DEVELOPING YOUR AGREEMENT

To successfully transfer your operation to the next generation, you must select the proper business agreement — one right for you. After you select this agreement, tailor it to meet your specific needs.

Below are factors you should consider when selecting a business transfer agreement. By carefully evaluating these factors, you can help increase your chances of successfully transferring your operation.

Business expansion

Most farm businesses developed as a single-family operation. These operations gradually expanded until the farmer was fully employed or until management skills were fully utilized. These operations must be expanded when the younger generation returns to the business. The farm must now be large enough to use labor and management of both generations and provide sufficient income.

If the younger generation is able to bring sufficient capital into the operation, this expansion may occur quickly and easily. Unfortunately, this is usually not the case. In the majority of cases, a business expansion requires borrowing, renting or using the older generation's assets.

The older generation should exercise caution when considering expanding the farming operation. After years of reducing business debt, they may be thrust back into high debt levels. The older generation must consider whether they want to financially jeopardize the family business and their retirement income by expanding with borrowed money. Even if the expansion goes as planned, there may be added stress and worry to the older generation.

Business life cycle

The business life cycle often parallels the management life cycle of the owner. During the start-up stage, the manager attempts to assemble sufficient assets to start a viable business. At this time, the new business is vulnerable to failure and income tends to be tight. The manager is often short on capital and know-how but possesses the enthusiasm needed to continue.

Next, the business tends to expand rapidly in terms of acres of crops, head of livestock, or number of enterprises. The manager's skills are developing, but the lack of capital may limit growth during this period. As the operation matures, the manager reaches his or her full employment and the size of the business stabilizes. This tends to be a period of good profits and excess capital. The operator's management skills have developed and he or she now tends to concentrate on improving efficiency.

In the final stage, the manager begins to wind down the business. Rather than making new investments, current ones are utilized. There may be a surplus of capital, but labor may be in short supply. Non-business goals begin to receive higher priority.

By working together, two generations can complement each other and maintain the business at a higher level of productivity and income. As the

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older generation's business tends to decline, the younger generation is often at the growth stage. During the maturity and declining stages of the older generation's business, he/she can provide capital and management skill needed for the younger generation's business. Likewise, the younger generation can provide labor for the older generation's business, while his/her business is in the start-up and growth stages.

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