A Guide to Transition Planning for **Farmers**

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PART 1 INTRODUCTION

Your future starts today

Transition planning is one item on a farmer's to do list that often seems a little more difficult to strike a line through compared to the rest. No matter what the farm type, size or scale, the future is always calling and farmers must make a decision about it at some point in time.

In this multi-part series, Farm Business Consultants (FBC) will examine farm transition in-depth and give you the key insights to consider questions to ask yourself as you ponder the next steps of your farm for generations to come. We will examine the benefits of **Third Party Facilitators** because, after all, sometimes talking with family can draw out emotions. A neutral and trusted third party helps focus discussions and stay constructive in what can sometimes prove to be a challenging conversation.

Next, we will give you what we do best—**Tax, Finance, and Estate Planning**. We will look at tax, estate, and financial-related considerations when we discuss a farm transition plan. Having a proper plan as you take over, or exit, is important, but knowing how the dollars are going to flow and how a retired farmer will live out their golden years while still helping the successors are important questions. We have you covered.

Farm transitions rarely happen overnight, which is why we also need to discuss **Multi-year Planning**. Many transitions are multi-year agreements and it's normal to have a three-plus year timeline in place. For others, the process may be slow and methodical, lasting 10 years or longer.

Finally, our series will conclude with an examination of **Diversified Operations**. It is increasingly rare that a farmer will take over and not change even so much as the locks. The incoming generation must add more value to the farm, which takes many formats. More often than not, especially in an increasingly connected world, farmers want to try their hands at new and innovative practices. We will dive into what a farmer needs to be mindful of as they seek to diversify their new operation.

For all these critical areas, we will present to you case studies of farmers across the country who live and breathe these different areas and can personally attest to each one's importance.

What is succession?

Simply put, it's the process to identify and introduce a future leader, or leaders, to your farm business as the current owner, or owners, look to cycle out. For farmers, this has historically meant giving operational control over to the oldest son, if applicable. Failing that, it has often been offered to the next oldest sibling or the one that shows the greatest interest. Other times, there are no children to succeed a farm family and a longtime employee or someone in a management position steps into the gap and succeeds the farmer. It's more a rarity, but sometimes farmers simply sell out completely of any land and assets and close that chapter of their life. These would be the common models applicable to most Canadian farmers.

Succession in Canada

According to the Canadian government, it simply views the notion of transition as a transfer of agricultural assets, which is certainly a large consideration. According to the government, in 2016 there were approximately $53.9 billion in Canadian farm assets. These assets are able to be fully or partially sold to the new person or ownership group. Transition also happens through an external third party with a written plan and/or a will.

It's no secret: Canadian agriculture is getting older and the replacement value has not surpassed the incoming next generation. According to Statistics Canada's 2016 Census of Agriculture, for farms with a single operator there were 65,815 people over the age of 55 and the national average age of a Canadian farmer is 56.2. Overall in the census, the average age of any farmer was exactly 55. Those farmers are now five years older and succession remains a high priority for many.

Succession is the process to identify and introduce a future leader, or leaders, to your farm business as the current owner, or owners, look to cycle out.

Not only that, but the uptake of succession also remains low. Less than nine per cent of all farms across Canada have a formal succession plan. However, some analysts informally estimate that the number is likely higher due to underreporting. Farmers categorized as sole proprietorships as well as partnerships had a succession plan 5.7 per cent of the time while family and non-family corporations were nearly three times higher at 16.3 per cent.

It is worth noting that just over 50 per cent of all Canadian farms in 2016 self-identified as a sole proprietorship while the remainder was divvied up between partnerships with no written agreement (17.4 per cent), partnerships with a written agreement (5.4 per cent), a family corporation (22.5 per cent) and a non-family corporation (2.7 per cent).

Also of note, incorporation rates increased by more than five per cent between the 2011 and 2016 census of agriculture, now sitting at 25.1 per cent.

The three highest industries for having a written succession plan were dairy (18.6 per cent), poultry & egg (12.9 per cent) and hog & pig (12.6 per cent). The supply managed subsets of Canadian agricultural production are said to be higher due to their greater capital requirements.

Getting started

Now that you are up to speed on the state of succession in Canada, let's look at your family farm and find out if you have satisfied all the different angles related to a successful on-farm transition. The important thing to remember is that this does not have to be taken care of overnight. While it may seem overwhelming at first, done properly and with trust and respect, this process can be a straightforward, and hopefully enjoyable experience for the incoming and outgoing generation of farmers.

PART 2 THIRD PARTY FACILITATORS

Bringing the outsider in

Transition planning is one of the biggest decisions a farm family will ever go through. It's for that primary reason that it is done right *the first time*. Conversations will be continuous and a constant flow of information between the incoming and outgoing generation are imperative.

However, we recognize that emotions may run high and miscommunication may occur in such a lengthy and involved process. One of the most important decisions a farm family may make besides transitioning the farm is to hire a trusted and qualified third-party facilitator or farm family coach.

Who makes a good facilitator?

Third party facilitators, farm family coaches or business trainers, are typically certified in group work and, if they are working primarily with farm families, generally come from a farming background themselves or at least understand the unique nature of Canadian agriculture. These are the people who we rely upon to guide us through this complicated, sometimes messy, and extensive process.

Why should my family and I enlist a third party?

According to Craig Manness, president of the Impact Group - a consultancy focused on the success of individuals and groups - the reason a farm family often requires an outside facilitator is that objectives may be cloudy and there is a high need for someone to put all the conversations and discussions together in a coherent and proper context. If that person is absent, the process can become considerably more difficult, especially when it comes to ensuring everyone has their voice heard.

The incoming generation want to be engaged in this process, but it's often seen as the responsibility of the outgoing generation to begin it. For different reasons, there are delays and this can create unnecessary tension between generations. Putting the responsibility into a third party's hands takes pressure off mom and dad and lowers the temperature on situations that may be getting heated.

Process

There are many ways to achieve unity as a farm family during your transition process, and Manness offers a few general ideas of what goes into a smooth changeover to the incoming generation.

PRE-WORK: Answering pre-set questions from a facilitator ahead of time gives every family member time to reflect, work through their thoughts and clearly write them down. Later, those same thoughts and opinions are reviewed prior to beginning in a group with a facilitator.

