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Lee L. Schulz

Iowa State University, lschulz@iastate.edu

Georgeanne M. Artz

Iowa State University, gartz@iastate.edu

Patrick J. Gunn

Iowa State University, pgunn@iastate.edu

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Succession Planning, Perceived Obstacles, and Attractions for Future Generations Entering Beef Cattle Production

By Lee Schulz, Georgetanne Artz, and Patrick Gunn

lschulz@iastate.edu; gartz@iastate.edu; pgunn@iastate.edu

GIVEN THE current demographics of beef cattle producers in the United States, a significant turnover of productive assets will likely occur in the industry over the next decade. The 2012 Census of Agriculture reported that 35 percent of US beef cattle and ranching and 28 percent of US cattle feedlot principal operators are over the age of 64 (USDA NASS 2014). An additional 27 percent of beef cattle and ranching principal operators and 28 percent of cattle feedlot principal operators are between 55 and 64 years of age (USDA NASS 2014). Yet, according to the 2015 Iowa Farm and Rural Life Poll, among farmers who plan to retire in the next five years, only 55 percent have identified a potential successor (Arbuckle and Baker 2015).

Ensuring the transfer of economically viable farms to the next generation has implications for the future size and structure of the industry as well as for the rural economies that depend on agriculture.



Larger, more profitable farms are more likely to have a successor in place (Kimhi and Nachlieli 2001), while operators of smaller farms lacking a successor are more likely to begin a process of disinvestment in their property once they near retirement in their late-50s (Mishra, Wilson, and Williams 2009). Over time, this pattern results in fewer, larger, and more capital-intensive operations, creating a barrier to entry for beginning producers who do not inherit an existing farm.

Policymakers have responded to the need to facilitate farm succession by providing targeted programs, particularly for beginning farmers; however, information is needed on the obstacles and attractions perceived by the older generation of producers who are nearing retirement to target succession programs more effectively.

A mail survey was designed to obtain information from Iowa cow-calf producers and feedlot operators. The comprehensive survey included questions regarding various aspects of cattle production, including demographics and current production and marketing practices as well as questions regarding succession planning and what existing producers saw as the greatest obstacles and attractions for the state's cattle sector. Interested readers may find the full set of survey questions and responses in Schulz (2014a,b). ➡

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For the questions used in this analysis, 215 cow-calf producer and 185 feedlot operator usable surveys were available.

Similar to the average age of US cattle producers, producers responding to the survey were on average in their late-50s. Roughly 90 percent of producers have more than 20 years of experience in raising beef cattle. Not surprisingly, given the average age of producers, 49 percent of cow-calf operators and 52 percent of feedlot operators expect to exit beef cattle production within the next 10 years.

Across both cow-calf producers and feedlot operators approximately 50 percent expect to be raising cattle for 10 more years or less (Table 1). However, a significant number of producers with relatively short time horizons do not have a succession plan. Thirty-eight percent of the cow-calf producers and 39 percent of the feedlot operators who expect to be raising cattle for 10 years or less do not have a succession plan in place.

Twenty-nine percent of cow-calf producers and 44 percent of feedlot producers have encouraged an heir to take over the cattle operation but are willing to work with a non-family member if an heir is not present or interested in entering cattle production (Table 2). On the other hand, 33 percent of cow-calf producers and 28 percent of feedlot operators have encouraged an heir but are not willing to work with a non-family member. Twenty-seven percent of cow-calf producers and 18 percent of feedlot operators have not encouraged an heir and are not willing to work with a non-family member. Only about 10 percent of both cow-calf and feedlot owners have not encouraged an heir but are willing to work with a non-family member.

