



WHAT IF WE DIDN'T THINK ABOUT IT AS SUCCESSION PLANNING?

By Terry Betker, P.Ag., CAC

There is, and correctly so, quite an emphasis placed on the importance of getting your 'succession' plans in place. And there is a lot of discussion within the industry, trying to understand why more farmers are not actively working on this important issue within their farm businesses.

I am going to use this article to present some of my thoughts on succession planning. I will use a farm family that I had the opportunity to work with in this area as an example to illustrate.

Within the industry, I think that we have the 'succession planning thing' mixed up. Firstly, depending on the farm and family situation, succession planning can be thought of in two different ways. One, the situation where the farm is being sold to someone other than family. In this situation, there is no real succession. The other situation is where the farm is being transferred within the family, to the next generation. This is the one that I think causes people grief and the one upon which I am going to focus.

The farm family I am using as an example is pretty typical I think. It is a relatively large farm and very successful. Progressive and well managed. Incorporated with Mom and Dad as the common shareholders. A family farm in the truest sense. An eldest son and two younger daughters, one of which is in post secondary school and the other in Grade 11. The son wants to farm and has completed post secondary education. The farm has expanded recently, acquiring additional land, in anticipation of the son's return. The farm generates good levels of profit from year to year. It is fairly leveraged, carrying a pretty good debt load.

Mom and Dad had decided that they needed to get their 'succession plan' in place. They started by doing some research. They talked to their accountant, their lawyer and an investment advisor. They collected a lot of great information and developed a really good understanding of the tax, legal and investment issues that needed to be addressed.

But they still did not feel comfortable with where things were at. And herein lies the problem and where 'succession planning' is mixed up. Certainly, the tax and legal issues need to be resolved in a manner most suitable to the family. But from a family and farm perspective, the single most important element is the transfer of ownership and management. And this is not an event. It is a process ... a process that should be started years and years in advance. A process that never actually ends. When a farm is transitioned to the next generation, the process starts again.

I encouraged the family to think of their situation in terms of a long-term strategy. So rather than working on a 'succession' plan, the family began working on a plan that would ultimately result in the farm being 'transitioned' to the next generation.

Here are some of the key steps that the family worked through in planning for the transition to the next generation. (space does not provide for full detail)

The Farm Today and in the Future

The family spent two or three meetings discussing where the farm was at today and what it might look like in five or ten years. They looked at the financial health of the business. They looked at the actual business that they were in and discussed different, potential options. They included all family members in the discussions. In the end, they had created a vision for what they wanted the farm to be in the future. And it included a transition of ownership and management to the next generation.

The Current Situation

As part of the planning process, the family spent two meetings looking at four important areas: their strengths (both personal and business), their weaknesses, opportunities for the business and potential threats. This information is invaluable when the time comes to put plans into action!

The Key Issues

All farms, in fact all businesses, have issues that need to be identified and addressed. Failing to do so will significantly and negatively impact on successful outcomes. The family identified two key issues. One of which was financial performance and another was the successful transition of the farm to the next generation. In other words, the family decided that in the next five years, the key issues that they needed to address to be successful were to improve financial performance and to transition the ownership and management of the farm.

The Indicators

One of the traps that families fall into when it comes to transition planning is that of getting caught up in the urgency of day-to-day operations. Time passes quickly. Establishing and monitoring some key indicators helps to keep plans on track. Without setting indicators or targets, it is difficult to measure progress and success. The family set down some key financial indicators that they



wanted to use as a way to gauge progress. As well, they established some 'non-financial' indicators that they wanted to use to test for individual commitment and family harmony.

The Road Map

It took three or four more meetings for the family to work through the details of the action items that were going to be required to address the key issues and to ensure that nothing 'fell through the cracks'. Detail is almost critically important as missed action items can potentially have huge implications.

It is in this area that the family applied what they had learned from their accountant, lawyer and investment advisor. They listed in detail and in order, the steps each of their professional advisors had told them were required to be completed as part of the transition process.

The outcome? The family finished working through the planning process and are now implementing their plan. They will tell you that the process they followed seemed to make better sense. But what process? What is a succession planning process? A transition planning process? Not really. It was a process followed by businesses, large and small, all over the world. A strategic planning process. And herein lies the problem.