MEETINGS: A set number of meetings, often two full day sessions, are important to work through every single family members' thoughts, including spouses who have married into the family, and beliefs about where to take the farm and any peripheral businesses. Naturally, some members have a dominant voice while others pull back. All voices are important and all voices must be heard to consider this process complete.

Equally important is that when one person speaks, there are no interruptions. Whether someone agrees or disagrees with someone, respect and decorum must be shown. An adept facilitator easily manages this small but important detail of the transition.

HIERARCHY: Every farm family needs a business structure, especially the incoming generation who are moving into leadership roles. Whether the outgoing generation will stay on as advisors or exit more rapidly, it's important that new faces, and existing employees, all understand the new direction. A third party is trained to spot efficiencies and opportunities while they create a new or modified hierarchy of roles and responsibilities for a farm family. Many families often label this the most valuable part of the entire transition planning exercise.

FOLLOWUP: Once initial sessions conclude, facilitators often send out meeting minutes, important objectives, action items and any other key details that a family may require.

Upon request, facilitators will often continue to work with a farm family well after the initial set of meetings conclude. That can include individual sessions working through specific issues that necessitate additional dialogue. Likewise, a third party could act as the administrative person for a farm family's transition, setting due dates for check-ins regarding specific action items.

Certain families move faster than others for a variety of reasons. There is no set time for a transition plan to conclude or set a plan in motion.

Benefits of a third party

A critical, and easily understood benefit of a third party is that this person is coming in detached from your farm business. Having a person with a distance to the farm, both emotionally and in a business sense, helps the farm family see things from an informed outsider's perspective. There are a few key areas where a third party proves vital during the transition process.

TELL THE TRUTH: One reason farm families engage with a third party is that they sometimes know the farm may need improvement in one of more areas. If the farm is transitioning and there is talk of a secondary income stream through a diversified business, a third party is a natural choice to respectfully, but firmly, push the family members on important questions related to finance, structure, roles and other relevant issues. Nobody hires a third party to be told everything is rosy if the reality is that the farm is mired in one or more serious problems. There may be tough moments in the session, but ultimately no fruit will come to bear if those difficult conversations are not had in a healthy, trusting setting with all family members present.

EMOTION MANAGEMENT: Transition brings out a range of feelings, which is normal and healthy, but it's important to have a person with zero emotional attachment to the farm guide the conversation. With no vested interest or "emotional baggage" to check at the door, it becomes much simpler to interpret and understand feelings. A third party hits the ground running, which makes the process more streamlined with greater clarity.

ONE-TIME SUCCESS: If you want to know the value of a talented third party, go through the process without one. When farm families enlist qualified outsiders, be mindful that they are specifically hired to help you complete this process. They won't rest until it's done. Families often start eager and quickly fizzle out because the farm gets busy, people take holidays and interest wanes. A third-party facilitator ensures success because that is why they were brought in in the first place.

INDUSTRY CONNECTIONS: Depending on what a farm family's goals are, third party facilitators who work throughout the Canadian agriculture industry are well-connected and may be able to make suitable recommendations to other qualified people such as lawyers, accountants or business advisors with niche understandings.

For a comprehensive listing of Canadian farm advisors, including third party facilitators that can help you and your family through a transition or addition of a diversified business, visit the Canadian Association of Farm Advisors, a coast-to-coast network of agricultural experts for your family's needs.

Now, let's learn about a real case study from a Manitoba farm family and how they used a third-party facilitator to ensure transition success.

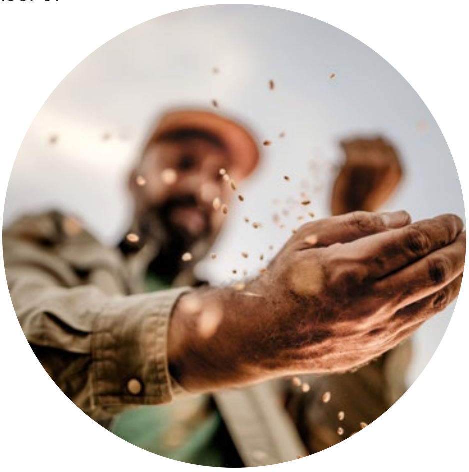
PART 3 THIRD PARTY FACILITATORS CASE STUDY

Multi-generational seed farm, value-added business transition a smooth process thanks to trained facilitator

When Tom Greaves's father-in-law, Calvin Pitura, first approached him with a job offer for a management position at Pitura Seed Service, Tom came back with about one million questions. The young man already had a rewarding career and wasn't sure the pedigreed seed business was the right direction for him.

Tom would be working closely with his brother-in-law, Connor, who was offered a similar position for the family's second business, Pitura Seed Farms. Tom and Sheena, Calvin's daughter, had been married just the year before. They didn't want the decision to impact their relationship or that of the family's. What if it didn't work out? Or worse, what if he and Sheena decided to split sometime in the future?

It was a big decision, one that required clear and open communication between all parties. Fortunately, Calvin was prepared, having sought the counsel of Craig Manness, president and senior business coach at Impact Group. In his role as a third-party facilitator, Craig helped the family work through their many questions and come up with a transition plan that met everyone's needs.



Based in Domain, Man., Pitura Seed Service operates one of the largest family-owned pedigreed seed processing facilities in Western Canada. They have been in operation since 1950. Until recently, Calvin Pitura and wife Barbara Strath-Pitura co-owned the company. In preparing for retirement, the couple approached Tom and Connor to first manage, and later co-own, the two separate businesses.

At first glance, Tom's response should have been simple. Having grown up on a family farm, he always wanted to farm full-time, but his parents' farm was only large enough to support one family. After receiving a diploma in agricultural studies, Tom worked first as plant manager at the Puratone Corporation, and later as director of operations at Manitoba Harvest Hemp Foods and Oils. While the offer to head the seed business was tempting, it meant leaving a good position.

"I didn't think there was that much exciting happening in the seed industry," said Tom. "But as I did more and more research, it became very apparent how much opportunity there was."

