Perpetuating the Farm Family Business
Taking a Long-Term Approach to Planning

Farm Smart Conference
Guelph, Ontario
January 19, 2019
Canadian Small Business Succession Transition

“Most business families thought that their issues were entirely unique to themselves and had no idea where to go for help.”

– Dr. John Fast, The Family Business Doctor
Canadian Family Business 101

• Entrepreneurs highlighting lack of downtime as the downside of family firms: 68%, and 73% among those who hire family

• Entrepreneurs who warn against hiring in-laws: 48%

• Family firms with rules governing family members in the business: 11% written rules, 24% unwritten rules

Source: 2003 BDO Dunwoody/Compas Report on Canadian Family Business
Canadian Family Business 101

- SME entrepreneurs who believe that it is important to have an exit strategy: 92%
- Family-business entrepreneurs who actually have an exit strategy: 44%
- Entrepreneurs with a chosen successor: 24%
- Entrepreneurs in their 60s or 70s with an exit strategy: 57%, those who HAVE chosen a successor: 52%

Source: 2003 BDO Dunwoody/Compas Report on Canadian Family Business
What’s the Big Deal?

• 2016 Census of Agriculture says there are 70,470 farms in Ontario

• Round Math
  – 70,470 farms
  – 48% without a chosen successor
  – 33,826 Ontario farms could use a plan
## Ontario Agriculture

### Asset Ownership Concerns

<table>
<thead>
<tr>
<th>Crop Type</th>
<th>% of Total Land Base</th>
<th>Total Acreage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field crops</td>
<td>78.40%</td>
<td>9,643,200</td>
</tr>
<tr>
<td>Hay</td>
<td>19.10%</td>
<td>2,349,300</td>
</tr>
<tr>
<td>Vegetables</td>
<td>1.50%</td>
<td>184,500</td>
</tr>
<tr>
<td>Fruits, berries and nuts</td>
<td>0.60%</td>
<td>73,800</td>
</tr>
<tr>
<td>Sod and nursery</td>
<td>0.50%</td>
<td>61,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>12,312,300</strong></td>
</tr>
</tbody>
</table>

* Conservative land value estimate
** Does not include equipment, buildings, quota, etc
<table>
<thead>
<tr>
<th></th>
<th>Acres</th>
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<th>$/Acre*</th>
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<td>25000</td>
<td>$799,500,000</td>
</tr>
<tr>
<td><strong>Total Land Value</strong></td>
<td></td>
<td></td>
<td></td>
<td>$112,883,250,000</td>
</tr>
<tr>
<td><strong>Unsecured Land Asset Value</strong></td>
<td></td>
<td></td>
<td></td>
<td>$58.7-Billion</td>
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Critical Factors for Transition Planning

The ultimate goal of a transition strategy is to:

1. Provide an adequate income for the retiring generation
2. Ensure the successor generation is not overburdened with debt
3. Be fair to all the children

Dare to Plan!

• Inspiring one’s coworkers and staff with a compelling vision and a shared mission is probably the first and foremost challenge of any business leader
  – Dr. John Fast
The Discovery Process

The development of a successful transition strategy will require the following:

1. A Profitable Business
2. Good Communication
3. Time
A Profitable Business

What Does Your Business Plan Say?

Results of a Farm Credit Canada survey encompassing 2,200-American, Australian and Canadian farmers revealed the following:

<table>
<thead>
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<th></th>
<th>Australia</th>
<th>USA</th>
<th>Canada</th>
</tr>
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<tbody>
<tr>
<td>Farm businesses that stick to a detailed budget</td>
<td>49%</td>
<td>45%</td>
<td>34%</td>
</tr>
<tr>
<td>Farm businesses that have a written business plan</td>
<td>29%</td>
<td>25%</td>
<td>16%</td>
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</tbody>
</table>
Good Communications

• Short & Long-Term Goals, Family & Business Goals, Clearly Defined Core Values
  – Creating a VISION that is shared by all parties concerned

• Must have agreed upon and written:
  – Operational Plans
  – Job Descriptions
  – Timelines
Time

• It takes time to develop a transition plan
  – Identifying common and divergent goals and developing a shared vision for the farm
  – It may just take time to find out that it won’t work

• It takes time to implement a transition plan
  – Equity transfers can sometimes be best serviced, and tax liabilities can be managed more effectively, over time

• Delays should be anticipated
The Hedgehog Concept

WHAT YOU ARE DEEPLY PASSIONATE ABOUT

WHAT YOU CAN BE THE BEST IN THE WORLD AT

WHAT DRIVES YOUR ECONOMIC ENGINE

Copyright © 2002 Jim Collins. Originally published from the book Good to Great: Why Some Companies Make the Leap... And Others Don’t
Challenges Facing The Next Generation of Canadian Farm Operators

