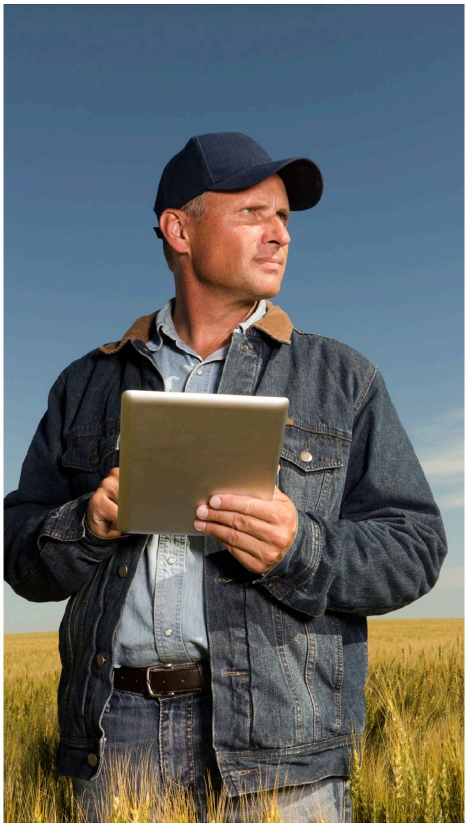

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Transition Planning Guide for Agribusiness

Growing Forward 2
A federal-provincial-territorial initiative

Alberta Government

Canada

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Appendix

Phase 1 – Background and Getting Started

Chapter 1: Understanding the Road to Transition Planning Success

Welcome

Case Study

Chapter 2: Transition Overview

How are Transition Planning and Estate Planning Different?
What does a Transition Plan look like?
What are the Approaches to Transition Planning?
What is the Transition Planning Process?

Chapter 3: Initial Planning

Getting Started

Initial Meeting Agenda

Chapter 1:
Understanding the Road to Transition Planning Success

Welcome

Transition planning is the process of planning to transfer the ownership (capital), management, and operations (labour) of an agribusiness to a child(ren), relative or other successor. Transition planning is not a single event and cannot be completed in a handful of meetings with advisors. Rather, it is a process that should be thought of as business continuity planning. Expect to invest six months to a year or more in planning for transition.

Priority one: strategic direction

For transition to be successful, a business must be healthy heading into transition planning, remain healthy throughout the planning process, and emerge at the end of transition as strong as or stronger than when the process started. In order to achieve healthy and effective transition, a transition plan needs to complement the strategic direction of your business. Often, families working on their transition plans overlook this critical piece. Therefore, before you get started, all participants need to have a very clear understanding of:

- What are the agribusiness's goals, values and vision?
- What does each participant in the agribusiness want?
- Where might the agribusiness be in the future (strengths, challenges, opportunities, risks)?
- Where might the family be in the future (strengths, challenges, opportunities, risks, priorities)?

Setting and then frequently referring to a strategic direction will help keep ongoing farm management in sync with the transition, and increases the likelihood that the agribusiness will remain viable and profitable through the transition. Remember, if the planning process does not set the stage for business and family success, the transition plan will fail.

About this guide

If you are thinking about transition planning, this Guide is for you! Whether you are a farm family / agribusiness owner intending to work through transition independently, or a business advisor / consultant hired to assist in the development of a transition plan, this Guide will help you through the necessary steps to successful transition.

This Guide breaks transition planning into three phases: readiness assessment, plan development, and plan implementation.

In order to develop a plan, you will start with an initial planning meeting with family members and others involved in the transition planning process. Then, you will select from the five outlined in this Guide a planning approaches that best suits your business and the priorities and needs of everyone involved in the transition. Once you have identified an approach, you will work step-by-step through a series of topics to create a comprehensive transition plan.

As you work through these topics, your group will identify issues that require follow-up. Staying on top of these tasks and ensuring they get completed is key to a successful transition. When your group identifies issues that require follow-up, it is recommended that you add the task to a master list of follow-up items, and the write a specific action plan for the item. The action plan should:

- clearly identify who should follow-up on the issue and by when;
- list specific steps required to adequately tackle the challenge, including a time line to each of these steps;
- list any specific materials or resources that will be needed to complete the follow-up;
- list how often the action items should be monitored, and who will be responsible for monitoring;
- identify how your group will be able to assess whether progress is being made.

The appendix located at the end of this Guide contains removable forms and worksheets designed to help record information and guide you through each topic.

Icons used in this guide

This guide uses these icons to alert you to useful information.