As the circumstances around the transition were not exactly normal, Calvin decided to bring Craig in. Not only is he an expert on transition, he's also married to Calvin's sister, which meant he understood the family's needs quite well. Craig was able to address Tom's many questions and walk them through a full gamut of scenarios.

Not all of the discussions were centred on business; some were of a personal nature. Sheena and Tom did not want to work in the business together, and Sheena was doing very well at her current job and wanted to continue building her career.

"We talked about putting in some minor rules," said Tom. "And one of them was that Calvin and Barb couldn't approach Sheena for at least three years to come join the business."

Another conversation centred on presence at family suppers. While it might seem unimportant, Craig wanted them to understand that Tom might not always want to spend his personal time with his extended family, so they shouldn't expect him at every family dinner.

"Everyone was okay with that," he said. "But trust me, I always make it because I never want to miss a meal."

Before transition talks began, Calvin and Barb worked closely with Craig to draw up job descriptions that were complete with roles and responsibilities. If all went well, the aim was to have both Tom and Connor in management roles, followed by co-ownership. The talks brought up some big questions. Namely, what would happen if it just didn't work out, and was there an exit plan in the event that it didn't?

"Family still has to be the most important thing if this doesn't work," said Tom. "We need to be able to unravel it and have everyone in a good place still. Part of that meant not doing ownership right off the bat."

One of the first changes they made in the transition process with Craig was to the organizational chart. Initially, Calvin and Barb remained active in management of the business, but later they took seats on the board of directors. As they moved to the board, Tom and Connor moved into presidential roles. Having this structural hierarchy in place was extremely important to the success of the transition, said Tom. It allowed him to learn the overall operations of the business while getting to know its employees and customers.

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Before Tom took the job offer he also consulted with friends and work colleagues. Many warned him against working with family. He says having those early conversations helped him shape the questions he'd later pose to the transition coach. Discussions around what would happen if Tom and Sheena ever split, for instance, got more serious as they started moving towards ownership. Newlyweds are often understandably uncomfortable talking about divorce, but Tom needed to know the process no matter what happened. It was an awkward conversation, but necessary, he recalled.

Having a third party facilitator present was integral to guide those conversations especially in the initial phase, said Tom. Having him there removed the risk of miscommunication, and therefore, any possible tension going forward.

"Whether you're an in-law, a son or a daughter, it's those big questions," said Tom. "It's those life changing ones that need to be put on the table. Because if you're not talking about them, there's a lot that could happen. You need to get everyone on the same page. There is no unspoken agreement. You need to talk about it."

In total, the entire transition process took about a year to complete. Craig worked closely with the family every step of the way. Today, Tom is president of Pitura Seed Service, and Connor is president of Pitura Seed Farms, but the businesses are co-owned. Craig continues to work closely with both companies, helping them to improve internal communication to strengthen relationships with their employees.

Capital considerations during a farm transition

As the incoming generation begins to succeed the outgoing one with farm ownership of their own, one critical piece to the puzzle are the financial, estate, and tax-related aspects.

Farms are often multi-million dollar operations that have serious financial implications depending on how a given year plays out. Younger farmers must understand this as they enter the management fray and begin to have financial accountability fall to them.

Independent farm transition and finance consultant Reg Shandro has more than 30 years' experience helping farm families and he often asks them two basic questions when 'money talk begins.'

Are you viable? Are you sustainable?

He says these two questions give almost every family a moment of pause as they consider them.

Being viable is simply having enough money to feed your family and live a life, farming aside. Before there is talk of debt service, tax, inflation and other important concerns, will there actually be income to lead even a basic life at the desired standard a young farmer has in mind?

Being sustainable is understanding the size and scope of your farm and how you are going to survive the business of it for, presumably, the next 40-plus years before you hand off to a future generation. If you farm near a major metro centre and hope to acquire additional land, which sells for $10,000-plus per acre, what is your plan? Similarly, if you run a livestock operation, 70 cows won't do anything but leave you with a headache since there is no economy of scale. Or take interest rates. What is favourable today may cause a long-term issue if rates doubled—or even tripled—what they are now. Your farm needs to have a set plan in place for the lean years.

Shandro encourages any young farmers to focus on their liquidity ratio; a financial ratio used to determine a company's ability to pay its short-term debt obligations. With no liquidity or working capital, a person has no manoeuvrability. Keep your working capital strong, which is a function of profitability. Those who are able to keep their working capital in a healthy position generally have more success to stay competitive.

Fair vs. Equal

When a family transitions there are times where one or more siblings do not intend to return to the farm operation, but the outgoing generation still want to ensure that they are taken care of and treat everyone either fair, equal, or both. This has the tendency to get difficult, according to Shandro, since the bulk of the assets often need to remain in the farm for it to continue on being viable into the future. Throughout his decades of working with farm families, Shandro always sees a minimum of 65 per cent, and a maximum of 100 per cent, of assets transferred to the incoming farmers while the rest is split among the non-farming family. This, he says, is the reality when faced with the financial picture of what the farm demands in terms of what essentially amounts to future investment.

Without that minimum amount transferred to the incoming generation, Shandro says it would be entirely burdensome or, worse, impossible, for the new farmers to make a successful venture. By having these conversations as early as possible, it can be determined what the future of the farm will look like and other important details may be sorted out from there.

Tax and Finance 101

With so many moving financial parts in a farm transition, there are some non-negotiables that the incoming/outgoing generation must satisfy before a change of ownership can take place.

LIFETIME CAPITAL GAINS EXEMPTION: Every individual on a qualified farm is eligible for $1 million in capital gains exemptions. This is a significant interest to farmers due to landbases appreciating in their lifetimes and determining how the land transfer will take place without incurring a serious financial loss through increased taxes.

INTERGENERATIONAL FARM ROLLOVER PROVISION: This is the ability to transition the farm to the next generation on a tax-deferred basis. Transitions are possible without accessing the IFRP but it becomes more complicated and creates more tax pressure.

WILLS: A must have. A will should reflect a person's intentions in the event of a premature death or death in general. Be sure to know to whom assets are going to be transferred and understand the implications of farming children vs. non-farming children. Will the farming child be able to buy out the non-farming siblings? Enlist a lawyer to guarantee everything you want is locked in and meets all legal criteria.

