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Barriers to Farm/Ranch Business Succession

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Market Report	Yr Ago	4 Wks Ago	9/28/07
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	$90.83	$93.96	$95.25
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb..	128.57	129.44	124.77
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	117.10	119.51	121.44
Choice Boxed Beef, 600-750 lb. Carcass.	141.34	146.53	146.68
Western Corn Belt Base Hog Price Carcass, Negotiated.	61.25	61.74	57.56
Feeder Pigs, National Direct 50 lbs, FOB..	52.76	53.84	50.32
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean..	67.17	69.57	62.36
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct..	99.62	102.50	98.50
National Carcass Lamb Cutout, FOB.	245.47	255.87	259.65
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu..	4.46	6.37	8.35
Corn, No. 2, Yellow Omaha, bu.	2.38	3.10	3.29
Soybeans, No. 1, Yellow Omaha, bu.	4.92	8.02	8.97
Grain Sorghum, No. 2, Yellow Columbus, cwt.	3.68	5.07	5.71
Oats, No. 2, Heavy Minneapolis, MN , bu.	2.25	2.53	2.77
Hay			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	135.00	125.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton..	87.50	87.50	87.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton.	82.50	*	*

* No market.

Data from the United States Department of Agriculture (USDA) suggests a trend of fewer people entering farming and ranching as their chosen occupation. This trend has been occurring for many years, as the average age of farm operators continues to increase. Many have asked "Why is this happening?" and "What are the factors that create barriers to a career in agricultural production?"

Large Capital Investment

Certainly one factor that has contributed to the difficulty of entering farming has been the high cost of access to land. Land values and land rental rates have both reached record levels in Nebraska. Machinery and other inputs are also at or near record levels. Although there are programs for beginning farmers and ranchers that provide loans for purchasing land, livestock and machinery, as well as tax incentive programs for renting agricultural assets, the need for **large capital investment** can discourage many that might want to enter agriculture, and therefore become a significant barrier to entry.

Failure to Adequately Plan For Retirement

If a farm or ranch business is to be passed down to the next generation, it is important that the owners plan for retirement at some point. **When is retirement going to happen** and what will retirement look like? With life expectancy increasing and with heavy labor demands decreasing, many find that they are physically able to continue farming until their 70's and even 80's. "Someday son, this will all be yours!" Will a successor want to enter into a situation with uncertainty and vague promises? **Where will you live?** Do you want to move to a condo on the beach or do you plan to continue to live at the business headquarters? **How much income will you need in retirement?** There may be desires such as traveling or a move to town that needs to be included. Cars will need to be replaced and, of course, health care considered. **Where will the money come from?** For many small business owners, and especially for farmers and ranchers, the business is the key source of retirement income. Most don't have a 401K, and many have experienced relatively tight profit margins for the past 15 to 20 years. As a result, there have not been extra funds beyond ordinary farming and family living expenses to provide for retirement investments off the farm. If income has been tight over the years, Social Security will not provide much help as a source for retirement funds either. Consequently, for most farmers and ranchers considering retirement, the major source of retirement funds will come from the rent or sale of the land, machinery, livestock and inventory.

Financial Feasibility of the Business

Is the farm or ranch a **financially viable** business? Is the business large enough and/or efficient enough to provide adequate income for all the needs of both generations? Will there be enough income to provide for the living needs of the successor generation and the retirement needs for the owners? If not, what options need to be considered? Can an enterprise be added that will generate additional income, or could additional land be rented? Are there contributions that the successor can bring to the business that will increase the profitability of the farm by exchanging their labor for previously purchased services? Many will consider a job off the farm for a period of years. The first assumption is that the successor or their spouse is the one to get the job, but there are cases in which the owners or owner's spouse has sought employment off the farm and have made this work very effectively.

Barriers Within the Farm Business Transfer Process

Transitioning a business from one generation to the next is definitely a process, not an event. The process is best worked through over a number of years rather than a few months. A proven farm business transfer process includes four phases: 1) the testing phase or trial period in which both parties evaluate if this is indeed what they want, 2) a commitment phase when both sides decide this is indeed what they want and make a commitment to such, 3) an established stage where after a period of time the successor becomes established and control is passed, and finally, 4) a withdrawal phase where the older generation eventually retires from the business.

The farm business transfer process can be successful only if the following barriers are navigated.

1. **Lack of open and honest communication** between the farm business owners and their successors will certainly make it extremely difficult, if not impossible, to complete a successful business transfer. There is a difference between simply transferring ownership of the farm assets, and transferring the management and control of an ongoing farm business. What are the expectations of each party? Is there a timeline for events to occur? Issues such as what is "family time" versus what is "work time" can create huge problems if not discussed. Even different expectations about simple things such as what time do we start work each day or quit at night has proven to be a divisive source of frustration, and what about vacations? Farm business successions within a family need to consider growing the parent/child relationship into a business partner relationship. Coaching and mentoring a business partner and eventual successor requires passing on many of the "whys" not just the "whats" of the business. Assuming everything will work out for the best without discussion, communication and a written copy of all reached agreements is a recipe for problems.

2. **Transferring control and management authority** of the business to the next generation has proven to be a very difficult task for many farm and ranch owners. Much of our self-worth and identity are associated with who we are and what we do. Relinquishment of control and management authority can definitely be a challenge. Plus, there is no sure method to know for certain that a successor is ready for the responsibilities associated with operating a farming business. By providing opportunities for the successor to make all the management decisions for an enterprise or for a specific farm, and by gradually, over time increasing the authority, you can create an opportunity for the successor to develop the skills needed to manage the business. Will the successor make a mistake that perhaps the owner would have been able to avoid? Probably. One strategy that has proven successful has been a gradual transfer. If the intended transfer period was fifteen years, the older generation would make all the management decisions for the first five years. The next five years decisions would be made jointly. The last five years of the transfer, management decisions would be made by the successor with the owner retiring at the end of the fifteen year period.

3. **Estate planning** is a challenge for many business owners who plan to pass their business to one or more of their heirs. Most wrestle with "treating all the children fairly." If one child is to be the successor for the family business should he or she receive more of the farm assets? And if so, how do you keep it fair for the other children? Factors to consider are: What is the value of the contribution the successor has made to the business in terms of sweat equity, investment time and/or money and those intangible contributions such as taking mother to the doctor? What has been done for the other heirs that may not have been provided for the successor? It is very difficult to make everything exactly equal. It may be impossible to pass a farm business to one heir and provide the same value for each of the remaining children. The retirement plan may dictate that the successor purchase many of the farm assets to provide funds needed in retirement.

There are many barriers that have contributed to the declining numbers of new farmers and ranchers. There are not, however, any barriers that cannot be overcome with proper planning, time and commitment.

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