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Multi Generational Transitions

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Blair Brothers

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Multi Generational Transitions

Introduction

Blair Brothers are a family livestock and grazing operation, we have one full time employee. The rest of the labor and decision making is made by family members.

We market private treaty over 300 commercial angus bulls a year and are looking to expand that to 500 in the next two years. Blair Brothers is a total AI operation, what I mean by that is any cow that doesn't stick AI in two cycles are sold. We have eighty six percent of our mature cows bred AI in 26 days. Twenty percent of our cow herd is turned over every year, to keep upgrading our genetics. Our bottom end calves are back grounded at home then sent to Kansas to be finished and are then sold on US Premiums Beef (USPB) grid. The steers consistently grade 100% choice 65% CAB and 15% prime. These calf feds will gain 3.6 pounds a day and convert 5.4 pounds of feed to pound of gain.

The ranch has a calf buyback program for our customers. We partner with major Kansas feed yards where all the steers are finished and then they are sold on USPB grid of which Blair Brothers is a founding member.

The ranch also operates a short duration grazing system and rents summer pasture within a 100 miles radius for yearling cattle.

History

I would like to share a little history of the Blair family and how our operation has passed down through 3 generations. In 1906 my great grandfather George told my then 19 year old grandfather Enos Blair to go find a place for the family to settle. He looked at places in Oklahoma and South Dakota, settling on a place in the northern Black Hills between Sturgis and Rapid City. Enos then brought out his 3 younger brothers, sister and his parents. With the family homesteading, buying land and cattle the original Blair Brothers amassed some 60,000 acres of land and Hereford cattle by the mid 1940's. When my father and his cousins came home from World War II, the original partners split up their holdings. The story that I was told is all the brothers sat down at a table one afternoon and divided up the land and the cattle according to their personal interest in the operation.

After the original partnership was dissolved my dad, uncle and Grandfather formed a partnership and this partnership continued until the 1960's. When they split up my dad bought out my Uncle's share of the ranch north of Sturgis, where we live today. In the late 1970's my dad, bother Rich and myself formed a partnership. Rich and I bought 50% of the cattle and machinery and part of the real estate from our father on a contract. Dad at times would gift the payment on the contract and other years we would pay him the payments. Any real estate that was added to the operation from that time forward was either purchased in Rich's or my name. We would then lease the ground back to the partnership for the payment on the real estate and the tax's. Through doing this we were able to build equity. In 1986 Veldon Blair and Sons was dissolved and Blair Brothers was formed again. The partnership between Rich and I was created because we were running more back grounding and stocker cattle than our dad

wanted to take the risk on. Rich and I managed to own all of the livestock and machinery; we replaced cattle with our own heifers and new equipment when the old wore out.

Dad's portion of the real estate and some equipment was set up into two trust accounts, one for my mother and a brother who was not involved in the ranch, and one for the rest of the real estate to go to Rich and myself. At that time you could bypass inheritance taxes $1.2 million by setting up these trusts. My parents took me to all the meetings with the lawyers and accountant when Dad set up these trusts. So I had a real good understanding of how they were suppose to work. On his passing in 1990 it was easy for me as trustee to make the transition go smoothly. I dispersed everything out of the first trust to Rich and myself. The remainder of the marital trust for my mother was leased to Blair Brothers thus giving her income for the rest of her life. Up on her passing the real estate in that trust was passed to my middle brother. We leased that property from him until we were able to purchase it.

One of the most important things that my Father did was in his Will he split the original home place of 4800 acres between his three sons. Any land that was purchased from then on went to the two heirs that were active in the Ranching business. This rewards the ranching heirs for their work and management, but is fair also to the heirs that decided to pursue other interests.

Fourth Generation

I have a daughter and son and my brother Rich has a daughter and son. My children both grew up on the ranch.

My oldest child, daughter Stacy who was always good with numbers attended SDSU to get an Ag Econ degree, and in July of 1998 she married Troy Hadrick from Faulkton, SD. She and her husband Troy graduated from college in December of that year. They came home to the ranch and moved into my parent's old house. Troy went to work for Blair Brothers and Stacy had a job in town.