EXECUTOR: This is an important job to have and, although it is a one-time commitment, if it's done poorly, the executor's tasks will be extremely difficult. Also, consider the residency of the executor. If the person is outside of Canada this will complicate matters and potentially cost more money to close the estate. Look up your specific province or territory's executor rules and regulations to stay on the right side of this area.

TAX ON SPLIT INCOME: Often called 'income sprinkling,' this is not the biggest consideration, but something farmers should still understand. There are many rules as to who can and cannot qualify.

Farm family makes money work for them despite challenging circumstances

Editor's note: The farmer case study chose to use an alias due to privacy concerns. All other details remain intact and have been independently verified

Third-generation cash crop farmer Jake Holborne did not always want to take over the family farm. In fact, he was pretty sure he was going to take a corner office in downtown Calgary one day. But after years of putting time in on the family farm in Saskatchewan, the move was more natural than not.

In the beginning, transition talks were complicated by opposing expectations, and later, by the unexpected death of his mother. Working closely with transition coaches, accountants and lawyers proved advantageous, especially when it came to plan for the resulting financial and tax implications.

Jake, now 43, was only 24 years old when he began farming alongside his dad and two uncles. At that time, it wasn't his main occupation. Following an agricultural studies degree, he spent 10 years working for an agro-chemical company, and nearly another 10 in farm data management. But he enjoyed working at the farm on evenings and weekends.

By 2009, the brothers—Jake's father and uncles—began talks to split the 8,000-acre farm. The brothers went one way, and Jake and his dad went their way. They took the land they farmed which was about one-third of the acres and started to grow from there. Jake's transition talks, which had begun a few years before that, intensified in 2010 following the split. As serious talks ramped up, the family decided to bring in two moderators. The first dealt with the people part of the equation, while the second dealt solely with tax and finance.

"You can't move forward with money if nobody talks," said Jake.

The first moderator brought the family together to talk expectations. Jake was clear on what he wanted—that is, to continue farming once his father retired. His sisters, however, had on-farm aspirations, and although they believed they should inherit some part of the farm, they hadn't put in what the moderator called "sweat equity." Dividing the farm into three equal parts wasn't seen as fair, as Jake had put in more time.

"Value had to be put on previous time spent and previous equity put in," he said. "What's equal isn't always fair, and what's fair isn't always equal."

Once the family moderator completed his task, Jake and his family could then move on to discuss the numbers and figures. Parts of the transition had begun earlier, which made the final purchase less burdensome. Jake paid for equipment as it was updated, and his father contributed the trade value from the older equipment. When Jake finally purchased the corporation, he paid his father for the value of the traded equipment. Most of the land was included in the final sale, as well as equipment and the shop. Rental contracts were re-negotiated and transferred from father to son.

One of the first topics discussed was the farm's viability, but Jake said it wasn't a huge concern because he was already farming enough acres of his own. For him, viability meant being able to pay a healthy retirement package for his parents while managing debt. Looking forward, he wanted to solidify his ability to expand so he could pass the farm down to his children with little to no debt. Jake's wife, Maggie, has an economics background, which was a huge asset during the transition. She had a clear understanding of the financial needs of the farm and the debt they were about to acquire.

What made the transition tricky was determining a living wage for Jake's parents. Long-term comfort was one consideration, but so too were the tax implications. The idea was to keep the living wage as comfortable as possible, but not so high that it accrued too much tax and impacted their pensions.

Not long after the family finalized the sale, Jake's mom unexpectedly passed away. This is one factor the contract did not cover off. Receiving the living wage for both he and his wife put Jake's father in a higher tax bracket. Fortunately, though, they had built other clauses into the agreement that left him less vulnerable. Jake's father, for instance, had retained ownership of the house and a half-section. While he retained farming status, Jake was hired to custom farm the land. Jake also supplied his father with a corporate vehicle. Looking back now, though, Jake wishes they had further explored those what-if scenarios.

"Value had to be put on previous time spent and previous equity put in," he said. "What's equal isn't always fair, and what's fair isn't always equal."

After lengthy talks with the tax and financial moderator, it was decided that part of the land would remain with Jake's father. This way he could keep his farm status, and the house could be left to the sisters when his father passes away.

Open discussion was an important part of making the final sale work, first with Jake's sisters, and then with his parents. The moderator insisted that the family bring together their lawyers and accountants to discuss details openly in one room. Jake said this suggestion was integral to the success of the transition.

"We needed both our accountants to have open minds, we needed both our lawyers to have open minds, and then we needed all four of them to sit together and do it," he said.

At that time, the family agreed on a price for the farm. "I pay until death," said Jake, adding that small clauses were included in case that occurred sooner than 10 years. "Otherwise, the longer they live the more I pay."

To some degree, Jake's inheritance was built into this deal early on. This allowed him access to equity for leverage, should he ever need it. However, he could only leverage to certain risk ratios, as determined by the deal.

The transition took nearly two years to complete. And while the tax, estate, and financial consultant was crucial to the success of the transition, Jake cannot emphasize the importance of the family consultant enough.

"The family consultant is the most important part before you start anything," he said. "Because if everyone's not on the same page, it's bad news."

Moving from one model of success to another

Most farmers in Canada transition the farm down to another family member. Often, though, the transition needs to grow or diversify in order to maintain a new standard of profitability.

When a child comes home, and possibly brings a partner along with them, the same income level the farm generates is often not enough to keep the incoming and outgoing generation afloat. The incoming generation must bring in, as a general number, around $100,000 in after tax revenue, depending on desired lifestyle.

Canadian agricultural thought leader and CEO of AGvisorPRO Robert Saik offers some helpful tips on what to remember when young farmers begin to take over farms and diversify operations.

Ways to Diversify

The way this is accomplished is where the road widens and many routes are possible. Below are some common ways young Canadian farmers look to diversify into the farm for another generation.

EXAMPLE, CUSTOM FARMING: Child and spouse take over typical mid-size commodity-based grain farm. The young couple buy a new high-clearance sprayer and begin to custom spray for surrounding farms. This helps generate income on an asset that is perennially underutilized at most farms.