Among producers that do not have a succession plan, feedlot operators consider work hours as well as labor availability and costs to be more of an

Table 1. Succession Planning by Expected Years to be Raising Cattle¹

Expect to raise cattle:	Cow-calf				Feedlot			
	≤10 years		>10 years		≤10 years		>10 years	
	49% (n = 104)		51% (n = 110)		52% (n = 96)		48% (n = 89)	
Type of Succession Plan:	N	%	N	%	N	%	N	%
Transfer to next generation or secondary operator	42	40	36	33	55	57	42	47
Transfer to outside established or beginning producer	7	7	0	0	0	0	2	2
Sell cattle and use land for other purposes	16	15	3	3	4	4	4	4
No Plan	39	38	70	64	37	39	41	47
Total	104	100	110	100	96	100	89	100

Note: One cow-calf respondent was not included in this analysis because they responded "Other" without further explanation to the question, "Is there a succession plan for transferring your cattle operation upon exiting the industry?"

¹Frequencies calculated using weights that adjust sample characteristics to match NASS cow-calf and feedlot operation numbers. Frequencies rounded to the nearest whole number.

Table 2. Producers' Encouragement of an Heir and Willingness to Work with a Non-Family Member to take over Ownership of the Cattle Operation¹

		If you have an heir (e.g., son, daughter, grandchild, in-law, other relative) to take over the cattle operation, are you encouraging them to do so?			
		Yes		No	
Would you be willing to work with a non-family member if an heir is not present or interested in entering cattle production?	Yes	Cow-calf	Feedlot	Cow-calf	Feedlot
			29%	44%	11%
	No	Cow-calf	Feedlot	Cow-calf	Feedlot
		33%	28%	27%	18%

¹Frequencies calculated using weights that adjust sample characteristics to match NASS cow-calf and feedlot operation numbers. Frequencies rounded to the nearest whole number.

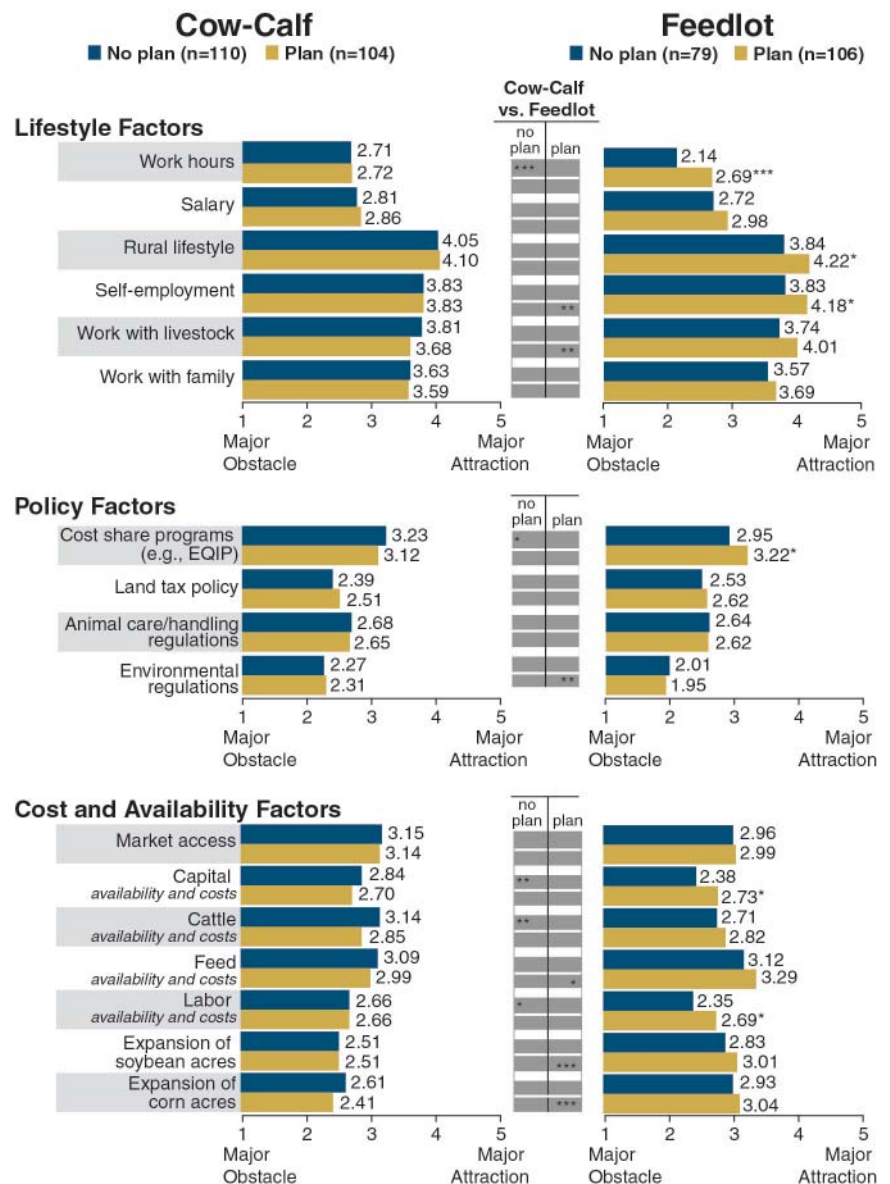
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obstacle than do cow-calf producers. This is not surprising given the amount of hired labor differences between these two sectors. In 2015, a survey conducted by the Iowa Cattleman's Association highlighted that only 49 percent of cow-calf operations had non-family employees compared to 87 percent of feedlot operations. Moreover, only 24 percent of cow-calf operations had multiple non-family employees, as opposed to 52 percent of feedlot operations (ICA 2015a,b).

