning for nearly a decade. Because they had such success with formalizing their vision, mission, and goals, Ted and Sally also developed a

constitution for the ranch business after learning about it in a local seminar.

Family Meeting

Following the family meeting, Ted and Sally met with an estate and succession planning attorney. They updated their wills and living wills. The attorney also suggested that incorporating the ranch would allow Ted and Sally to sell or gift shares of the corporation to their children over time. He suggested a five-year plan to do this. Further, Ted could receive a fixed income for his operational and managerial responsibilities during the transition. He also recommended that Ted and Sally gift each of their children enough cash to help pay for a life insurance policy on Ted.

The result of Ted and Sally's meeting with their attorney was a documented five-year plan for transition of the ownership and management of the business. This plan was shared with the entire family, so everyone would know what to expect throughout the transition period. Additionally, those family members directly involved with operating the ranch (Ted, Sally, Jill, and George) were to meet each month to evaluate how things were going and determine next steps.

Implementing the Plan

In the first two years, George took over the day-to-day management of the ranch. In addition to his wages, he received a $500 per month management fee. Ted maintained control of the finances and kept all the records for the corporation. In accordance with their estate plan, Ted received a fixed income of $500 per month. Ted and Sally gifted five percent of their shares in the farm corporation to each of the

children. They also sold an additional five percent of their shares to Jill and George in year two.

Additionally, Sally sold her business for $245,000 in year two. After paying the sales commission, capital gains, and other related costs, Sally netted about $205,600. She and Ted will use these monies to help fund their retirements.

In year three, George increased his managerial responsibilities and received an additional $250 per month. Although Ted maintained control of the farm's finances and records, he began to share the information and decision-making with George. Ted and Sally each sold ten percent of their shares in the farm corporation to Jill. At Jill and George's suggestion, the ranch purchased 10 dairy goats and the necessary milking equipment. The goat milk was sold to the local goat milk cooperative.

In year four, George began keeping all the ranch's records with Ted providing oversight. George's management fee increased to $1,000 per month with his salary remaining the same. The changes made to the business allowed it to continue being profitable. To make room for the purchase of 20 additional dairy goats, half of the beef cows were sold and needed adjustments were made to fencing for the goats. Jill began making cheese from the goat milk for family and friends. George thought the ranch could increase its profits by selling the cheese at roadside vegetable stands and at a local store owned by a friend of Sally. In accordance with the estate plan, Ted and Sally sold 15 percent of their stock in the farm corporation to Jill.

At the end of year five, the entire family gathered together for another Family Council meeting. They learned that Ted was able to retire and that George assumed all managerial responsibilities of the ranch. Since selling her business, Sally was able to travel with Ted and play with the grandchildren.