EXAMPLE, ADDING ANIMALS: Child and spouse come home to the commodity crop farm and decide animals are a viable option. Mom and dad do not have the physical drive to look after a herd of cows, but the younger generation does and it's complementary to the landbase. The crops that are grown can act as fodder for the cows.

EXAMPLE, SECONDARY FARM: If the existing farm operation has the financial wherewithal, a second farm could be purchased for the incoming generation to manage. This farm will be in a separate location for weather-related considerations as part of risk management.

EXAMPLE, DEVELOPING VALUE-ADDED/NICHE MARKET: Child and spouse move back to the farm, which specializes in forage crops. To diversify, they decide to value-add and develop a straw market for horses in their local community which has a strong equine culture.

Getting Started

A series of strategy sessions are a great and natural starting point for any farm operation going through transition planning. It begins with how everyone involved operates. By understanding how you approach problems, process information and set about action plans, a clearer picture of how the future of the farm will look begins to materialize.

Helpful tools such as the Kolbe Index, DiSC Assessment or Myers-Briggs can offer quick and generally effective insights into understanding yourself and others in terms of roles, responsibility and accountability as the farm transitions and a new diversified model is put into action. If you do not know how you operate in stressful times, your road to managing the existing farm along with a new diversified venture, will be that much more difficult.

Know Yourself

There are a few key questions you need to ask yourself, as well, during your initial takeover phase. These can be done solo or in conjunction with the outgoing generation. It can be done as a family or with a qualified third-party facilitator or coach.

WHO AM I? Although this is a philosophical question, it has direct farm implications. If you typically have a can-do attitude with a penchant for problem solving, that can be an asset. In contrast, if you have a submissive personality and a general disinterest to plan and lead, that may be more difficult to work with on a farm, especially if you're the primary decision maker.

WHAT'S THE COMMON VISION FOR THE FARM? This is another way of asking yourself: what is it I want to accomplish? You do not need the answer for 10, 20 or 30 years down the road—that's a long time away, but three years is a reasonable timeline to decide on, plan for and execute on a diversified operation.

Within this, you must determine what the dangers, opportunities and strengths to your business are. By understanding these three criteria, it should become clear where you need to pragmatically focus your time and effort and what you need to avoid.

This can, and should, lead you to create a mission or vision statement within your farm to help be a guidepost for today and in the future. By knowing what you are about, and just as importantly—not about—you can begin to determine how your business may thrive.

WHY AM I CONFIDENT I CAN ACHIEVE THIS? This question comes across as a challenge more than anything, but it is designed to prompt a realistic answer. If you can clearly explain this to fellow family members or in a facilitated group session, a plan can unfold easier than if you are not sure why you could achieve your goal within the diversified farm business. If you are unsure, the people around you will be, too.

How to do it “right”

There are multiple ways the incoming generation will perceive their business to be working “right.” While there is no true solution, there are ways to ensure a general trend upwards.

Outside advisors, including a lawyer and accountant are vital to any operation both today and in the future. These people not only help with the transition, they may also be of use when you establish diversified operations. However, do not hesitate to reach out to new advisors if your current team’s potential seems to plateau. Different professionals bring niche skillsets within agriculture and agribusiness and it is essential to recognize that.

Similarly, a RACI Matrix (Responsible, Accountable, Consulted and Informed) helps any incoming or outgoing generation understand their place in the shifting farm ecosystem.

Scenario: When the incoming generation takes over, they may be Responsible for carrying out the work, but the parents are still Accountable (since it’s a majority of their assets/liquidity on the line) and must be both Consulted and Informed before a decision is made.

Eventually that begins to shift where the child has more of a stake in the business and they are both Responsible and Accountable and the parents morph into more of a C/I role and, later, simply an I.

The important thing to remember is that no matter how great your plan is, there will still be a time and a place for the outgoing generation for a few years once you are in the driver’s seat. The wisdom and experience from parents should never be downplayed, only embraced. Their real-life lessons are invaluable for any young farmers starting out or looking to diversify operations.

From crops to biogas, how and why one farm made a drastic transformation post-transition

Gerald and Birthe Perry had always planned to retire at 60 and put the farm in the hands of their two sons, Chris and Harold. Chris's dad drew up a plan that divided the farm into three separate corporations. He knew firsthand how difficult it is to split a business up later, having fallen out with his own brother years earlier.

Building diversity into the plan was crucial, both in terms of dividing duties and finances. Later, Chris and his brother, the fourth generation on the farm, implemented a diversification plan of their own.

After studying engineering in university, Chris hadn't planned on coming back to the farm. But after a few years working in the city, he realized farm life was more in line with his goals. At 27, he returned, but not before completing a bachelor's in agriculture, technology and management at Washington State University. Brother Harold, on the other hand, always knew he wanted to farm. He went to school, studied agriculture, and went straight back to their southern Alberta operation.

In those days, Chris's parents grew mostly potatoes and sugar beets on rented and traded land. Land was cheap to rent back then, so it didn't make sense to buy. The family owned about 800 acres at that time.

"It was never really on his radar to invest heavily into land," said Chris of his father.

But when he and his brother returned home to farm it became quickly apparent that they needed to secure land. The farm grew from 800 acres to 1,000 acres to its current 5,000 acres for irrigated land. Investing in land wouldn't have been possible without using the farm's equity, he said.

Today, the Perrys produce a mix of crops, including mixed grains, green peas for Bonduelle, hay and silage, and seed canola. They also produce cover crops and green manure crops. Mostly, though, they are potato farmers.

As per Chris's father's instructions, the farm is divided into a trio of corporations, which are owned and operated by Chris, his brother Harold, and his parents. Early on, his dad had the farm appraised, froze its assets and developed a plan from there. Chris has an older sister who was not interested in farming. He and his brother eventually bought her out. Their parents, now in the late 70s, are still active on the farm.

"I give a lot of credit to Mom and Dad for the way they set that up and thought about it," said Chris.

Working closely with their accountant, Chris's parents decided to move much of their capital out of the farm and in RRSPs. The financial restructuring had very little impact on the day-to-day of the farm, and using the equity, Chris and Harold were able expand the farm together, but separately. Chris's dad felt the structure would work better than what he and his brother had.

"A lot of that falling out was caused by them being under one umbrella and sharing all the same private expenses," explained Chris explained. "It led to some dissent, and it caused some trouble."

