

# Cornhusker Economics

## Barriers to Successful Farm/Ranch Business Transfers

Market Report	Year Ago	4 Wks Ago	9-23-16
<b>Livestock and Products,</b>			
<b>Weekly Average</b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight. . . . .	128.78	114.64	*
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. . . . .	228.84	161.83	155.25
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. . . . .	194.20	146.93	143.46
Choice Boxed Beef, 600-750 lb. Carcass. . . . .	218.66	200.34	186.48
Western Corn Belt Base Hog Price Carcass, Negotiated . . . . .	69.19	60.53	51.29
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean. . . . .	82.41	75.12	78.18
Slaughter Lambs, woolled and shorn, 135-165 lb. National. . . . .	154.71	164.27	163.48
National Carcass Lamb Cutout FOB. . . . .	361.18	359.00	355.93
<b>Crops,</b>			
<b>Daily Spot Prices</b>			
Wheat, No. 1, H.W. Imperial, bu. . . . .	4.20	2.73	2.71
Corn, No. 2, Yellow Nebraska City, bu. . . . .	3.57	2.81	2.81
Soybeans, No. 1, Yellow Nebraska City, bu. . . . .	8.29	9.27	8.70
Grain Sorghum, No.2, Yellow Dorchester, cwt. . . . .	6.00	4.31	4.36
Oats, No. 2, Heavy Minneapolis, Mn, bu. . . . .	2.59	2.35	2.36
<b>Feed</b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. . . . .	185.00	158.75	*
Alfalfa, Large Rounds, Good Platte Valley, ton. . . . .	82.50	72.50	67.50
Grass Hay, Large Rounds, Good Nebraska, ton. . . . .	80.00	80.00	67.50
Dried Distillers Grains, 10% Moisture Nebraska Average. . . . .	127.00	117.50	115.50
Wet Distillers Grains, 65-70% Moisture Nebraska Average. . . . .	50.50	33.00	37.00
* No Market			

Many farm and ranch business owners desire a successor, someone who will continue the business after the current owner retires and/or eventually dies. Finding the *right person* is obviously the first step in the business succession process. Some have found a family member who is interested in *taking over* the business. Some have found a neighbor or friend and others have made connections with complete strangers. Most often the successor is a family member, a child, grandchild, niece or nephew, but finding the *right person* does not automatically equal success. There are barriers that prove quite difficult in many cases. The three most critical barriers to success are: Communication, Management Transfer and a Financially Feasible Plan.

### Communication

Although there is a rapidly increasing number of female farmers and ranchers, the vast majority of older farmers and ranchers are men. People that choose farming and ranching as their profession tend to like to *do their own thing*. Many times they also like to *do it alone*. A lack of good communication skills has not been a barrier to the success of most older, male farmers. Expertise in production, marketing, finance and decision making, along with hard work, has been the formula that has produced the desired results for most. In many cases communication skills have never been that important. Never been that important that is, until now, when a successor is to be brought into the business. The inability of the two generations of farmers to communicate with each other is by far the biggest barrier to a suc-

successful farm business transfer. It is not only the older generation that lacks communication expertise but many potential successors also have difficulty bringing up important issues. Two communication tools that have proven helpful are: 1. Goals material 2. Job description exercise.

- **Goals material** was developed to help each member of the farm/ranch business complete a written exercise in which they answer several questions regarding their goals for the short term (the next 1 to 5 years) and the long term (10 years+) of the farm/ranch business and also the family. After completion, members of the business are asked to share and discuss their individual goals with each other. Many times a conflict between resources is created when family demands on the cash flow or time, compete with business demands. Business members will create the final goals for the business as a team and prioritize the order of importance and timing of those goals.
- The **Job Description** exercise involves all members and potential members of the farm/ranch business and asks each to individually answer questions regarding the successor's job description. Questions such as: What time does the work day start? When does the work day end? What about holidays? Vacation? Health Insurance? Pay? What are the responsibilities of the successor? Who is he/she accountable to? Each member of the business answers the questions on their own. Upon completion, thoughts and expectations are shared. This process usually brings out potential areas of conflict and provides an opportunity for discussion.

These exercises can be beneficial to begin a healthy communication between the generations. It also helps to provide a model for farm/ranch business meetings that will continue on a regular basis.

### **Management Transfer**

The transfer of the management and decision-making authority from the older generation to the successor generation is also a critical step in successful business transitions. The first stage in establishing a management transfer plan is to determine the length of time that both the older generation and the successor will be involved in the management. Will this be a short time, maybe a year or two, or a long time, maybe 10 years or more? It is a bit like the running of a relay race in track and field. How long will the exchange zone be? There will be the runner carrying the baton, rapidly approaching and a runner ready and waiting to make the exchange and then carry on. If the older generation tries to hand off before the successor is up to speed, failure could result. If the successor takes off too early, again failure could result. Two factors to consider are the ability and readiness of the successor and the willingness of the older

generation to give up the decision-making authority. A gradual process that involves transitioning both the decision-making authority to the successor, while also placing the consequences for those decisions on the successor, has proven successful for many.

### **Financial Feasibility**

The business cannot continue if there is not a financially feasible plan in place. Feasibility, however, is a bit subjective. What one person believes to be feasible the next may declare impossible. A feasible plan must contain at least the potential for success. A key item to consider is the cost of living for both the older and younger generations. Expectations regarding what is needed and what is a luxury have changed over the years. Cell phones, internet, satellite TV, ATVs etc. are considered necessity items for many. It is also important to be certain that the older generation is financially secure. What expectations exist regarding lifestyle and the cost of living? What are the sources of income for the older generation? Will the older generation continue to work in the business? If so, how much income will be needed from the business to provide the style of living desired? How about the successor? Is there *off-farm* income to supplement the family living costs? What are the expectations for the successor regarding lifestyle and the cost of living? Where will the money come from? How much does the business need to contribute?

There are many low-interest loans with favorable repayment terms available for beginners. Nebraska's Beginning Farmer Tax Credit program, the NexGen program, also provides assistance with the cash flow and can free up funds to assist financial feasibility. Beginners have found that investing their capital, efforts and management in income producing assets such as seed, fertilizer, chemicals, rent, feed, etc., rather than attempting to invest too soon in wealth producing assets such as land, machinery and buildings have been a sound priority.

Positively addressing the three main barriers to farm business succession will help establish the next generation of Nebraska farmers and ranchers.

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