

Why the Obsession With Succession

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Who will farm the land? Why are there so few young farmers? Why are so many rural businesses closing? Why are rural schools closing? What is happening to our rural communities? How come there are no children attending our church? Why do we have to drive so far to see a Doctor? What does the term succession mean?

All good questions. These and many more are being asked by farmers, rural residents, policy makers and academicians, all with a desire to understand what is happening and to develop appropriate responses. It is obvious that we have fewer new farmers than in the past.

There are many factors that contribute to the decline in the number of new farmers. Farmers have adopted labor saving technology that, in addition to allowing them to farm larger farms, has also allowed them to extend their careers by delaying retirement. Life expectancy continues to increase and people are healthier longer than past generations thus allowing them to postpone retirement.

The evidence of our aging farm population is well known. We currently have twice as many farmers over the age of 65 years as are below the age of 35. A majority of farmland and farm business assets are owned by individuals over the age of 65.

Obviously, farming and rural America will experience a great deal of change during the next several decades as the land and farm family businesses move to the next generation.

With fewer young farmers entering farming farms are getting larger. So what? Farms are getting bigger because they are more efficient. Right? Wrong! Farms reach their maximum efficiency at approximately 600 acres. After that there is no increase in efficiency. Farms get bigger to make more money not to become more efficient.

Well, more money is better than less money. Right? Right! More money is better than less money and obviously, to stay in the business of farming, farmers need to make a profit. However, the idea that every farmer can continue to get bigger and bigger, and thereby continue to increase profits, is, on its face, ludicrous. No farm can be large enough to insure a profit and not every farm can be the largest farm in the county.

All of this leads us back to the question, "Why the obsession with succession?" There are many reasons for this "obsession" but, perhaps the primary reason is that farm business succession planning is an integral facet of the continuation of the farm family business. Some individuals have argued that the farm family business is no longer relevant as a means of organizing agricultural production. Of course, the vast majority of the individuals making that argument are not farmers. I have often wondered how many times the imminent demise of the farm family business has been predicted and, yet, they are still here and still a vibrant and necessary part of society, albeit, a part that is under a great deal of stress.

The majority of farm land and farm business assets are owned by farm family businesses and a majority of the farms are organized as farm family businesses. It is axiomatic that prosperous rural towns and villages are surrounded by prosperous farms. The contribution of farm business to the rural economy, the environment and, indeed, to society as a whole should not be ignored. Those who live next to the land and toil upon it

are more likely to be interested in their community, their environment and their society than will an absentee landowner.

Another reason for the increasing interest in farm succession is to formulate public policy that will help the next generation start a new farm business or succeed to an existing farm business. It is obvious that the current farm policy is wanting when measured by its ability to foster a new generation of farmers and needs to be changed. A policy that is truly sustainable is one that sustains the succession of farm family business to the next generation and aids new entrants in becoming established farmers. Current farm policy rewards larger commodity farms and works against the establishment of smaller farms that produce crops other than commodities.

A third reason for the interest in farm business succession is the identification of best methods for the development and implementation of farm business succession planning and farm business succession plans. The identification and understanding of successful methods of transferring a farm business to the next generation will encourage farmers to develop a farm business succession plan for their farm by demonstrating that it is possible to transfer their farm business to the next generation.

This does not mean nor is it meant to imply that it is a simple or easy matter to transfer a farm business to the next generation. There are barriers to both the entry of the younger party into farming and the older party in exiting farming. Among the barriers to entering farming are the following:

1. Ineffective entry strategies: The younger party needs to explore all the possibilities for entering farming. The most common approach is the borrow and buy method of getting started. The idea is to borrow as much money as you can, as young as you can, work as hard as you can, for as long as you can, pay back as much as you can, live as poor as you can, and die as rich as you can. The problem with this approach is that it increases the risk of failure of the business. The business is in debt to the extent that it has little or no ability to survive a crop or market failure.
2. Inability to acquire initial capital investment. A majority of the loan programs available through government agencies are for the purchase of land, which has the highest fixed cost and the lowest return. Also, it is sometimes difficult to obtain loans for non-traditional crops, livestock or enterprises.
3. Identifying viable farm entry opportunities. Other than looking at realty listings for farms that are for sale it is often very difficult to identify an existing farm owner who is interested in helping a young farmer gain entrance into farming. The National Farm Transition Network may be able to help locate a program in your area that works to link entering and exiting farmers.
4. Obtaining appropriate financial, managerial, and production skills. Operating a modern farm business involves more than growing a crop or raising livestock. This is especially true for many non-commodity types of production. It is essential to have financial management skills, marketing skills, communication skills and people skills. .

Farmers also face barriers in exiting farming. Among these are:

1. Lack of qualified help in formulating exit strategies. Developing a farm business succession plan involves more than merely forming a business entity or gifting assets to the successor. It involves four essential planning areas. The first is strategic business planning to insure the business will not fail. The second is retirement planning for the older party. The third is the transfer of management, income and assets to the younger party. And, the fourth is the estate plan of the older party.
2. Lack of farm business viability or refusal to invest in new technology, products or methods. All too often the older party has failed to keep the farm business current with the modern trends or has failed to identify and act upon opportunities to improve the business.
3. Retirement funds are tied up in the business assets and the assets must be sold at a premium to generate sufficient retirement income. Many farmers are asset rich and cash poor. Most farm business assets are not cash or near cash items, therefore it may be difficult for the farm business to generate sufficient retirement income and income for the younger party.
4. Not aware of entrants who want to become farmers.
5. Unwilling to give up managerial responsibility and unwillingness to transfer ownership of assets to the younger generation. It is often difficult to give up control of a business that has been built from a lifetime of hard work.

So, if you want to become a farmer, where do you begin the process of becoming a farmer? The following are questions that should be answered by you.

1. Why do you want to farm? Examine your values (what is important to you) related to starting a career in farming. You should also consider the values of your family (what is important to your family) as your decision will affect more than just you. You should think about where you want to be and what you want to be doing in the future and you need to set specific goals and establish objectives to measure your progress in meeting those goals.
2. What is agriculture? Modern agriculture involves far more than production. It also involves marketing, natural resource management, consideration of neighbors and many other considerations not present just a few years ago. In addition, agriculture, especially for new entrants, is not simply production of raw commodities. Entering farmers must have a clear understanding, a clear vision of what they are aspiring to become if they are to be successful.
3. What are the options available? All farming enterprises involve a mix of land, labor, capital and management. It is crucial for the beginning farmers to concentrate on selecting enterprises that accentuate their managerial strengths. It is also imperative that the beginning farmers know and understand the financial requirements of modern farming. This includes the ability to create and use

detailed, complete and accurate financial records. Some examples of options would be banding versus broadcasting, renting versus ownership of intermediate and long term assets, labor sharing with neighbors, selecting alternative enterprises, utilizing alternative marketing strategies, finding off-farm employment, finding employment to compliment the farming operation, using contracts, and others.

4. What is the mission of the farm business? Simple stated, beginning farmers must establish what they want to do and what they want to be. This is necessary so they will be able to evaluate decisions to help accomplish the mission.
5. Forming Beginning Farmer Communities. Find others who share your desire to become a farmer and maintain that relationship once you enter farming. Beginning farmer communities offer an opportunity to share experiences and to form bonds that will help them. Such communities can lead to collaborative business relationships such as sharing equipment and labor sharing to reduce costs. Find an existing farmer who will be a mentor and pass on the life time of knowledge gained from operating a farm business.

Starting farming is not easy but it is possible. There are examples, perhaps not as many as in the past, but there are significant numbers of existing and beginning farmers that are finding mutually beneficial ways to move a farm business to the next generation. And, isn't that a significant part of the definition of a "sustainable" farm.