"He didn't want that to happen to us," he added.

In the beginning, though, their parents still held the signing rights at the bank, which gave them the authority to stop the brothers from making any ill-advised decisions.

"When we wanted to invest heavily in land, which we did, we needed their support to do that," said Chris.

When Chris returned to the farm, he brought with him a real drive to build an environmentally sound business model. He and his brother decided to build a biogas plant waste energy facility. The biodigestor utilizes manure, culled potatoes and some other waste products and produces a sort of natural gas. They use the gas to power a 633-kilowatt generator, which in turn, produces electricity.

The idea was to reduce their energy footprint and become carbon friendly. To further those efforts, they started a data-driven agriculture partnership in 2012. Their aim was to conserve water and reduce reliance on synthetic fertilizers and inputs through variable rate technology and using satellite and drone imagery. While it has brought them many accolades—McCain's and Frito Lay like to showcase their farm as an example of what is possible in potato production—it hasn't exactly made them rich. Yet.

"Right now, it's looking like a very good move because there's a very big appetite to partner with source products from our customers, like McCain's and PepsiCo.," said Chris. "They love what we're doing, reducing our carbon through regenerative agriculture."

Recently, the brothers added an upgrader, which upgrades the quality of the gas produced, making it renewable natural gas (RNG). They were able to establish a contract with FortisBC, which runs that province's natural gas grid. The company is interested in the gas the Perry family produces because it has low carbon intensity.

Looking forward, Chris would like to offer his own children a role on the farm, if they so choose. He has three daughters between 18 and 22. Harold has three daughters, 17 to 21, as well as a 12-year-old son. Some have expressed interest in farming. Chris said he would like for them to make a decision by the time they reach 25, that way he and his brother will know how to further diversify the farm. Currently, they're seriously considering adding a dairy or a greenhouse.

"We want to maybe delay those decisions 'til we see how actively they want to be involved," said Chris.

Arguably, what makes the farm so successful is its structure. Working separately has allowed them to better work together. Harold works more on the agronomy side, which Chris is more into the management of the business. Their skillsets overlap, as well. Chris owns and operates CKP Farms Ltd. His brother Harold owns and operates Perry Quest Ltd., and his parents own and operate Perry Produce Ltd.

"Our vision is to grow, live and be the change," said Chris.

Moving forward, he hopes to grow the farm using the very best technology and improvements to make the farm resilient and viable for the next generation. Always, though, there's a focus on sharing and networking with like-minded people with the aim to be the change they want to see of in the world. Timing is everything when it comes to diversification, though. If it doesn't make sense, wait. Go once the time is right, he said.

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Transitions should not occur overnight

Most transition plans last multiple years and often require substantial amounts of planning, conversations, thinking, restructuring and focus. Often the transition begins long before it truly begins with informal conversations in the barn or on a drive into town. Other times the transition may be delayed for years due to procrastination from the outgoing generation of farmers. Either way, it's never done in a rush.

Many farm advisors encourage families to stretch out the process over a number of years. While it may be possible to create a full transition within six to 12 months, it's often not seen as a prudent course of action. Many processes must be satisfied, including tax and financial considerations, estate questions and operational reorganizations with the incoming ownership. Often the incoming generation needs time to both learn and be heard by the outgoing ownership group.

The incoming generation must be engaged on transition planning and the idea of farm ownership or else they may more into peripheral industries which do not necessarily involve the family farm. With Canadian agriculture growing into so many new areas such as ag tech, value-added, marketing and more, there are reasons why a young person could take their talents elsewhere and still feel involved in agriculture. By bringing in the younger generation sooner, it takes pressure off the older generation mentally, as well as physically. Agriculture is a demanding profession and it takes a toll on a person's body. Left alone long enough, the older generation may unintentionally alienate the younger generation to the point that they simply walk away, seeing no future at the farm.

Benefits to multi-year plans

The key to any good succession plan is preparation. It's about readying both generations. The younger is assuming management roles while the older are relinquishing those same roles; it's a learning process for everyone and it takes time to succeed. The outgoing generation is learning to move away from a lifetime of 60-plus hour work weeks to while the incoming is preparing to ratchet up their time commitment like never before. This is why gradual changes for both cohorts are important. A transition is a lot of upheaval, even if done well, so there is no point to rush if unwarranted.

Another benefit of multi-year transition is that by transitioning sections of ownership over the years it gives younger farmers a chance to really understand the intricacies of different roles at the farming operation. That period of testing often gives the incoming farmer a strong indication as to whether this is an area of the farm they are naturally skilled or gifted in or if this may be a position they would look to hire out or recruit help with.

Creating a multi-year plan

Although any plan is subject to change, it is still important to lay the foundation of a plan and begin to execute on it as best you can once it is agreed upon by all parties involved.

That begins first and foremost though with a vision of what you want the future to look like. The incoming generation commonly has ideas on how to either improve, diversify or change one or more aspects of the current farm operation. This is both normal and expected, and multi-year plans should be put in place to support these hopefully viable ideas and see them unfold.

To write down objectives and the strategies to match is a great way to present ideas with clarity and build out specific action plans around them, as well.

Often, roles and responsibilities are carved out during this process that individual family members take on themselves. One person may be in charge of scheduling and running meetings, while another may be tasked with recording all the minutes and action items. Often, though not always, this is done by someone in the younger generation. It shows an eagerness and a willingness to participate in an active way. Sometimes families utilize third-party facilitators for these kinds of parts of the transition process, but many families do prefer to keep some responsibility in-house.

Often it can be helpful if both the incoming and outgoing generation create roadmaps for the farm and what it may look like in three to five years' time. When completed, a comparative analysis can be done. Find out where there are viable and positive overlaps and focus on those. Areas where there is a missed connection does not mean they should be ignored, but rather discussed and see where they may fit in the future if both sides are far apart.

Take it seriously

Often times, there is a tendency to treat the process as a casual affair since it's primarily involving family. However, transition plans often involve millions in land, equipment, animal and other assets. By bringing a business tone to this process helps everyone focus and engage in a way that is different than a simple kitchen meeting. If a person was buying a business from a stranger, they would bring a professionalism to the process. This is different because it's often family, but there is still a business that is being transferred. Showing the respect to the older generation over a set amount of years through professionalism and a willingness to listen and learn is key. It's the longest job interview an incoming farmer will have, but it's also the most important.