Transition planning is really just part of a longer-term or strategic farm plan that includes a transition of ownership and management to the next generation. It should not be treated as an event or 'one-off' plan.

A recent study conducted in Western Canada on the management practices of leading farmers by the Best Practice Group found that 55.3% have a written vision for their farm and that 84.2% identify goals as part of their strategic planning process. 36.8% indicated that they have a written succession plan.

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Get numberin'

A model yesterday holds up an egg with the new number, which will start throughout Europe in January 2006. The first number indicates the type of environment where the chicken was raised. The letters are for the country, and the last numbers indicate the producer.

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Today's Presentation

- Overview
- Family, Ownership, Business
- Specific considerations
- Planning for transition
- Three farms
- Optional resources

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Overview

- Change in primary agriculture
- increasingly complex operations
 - size
 - ownership
 - management
 - business focus
 - scale
 - specialization / intensification
 - diversification / extensification
 - value add
- considerations to growing potatoes
- implications to succession planning

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Overview

- Succession Planning
 - two scenarios
 - actual succession
 - intergenerational transfer
 - common elements
 - transition requires different focus
- Different Focus
 - Not a 'one-off' process ... rather a function of a longer-term or strategic plan

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Transition Planning

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Family, Ownership, Business

...Finding the Balance

Family Ownership
Business

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The 3-Circle Model

We'll use the 3-circle model to illustrate the relationship between family, ownership, and business areas of the operation.

Family Ownership
Business

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Areas of Overlap and Their Effect

- Hard to distinguish where one area stops and another begins
- You must spend time identifying areas of overlap
- We will briefly explore the relationship between the three areas

Family Ownership
Business

Role Confusion
Crossover
Conflict

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The Family Circle

Family Ownership
Business

- Develop its members self-esteem
- Perpetuate shared values
- Treat family members fair and equal

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The Ownership Circle

Family Ownership
Business

- Business (farm) stewardship
- Create and maintain long-term stability; personal and business
- Preserve wealth
- Equitable distribution of wealth and ownership as is best for the business

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The Business Circle

Family Ownership
Business

- Generate profits
- Maintain a good work environment
- Manage risk
- Maintain viability of operation now and in the future

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The 3-Circle Model

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Ownership

- Wealth
- Retirement
- Estate Plans
- Equitable

Management

- Finance
- Operations
- Human Resources
- Marketing

Family

- Emotional
- Conflict
- Love
- Farmest

Business

Trust and Capital of Relations

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Specific Considerations

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- Risk
 - what's the risk in not planning for transition?
 - managing risk
 - a process to consider
- Wealth
 - earned or circumstantial
- Governance

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Governance for business families

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- Policies, systems, structures
- As simple or as complex as desired, but they must be there

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Governance Structures

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- Family Meetings
- Family Council
- Family Participation Plan
- Conflict Resolution process

Succession Plan

- Estate Plan
- Retirement Plan
- Shareholders agreement
- Owners meetings
- Board of directors
- Advisory board
- Strategic Plan
- Business Plan
- Mgmt meetings
- Roles and responsibilities

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Planning for Transition

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- *The Farm Today and in the Future*
 - goals and values
 - areas of common and divergent thinking
- vision
 - the helicopter approach
 - consensus building

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Planning for Transition

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- *The Current Situation*
 - situational analysis
 - financial
 - management
 - external and internal environment
 - SWOT

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Planning for Transition

- *The Key Issues*
 - symptomatic versus root
 - impact on successful outcomes
 - common management areas
 - financial
 - human capital
 - constraining resources
 - how many?

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Planning for Transition

- *The Indicators*
 - day-to-day urgency
 - production influence on management behaviour
 - measurement
 - financial / non-financial

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Planning for Transition

- *The Road Map*
 - action plans
 - detail
 - monitoring, evaluation and accountability
 - tax and legal issues

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Three Farms

- Application to Transition Planning
 - Farm 'A'
 - 1,500 acres of potatoes
 - Farm 'B'
 - 5,500 acres cereals, oilseeds and special crops
 - Farm 'C'
 - 700 acres of potatoes, 2,500 acres of cereals, oilseeds and special crops, 200 cows

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Optional Resources

- The Universe of Risk
- Management Wellness Assessment
- Meeting guidelines
- Action plan templates
- Article

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