Troy came from a farm and really liked the cattle industry; he was a quick learner and became a very good stockman. He AI'd, learned how to pregnancy ultrasound, went to CUP school where he learned how to carcass ultra sound. Both Troy and my son Chad went to Embryo Transfer School. At one time the boys were flushing 30 cows every other month. Both he and Stacy were very involved in the community, Farm Bureau Young Farmers and Ranchers, 4-H and Troy taught feedlot nutrition at the local vocational school and was on the local volunteer fire department. After being here on the ranch for 9 years Troy and Stacy moved back to Faulkton to the Hadrick farm. Stacy and Troy started their own successful business Advocates for Agriculture, where they travel the US and the world speaking to agricultural groups teaching farmers and rancher to tell their own story through use of social media. Troy also takes on environmental groups and their false accusations of agriculture.

My son Chad is four years younger than our daughter and has always been a part of the ranch; at 13 years of age I hired his older cousin to drive him around as he was too young to get a driver's license. Chad would tell him what needed to be done such as fixing fence, checking water or moving cattle. By the time he was 15 he was night calving heifers and going to high school in the day time. By seventeen he was living on his own in an old trailer house by the calving facility. In December of 2002 Chad graduated from SDSU and came back to the ranch. He fell back into his roll of running the cow herd, doing most of the calving on the north ranch and the home place; he also ran all the outside pasture cattle. He is married and has two young kids. His wife Mary is also involved in the ranch; she keeps records, tests bulls and helps AI.

My bother Rich has always lived in town; he is an independent commodity broker with his office in town. He has always been involved in the ranch by doing marketing, AI mating and customer relations. His son Britton grew up in town but came out to the ranch to help work cattle and haying. He is five years younger than Chad, a graduate of SDSU and recently married. After graduation in December of 2009 he came home to help with calving and AI season. His dad wanted him to get a job off the ranch so he tried several different things from a Meat company in Montana, to a Purebred operation in Mississippi. He returned to SDSU where he was managing the Meat Lab before coming back to the ranch last October.

Rich's daughter Kelli has also been involved in the ranching operation helping to AI and hay. She graduated from SDSU with a nursing degree and works at a hospital in Billings MT. She still comes home to help AI.

The reason I am sharing this with you is so you can see the family dynamic going on.

Transitioning

For myself, I had to work out family and financial issues before I could start to be comfortable about passing the ranching operation onto the next generation. Once that was accomplished the rest of it in my mind is easy. Today Rich and I look at ourselves as senior partners, Britton and Chad as management trainees with each taking a different roll in the operation but yet working together to get more done. Almost every morning Chad, Britton and I meet for breakfast at Chad's house. Where we talk over coming days activities, industry issues, and what information each of us has learned that will affect our operation. I see it becoming ever more important to keep having monthly family meeting with all parties present to keep communication open. I also would like to include Stacy and Kelli at quarterly meeting because they both have talents and contacts that are beneficial to our ranching business.

Now the easy stuff, how I plan to transfer the operation on. The short answer is by building equity for the two junior partners. I plan on building their equity in a two step approach.

1. Through gifting. Example- When adjoining property came up for sale, Rich and I gifted the down payment for each of our sons. A person can give up to $13, 500 a year to a family member. By Rich and his wife gifting $27000 to both Chad and Britton and my wife and I doing the same along with our gifting to our daughter in law they had the down payment on the property.

2. Forming three LLC's

a. Cattle feeding LLC. Example – Each partner will have a 25% interest; the partners are going to be Rich, Chad, Brittion and myself. We can start this one without a lot of equity up front and should be able to build the boys equity to a sizable position in a few years.

b. Cows and machinery LLC. Example – Rich and I will sale Chad and Brittion an interest in the cattle and machinery as the operation grows they will have more equity, Rich and I can gift the payment as Chad and Brittion build equity and Rich and I become less active they can make the payment for us to live on.

c. Real Estate trust or LLC. Example – This will be set up to build equity for the junior partners and to pass on to something to Stacy and Kelli. Any real estate added to the operation goes into Chad's and Brittion names.

To make all this work communication, respect for each party involved, teaching, giving up control and adding to the responsibilities of the junior partners all have to happen.

Both Rich and I have life insurance and long term care policies to help take care of our wives and to be less of a burden on our children.

Steps that have been taken so far are involving the boys in helping to put together the budget and cash flow, meeting with lending institutions, FSA, Lawyers, Accountants and involvement with marketing decisions pertaining to hedging, feed purchases and customer relations.

I hope with what I have shared with you will be a help in your family business. We need to treat our ranches as a business with goals, resources, expansion plans, budgets and personel in mind.

Ed Blair