Write it down

When you have a plan in place, it's paramount everyone agrees to it and that it's later written down. Include all details of what each year during the process will look like, while allowing wiggle room for unforeseen changes, equity stakes, roles, responsibilities and overall business structure.

Without these details in place, confusion and misunderstandings can easily creep into the family. This is a critical way to keep everyone's expectations in line with what is happening throughout the years of the transition.

Little by little one farm successfully changes hands

It's not often you hear someone describe their farm transition as "flawless," but that's just how Denis Boucher labeled the experience. For as long as Denis can remember he wanted to farm, so his parents did everything they could to make that dream happen. They knew from experience that time was an important factor in making the transition a successful one. For this reason, discussions started early on.

Nothing fuels a conversation like bad experience; unfortunately, that's just how Denis's father describes his own transition. He and his brother, Denis's uncle, had also always wanted to farm. But when it came time, their father's plan consisted of little more than a question: Do you want to buy the farm? Yes or no. The proposition came with a hefty price tag and no family discount.

"It crippled them," said Denis. "They just about didn't make it. If my dad and uncle were to do that to me, it absolutely would have never worked out."

Denis and his wife, Lizanne, bought their first quarter of land in Smoky River No. 130 in northern Alberta back in 2007. The property came with a house, a grain handling system and was situated just one mile from Denis's parents. Whereas his siblings chose to work off-farm, it was obvious from the beginning that Denis wanted to take over the family business. Serious discussions began after the couple bought that first quarter. The family agreed to stretch the process out as long as was needed so as to avoid putting too much pressure on Denis.

Using his father's equipment, Denis began farming the land he'd entrusted into his parents' operation. From there, he drew a living wage. At the time, he was also working as a journeyman mechanic, a job he worked for four years following college. His parents had wanted him to get a trade and experience life out in the workforce, and so he studied heavy equipment repair.

While the family had a plan, it didn't have a timeline. His father was 50 when the transition began, and still eager to work. Eventually, though, he expressed interest in slowing down.

Working closely with their accountant, the transition took place in three transactions. The corporation is structured with preferred, non-voting shares and common, voting shares. At each of the three stages, assets were frozen and rolled over as preferred shares to the outgoing generation. While they're not paid out entirely, they have a large amount of preferred shares in the company. Should they pass before all shares are paid, they've agreed to forgive the preferred shares. Life insurance policies take care of Denis's brother and sister.

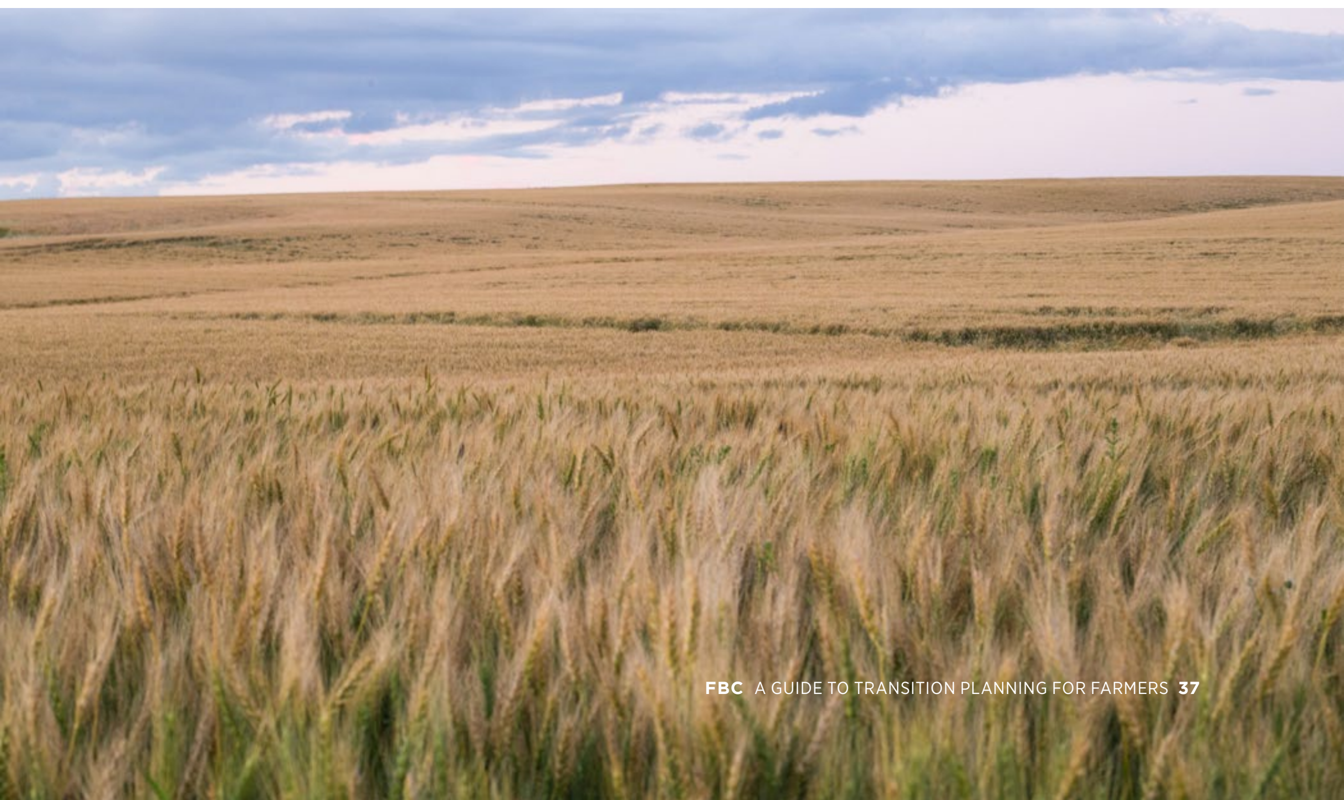
"As years go on, I keep paying Mom and Dad a yearly amount out of these preferred shares," said Denis. "Meanwhile, my wife and I own 100 per cent of the common shares in the company."