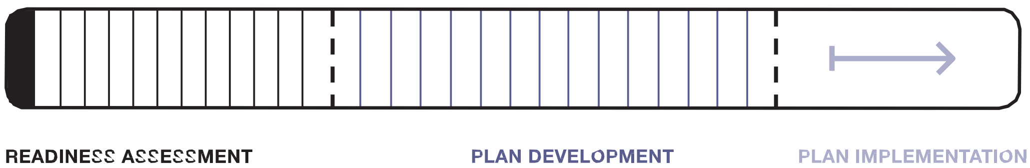
EXAMPLE

KEEP IN MIND

WHAT TO WATCH FOR

EXERCISE

This icon identifies planning progress for those following the *Comprehensive Approach* to transition planning.



Dealing with transition planning conflict and challenges effectively

Transition planning depends on participants working together to create a successful plan. Working towards agreement is not always easy. As you work through the transition planning process, keep in mind the following key considerations:

1. Transition planning often brings up challenging questions, especially when family members are involved. If you have concerns about any of the typical challenges associated with transition planning, such as dealing with entitlement, fairness and equality, compensation, and farming versus non-farming children, you are not alone! Virtually every family undergoing transition struggles with at least some of these concerns. Therefore, before beginning the transition planning process, consider reading Topic 14: ‘Challenges in Transition Planning’, which provides an overview of twenty of the most common challenges families encounter in transition planning.

2. You should expect to have differences of opinion from other people involved in your transition planning process. Differences of opinion are okay and **all families experience them.** To most fairly, calmly and effectively deal with differences of opinion:
   - give all participants the opportunity to voice their opinions;
   - make sure everyone has a good understanding of all of the different opinions;
   - fact-check to ensure opinions are based on valid information;
   - keep conversation focused on opinions and not individuals;
   - give people time to think about what they’ve heard;
   - try ‘parking’ a difference of opinion and agree to discuss it further later;
   - work towards consensus; and
   - if resolution seems challenging or you are worried about the potential for conflict, consider hiring an external facilitator.

Transition Planning Case Study

This case study is based on an actual farming operation in Alberta. To ensure the owners' privacy, this Guide renames them 'Rob and Faye Sample'.

This case study is included in this Guide to provide a real-world example of transition planning. Background information about the Samples' farming operation is provided below. Throughout the rest of this Guide, watch for the Samples Farm to be regularly referenced as an example of a farm tackling various parts of the transition planning process.

Background

Rob and Faye Sample have been farming for 33 years. Both are in their mid-50s. They have two children: an adult, married son and a daughter currently completing university.

The couple bought 800 acres of land for $200,000 from Rob's father in three decades ago, paying it off 15 year later. They also bought an adjoining half section for $128,000 a year after their first purchase, which they managed to pay off 12 years ago.

Five years ago, a neighbour offered to sell 1,440 acres and some outbuildings to the Samples for $1.4 million. The Samples knew the land as they had rented it for some years previous, and they felt they needed it for the success of their entire operation. Though the asking price seemed steep, they opted to make the purchase thinking that if they did not, someone else would.

Three years ago, they added a $350,000 grain handling system to replace/upgrade the older granaries bought from Rob's father. That loan is due two years from now.

Two years ago, they also borrowed $50,000 to renovate their home and buy a recreational vehicle. The loan is due three years from now.

Both Rob and Faye think the nearly 4,200 cultivated acres they are now farming is enough. "We have what we want," says Rob. "We work hard and don't seem to have a lot of time away from the business, even though we have had some excellent help."

The Samples typically employ one full-time employee and several seasonal workers during summer and fall. That staffing situation is not ideal but it is the best they've yet managed.

When they first began farming, Rob and Faye thought they only needed help during seeding and harvest. However, finding qualified, reliable, motivated people for short-term employment proved a constant challenge. Therefore, they decided to hire a full-time employee and bring in additional seasonal help at the busiest times. That said, keeping a full-time worker busy during the winter months proved an issue.

Unfortunately, the Samples' full-time employee decided to leave without much notice just before harvest last year. The Samples have not found someone to replace him. Fortunately, last year was an open fall and their son, John Sample, returned home to help his parents with harvest.

Business Structure

Rob and Faye farm together in a corporate business structure. They each own 50 per cent of the common shares. The first two pieces of land they bought are in both their names and are held personally, outside the family company. The Samples have not created a rental arrangement for the business to farm the personally-held land.

The Samples decided the best way to buy their most recent purchase of land (the previously rented land purchased for $1.4 million) was to buy it through their corporation rather than owning it personally.

Business Challenges

The Samples' farming operations were fairly smooth until two years ago when they faced challenges from wet weather. While markets remained strong that year and the one following, Rob and Faye now have some decisions to make. The loss of their full-time employee just before last fall's harvest meant that, even with their son's help, it was a challenge to get the crops harvested. The entire family faced added stress and longer hours throughout harvest, a burden Rob and Faye want to make sure they don't have to face again.