No statistical differences in any of the obstacle/attraction factors were noted between cow-calf producers that do and do not have a succession plan (Figure 1). However, feedlot operators with a succession plan have higher average ratings for most lifestyle factors (i.e., work hours, rural lifestyle, and self-employment) than do operators without a succession plan. Conversely, those without a plan are somewhat more negative about cost share programs (e.g., EQIP) than are those with a succession plan. Those with a succession plan may have been more likely to utilize state or federal programs to offset feedlot facility design and construction because they had an apparent successor, thereby enabling them to be more progressive and use longer horizons in assessing investment opportunities.

Feedlot operators without a plan are also more pessimistic about capital availability and costs as well as labor availability and costs than those that have a succession plan. These results are similar to the 2004 Iowa Farm and Rural Life Poll where, regardless of farm type, 57 percent of survey respondents would not encourage young people to enter farming, citing capital cost and labor as two of the top five reasons (Lasley 2005).

The future size and structure of the US beef cattle industry will be



Note: One cow-calf respondent was not included in this analysis because they responded "Other" without further explanation to the question, "Is there a succession plan for transferring your cattle operation upon exiting the industry?"

¹A five-point Likert scale was used for the degree to which lifestyle, policy, and cost and availability factors were perceived as an obstacle or attraction for future generations entering cattle production, with 1 = Major Obstacle, 2 = Obstacle, 3 = Neutral, 4 = Attraction, 5 = Major Attraction.

²Means calculated using weights that adjust sample characteristics to match NASS cow-calf and feedlot operation numbers.

³Asterisks denote statistical significance of a difference-in-means test between the relevant groups: * significant at 10%; ** significant at 5%; *** significant at 1%.

Figure 1. Comparison of producers with and without a succession plan^{1,2,3}

determined by the individual decisions of over 740,000 cattle owners (USDA NASS 2014) and their potential successors. With current demographics, including producer age and an equity distribution skewed to older producers,

a large share of productive assets in the beef cattle industry will likely change hands over the next decade.

Public policy will influence how and to whom these assets will be transferred, which, in turn, will

help shape beef cattle production for generations to come. This makes it crucial to explore and evaluate alternative policies so that policymakers, stakeholder groups, and educators can assess possible pathways of successful farm transition. As part of the foundation for this exploration, it is important to understand perceived obstacles and attractions for future generations and identify alternative strategies for addressing and embracing them. Given this improved understanding, targeted educational efforts and innovative approaches to succession plans could be developed.

Future policy and educational efforts should not only be designed to encourage and assist beginning farmers entering beef cattle production but also designed to address long-run challenges and enhance their chances of surviving, prospering, and growing as viable farm

operators. Surely, this is, in part, what existing cattle producers are referencing as obstacles for future generations entering cattle production. ■

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