Adding a second family to the farm meant expanding its acreage. Over the course of 13 years, Denis was able to expand farmed acres from just over 3,000 to 7,000 acres.

There was one hiccup in the plan, and that was Denis's uncle. When he unexpectedly divorced, Denis and Lizanne bought his shares outright, but he kept his land. The couple has first option to purchase his land if he chooses to sell. Because of the indefinite transition timeline, Denis said the divorce, while unforeseen, wasn't a curveball. It just meant putting other parts of the plan on the backburner for a time.

The day-to-day operations were also transitioned in stages over multiple years. In the first year, for instance, Denis's father gave him the task of procuring seed. In the second, he was responsible for herbicides, insecticides and fertilizer. In the third, he took over the task of scouting fields. While his father allowed him the freedom to make his own decision, he was always on hand, ready to offer guidance if needed.

"You need to make sure you're not going to make a bad decision that affects the farm," said Denis. "Once he gave me a job he never took it back."



Taking on each task slowly allowed Denis to build experience and confidence in his ability to run the farm alone. It also allowed him to try out new technology or crops. One year, for instance, he expressed interest in adding peas to the rotation. His dad remembered poor experiences with peas, and said he wasn't interested try them again. But Denis insisted. His dad yielded and allowed Denis to do what he felt was right. They're still growing peas today.

The last task Denis took on was the bookkeeping. Before him, it had been his mom's job. "I love doing the books," he said. "I find you get a different picture of your farm when you do the day-to-day bookkeeping. But I still call my mom when I have questions."

The key to the success of his transition was flexibility—that, and getting a head start on the process, said Denis.

"You have to start early, the earlier the better," he said. "Even if you start early and drag it out longer, in my opinion, that's better than starting late."

Denis is thrilled with how his transition went that he's considering doing the same for his children, should they also choose to farm. He would, however, like to save up a significant amount of capital ahead of time for the exit strategy. Doing so would lighten the financial burden for his children. But other than that, he's happy with how his transition went.

"I feel like if I had to do it over again, I wouldn't do anything different," concluded Denis.

Denis and Lizanne grow cash crops—wheat, canola, peas and barley—on half-owned and half-rented land. Denis is the fourth generation on the farm. He and Lizanne have three young children, one boy and two girls.

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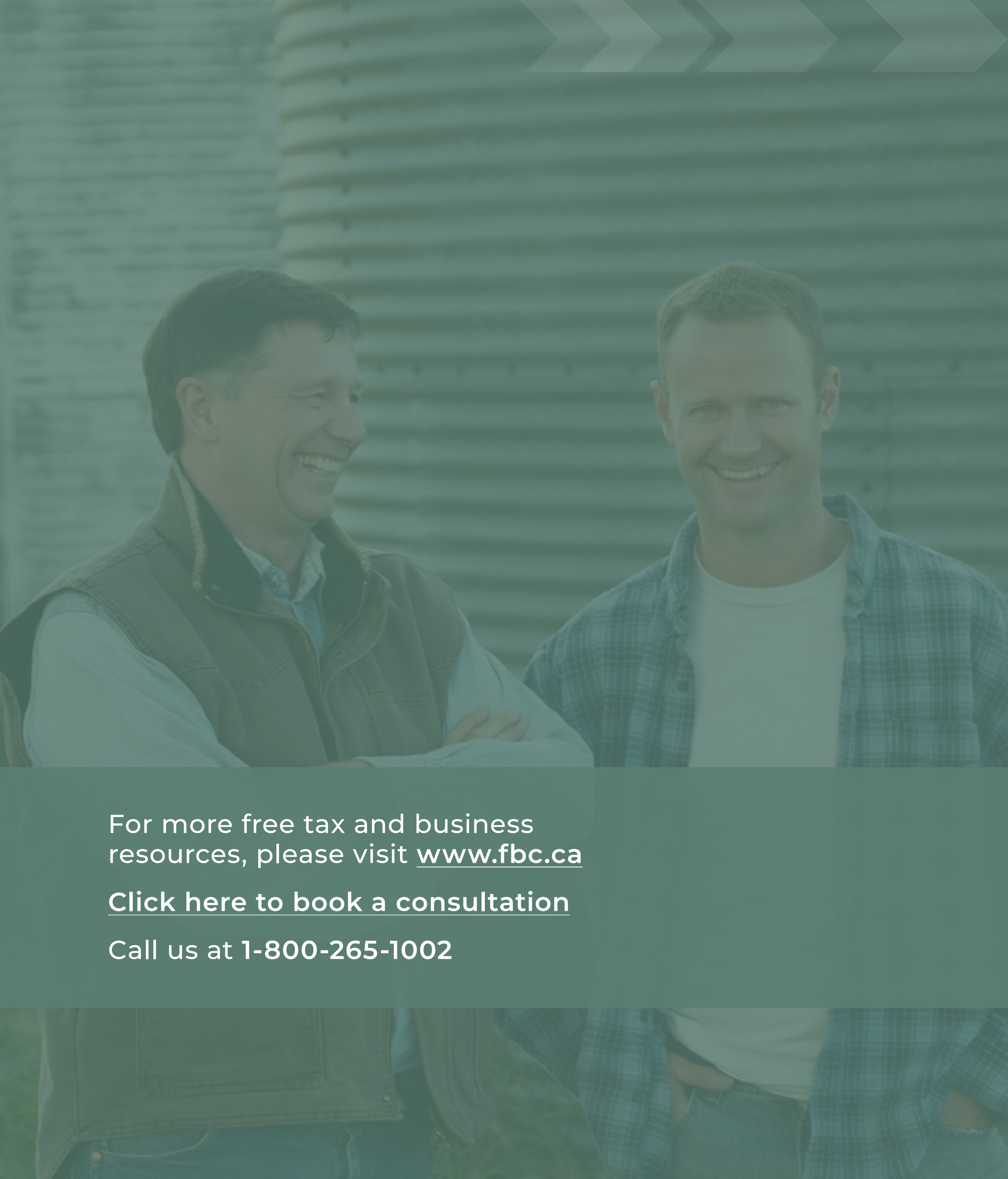

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