1. Developing and/or Transferring an Equity Position
2. Effective Communications Within the Farm Management Team
3. Strategic Business Planning
4. Technology Integration and Data Management
1. Equity Position Development

• Access to land and capital often cited as #1 challenge for young farmers
  – I don’t tend to agree

• Innovative equity transfer models abound

• Private and public opportunities exist

• The Challenge: Identify the right process and engage in effective communications to make it happen
2. Effective Communication Within the Farm Management Team

- Successful farm businesses are built on effective communications
- Written farm business Vision, Mission and Core values will help provide clarity
- Regular business meetings are essential
- Clearly defined roles and responsibilities
- Performance evaluations
The Stockdale Paradox

*From Jim Collins, Good to Great*

Retain faith that you will prevail in the end, regardless of the difficulties,

**AND at the same time,**

Confront the most brutal facts of your current reality, whatever they may be...
Fear of Change

• Humans are *hard wired* to resist change
• Responses to the prospect of change are often emotional, and *not* positive:
  – Anger
  – Sorrow
• Understanding the impact on all members of the farm family management team is essential in managing the process
Emotional Intelligence (EQ)

• Planning for management in an emotionally charged environment
  – Involve all members of the management team
  – Listen intently
  – Understand others’ point of view

• ________ is the most important inherent ability possessed by highly successful business leaders
  – Daniel Goleman
Emotional Intelligence (EQ)

• Planning for management in an emotionally charged environment
  – Involve all members of the management team
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• Empathy is the most important inherent ability possessed by highly successful business leaders
  – Daniel Goleman
3. Strategic Business Planning

- Long-term, strategic business planning is *essential* for farm management success
  1. Operational Planning
  2. Short-Term Budgets
  3. Asset Base Requirements
  4. Long-Term Budgets
  5. Human Resources Management
  6. Wealth Management Plan
  7. Business Continuance Planning
4. Technology Integration and Data Management Systems

• Information is power
• Improved farm productivity *May/Can/Will* be possible
• Manage what you *measure*
• Give yourself the *opportunity* to track farm enterprise profitability
All the numbers in the world.....
Continuous Professional Development

• Need to move from a “Don’t know what I don’t know state of mind, where:

  Ignorance is bliss...

• To a state of mind, where “I DO know what I don’t know”, and:

  I am willing to address my weaknesses¹

¹Good to Great leaders spend as much time thinking about their weaknesses as they do about their strengths
Why Transition?

• Management versus Ownership Transfer
  – Often assumed to be one in the same
  – Can be difficult and dangerous to bundle together
  – Innovative transition plans may only include one, or have separate timelines for each
  – Non-farming family members may wish to maintain a portion of the family estate
    • Do land, infrastructure, livestock, quota all have to be sold as a package?
Owner or Manager

• Ask yourself a few questions…
  – Is it necessary to sell the farm assets to a successor?
  – Why am I considering selling?
    • Physical labour is becoming a challenge…
    • I don’t want the management headache…
    • I want to sleep in every once in a while…
    • I know we can grow our production efficiency, but I need help in taking the necessary steps…
  – Do I need a buyer or a hired manager?
Key Points for the Mature Generation

• Understand your finances
  – Asset or break-up value
  – Promise value, value of generating future return
  – The next generation can only service so much debt and still live…

• Start preparations early and plan for retirement
  – Don’t rely solely on the sale of farm assets to support you through retirement
  – Work to understand what you want and need in retirement
Key Points for Young and Beginning Farmers

- Be patient and respectful
- Recognize the institutional knowledge that exists and the need to have it
- Be open minded and flexible
- Have your finances in order
- Be ready and willing to sacrifice in the early years
Take an Honest Look...

• Are you working IN or ON your business?
• Are you planning to do it ALL, FOREVER?
• What are your CORE VALUES?
• What WILL get you out of bed EVERY morning?
• What specific SKILLS do you bring to the farm management team?
Take Home Messages

1. Dare to Plan
2. Communicate Openly
3. Lead by Example
Gut Check

• If it isn't in writing, it doesn't exist

• You are Not Alone

• Seek Support
Resources

1. Agri-Food Management Institute: https://takeanewapproach.ca/
2. Center for Family Business: https://cffb.ca/
3. Farm Management Canada: https://fmc-gac.com/
Be in touch...

MacLeod Agronomics Ltd
cedric@macagro.ca
@localvalleybeef
506-260-0872