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Cornhusker Economics

Agricultural Economics Department

June 2003

Planning For Future Farmers

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Planning For Future Farmers

Market Report	Yr Ago	4 Wks Ago	6/13/03
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$63.96	\$79.99	\$77.41
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	*	91.00	91.61
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	88.98	93.94	95.77
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	100.46	129.49	126.39
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	34.75	44.75	48.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	18.16	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	100.30	107.17	136.67
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	81.60	109.25	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	150.32	194.96	191.74
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.17	3.67	3.25
Corn, No. 2, Yellow Omaha, bu	1.94	2.42	2.31
Soybeans, No. 1, Yellow Omaha, bu	4.79	6.31	6.14
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.48	4.18	3.94
Oats, No. 2, Heavy Minneapolis, MN, bu	2.21	1.85	1.75
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	112.50	125.00	117.50
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	60.00	80.00	60.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	90.00	117.50	127.50
* No market.			

The Spring Semester ended about one month ago for students in the College of Agriculture and Natural Resources at the University of Nebraska. The end of the academic school year always marks an exciting and busy time for students and their instructors as class projects are completed, final exams are taken and plans for the summer are made. It is always interesting to watch what career paths graduates will follow after completion of their studies. Many will find employment in the agribusiness industry, some will pursue a graduate degree and some may launch their own business ventures.

With a continued decline in farm numbers and an outward migration of young people from rural Nebraska, it is easy to overlook the fact that some young people do return to rural communities to continue their family's tradition of farming or ranching. Roughly twenty percent of agribusiness graduates at UNL typically make this choice. Armed with knowledge of science and production, business management and marketing, humanities and communications, they are well-prepared to face the challenge of growing and sustaining a farm/ranch operation in this fast-paced, ever-changing global climate. In addition to the typical challenges associated with farming (e.g., droughts, unfavorable markets), these young people and others involved in the operation must address changes in labor, management and ownership that accompany new people being added to the organization. Proactively considering how new people will affect the operation's financial position, equity held by others in the farm business and personal relationships of all the business partners is crucial to the operation continuing and the young people succeeding. Unfortunately, for most farm operators it is easier to address the immediate day-to-day production concerns (e.g., how to handle the thistle problem on the back forty acres) than these long range planning issues. Often the failure to make some long range plans concerning labor, management and ownership when bringing a young partner into the business are not realized until strained personal relation-



ships or financial problems have become difficult to manage. The following are some suggestions for planning when new partners enter the farm/ranch business:

☛ Define Their Role in the Farm Business. Any new member of an organization must learn how they fit into the operation, what tasks they are expected to do, what decisions they are to make, etc. This can be a difficult task, even for sons or daughters who return to the farming operation after college. Because they have been away from the day-to-day operations of the farm during college, it may seem to themselves or others in the farm business that their contribution to labor and management is unneeded. This could cause them to be less productive. Alternatively, others in the operation may prevent them from doing their job if they don't understand what the new person's role is. Written job descriptions can be useful in defining these roles and promoting harmony in the workplace. Although a written description of the duties that the new person will perform seems overly formal, it is the thought process involved in creating the job description that is valuable. This process should involve both the senior and new junior members of the business in order to match the skills and interests of the new person with the duties that need to be done. It requires the senior business members to answer questions like, "Am I willing to let Daughter manage the cow herd?" or "Does Son have the skills to select the proper herbicides for the corn crop?" For the incoming junior partner, the written job description depicts what they will be doing in the operation and allows them to answer questions such as "Do I really want to do work primarily in the crop enterprise as the job description says, even though I really enjoy raising and marketing livestock more?" If senior and junior farm business members cannot develop a mutually agreeable job description after some effort and open communication, perhaps the new partner is not a good fit for the operation or the operation does not need another person.

☛ Involve Them In Decision Making. The new member of the farm business is likely to be short on cash to use to invest in the business, but would have a greater capacity to provide labor on the farm. An arrangement where the new member contributes relatively more labor and the senior members of the farm business contribute relatively more equity can be very beneficial as long as both have some input into decision making. Commonly, it is left to the majority equity holders to make the farm's decisions. While this is appropriate so that they can manage and protect their investment, it is important to cultivate management and decision making skills in the new members of the operation, especially if they are likely to take over the entire operation in the future. Further, the younger generation can offer a different perspective and may have a different "comfort level" when it comes to making certain decisions. For example, new members returning to the farm after college may be more familiar with marketing alternatives

and can offer valuable suggestions to improve the farm's marketing plan. Another consideration when involving younger farm members in decision making is that they often have a higher risk tolerance. As a result, they may be willing to make decisions quicker or without as much information, which can be beneficial in some cases. The drawback is that they may take risks that the senior members view as unnecessary. To benefit from new member's unique skills and views, senior members should seek their advice on major decisions (e.g., "Should we buy that extra quarter section?") and allow them to make some independent decisions at a level where the senior members are comfortable (e.g., selling a portion of the corn crop).

☛ Develop A Transition Plan. Many college students returning to the farm do so with the idea that they will eventually take over the operation. Generally, the senior members of the business also have the same idea, but neither communicates their intentions very well to the other. It is important that some thought is given to how the farm will transition to new owners (often the next generation). This includes how transfer of the ownership of farm assets will occur, how management decisions will be made during the transition period and how the older generation will be involved in the operation (or, if they are no longer involved, what income source they will have). Openly discussing transition plans and consulting with a farm transition planner and an attorney are important steps both generations should take when the new farm member initially becomes part of the operation.

Although every situation is unique, farm businesses need to prepare for new members returning to the operation. These new members, especially those recently completing college, have significant opportunity costs to returning to the farm and need to be assured that they have an important role in the farm business, will be able to make some decisions and that the future of the farm business has been considered. Addressing these issues is also in the best interests of the senior farm members. Good communication between all business partners is the key for this planning to be effective.

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