The Samples would like to consider options to reduce some of their business costs.

The Samples run one combine and one seeding unit, both of which operate at full capacity during the season. Because their equipment is older and slower, they need to hire custom workers to help finish the work on time. Unfortunately, the timing of getting the custom work done is becoming more and more of a problem. Being forced to wait for custom work can delay farming operations, which affects yield and quality. However, they believe it is more efficient to hire custom workers than to invest capital in new equipment because they don't want to take on more debt.

The Samples say their lenders do not appear to be overly concerned, especially because their financial situation has improved over where it was two years ago. That said, their lenders are still cautious about extending additional financing.

In spite of the challenges, the Samples say that farming has given them a good life. At this point, however, the couple want to enjoy more benefits of their hard work and persistence over 33 years. They believe the farm should now be comfortably paying its own way.

Current Financial Status

The Samples have accumulated just over $1.7 million in owner's equity (or about $3.6 million in equity – net worth), calculated using market value for assets and excluding outstanding shareholder loans. They have three term loans, an operating loan and some accounts payable. The operating loan has not revolved in the past two or three years. The following chart shows the Samples' existing term loans:

Original Date	Original Amount	Principal and Interest Annualized	Principal Outstanding as at December 31 last year	Principal Due this Year
Five years ago	*$1,400,000*	*$127,058*	*$1,244,561*	*$49,885*
Three years ago	*$ 350,000*	*$70,000 (equal principal)*	*$210,000*	*$70,000*
Two years ago	*$50,000*	*$11,548*	*$40,962*	*$9,495*

The large $1.4 million loan used to buy more land was a risk. It was financed over 20 years and matures 15 years from now. Because their other land was already paid off, they used it as security for the large loan and didn't need a down payment. However, the loan did equal about 60 per cent of the farm's total land value.

Due to the wet weather four years ago, the Samples needed to take out a $350,000 loan to access more operating capital. When things started to turn around two years ago, the couple took out a $50,000 loan to pay for much-needed home renovations and to buy a recreational trailer (fifth wheel) so they could enjoy breaks from the farm. They financed both loans over five years.

In the past, Rob bought smaller capital items using operating cash rather than taking out a loan and setting a repayment schedule. However, he feels cash flow can be tight at times.

Business Management

The management structure of Sample Farms is similar to the vast majority of mid-sized farms in Alberta. Faye does the bookkeeping and manages the office functions such as payroll and GST reporting. Rob's passion is farming. While he assumes responsibility for all other management functions, he'd rather be outside working. Though he knows some changes are needed, he thought things were working fine until their hired man left. Now, big questions about how the work is going to get done are setting in.

The Family Options

Rob and Faye are in their mid-50s. Their son John is 29 and married to Rebecca. Their daughter Carol is 27 and is currently finishing a degree at university.

John has an agricultural business degree and works for the provincial government, making about $55,000 annually. John likes his job but is interested in other options. He has always enjoyed helping his family with harvest in the fall. Last year was the first year that his help was critical, due to the hired man's unexpected departure.

Rebecca is a trained health professional who enjoys many job options in any urban centre. However, she would have few job opportunities if they opt to move to the Sample farm. That said, John and Rebecca have discussed moving to the farm and having John work with his father or take the farm over completely from his parents. Rebecca and John currently have no children. If they opt to move to the farm, Rebecca thinks the timing would be good to start a family since her career options would be limited.

Carol is in a long term relationship with an apprentice carpenter and lives in another province. Their future plans hinge on where Carol can find work after she finishes her degree. Carol did help on the farm when she was younger but has not talked about any interest in farming as a career.

Rob and Faye take a fixed management salary of $60,000 per year plus an allowance for their daughter's university costs. Every month, Rob takes money from the farm account and transfers it to a separate account for family living expenses. Faye thinks they should be focusing on savings and security right now in order to be prepared for retirement. Both Rob and Faye think the equity they have built in the farm will ensure protection for their family and provide for their own retirement.

Faye's parents ran a successful business. She and Rob may inherit from them in the distant future. Rob's parents have both passed away. Rob and Faye's term loans are life insured. Rob has no disability insurance. There are no other life insurance policies.

Faye's biggest concern is the fact that Rob is under constant stress. She has a hard time getting him to talk about their financial situation. Compounding the situation is the possibility that John and Rebecca may want to move to the farm but there has not yet been any real discussion about it.

The Future

The loss of the hired man significantly influenced the couple's future plans. They are certain that they do not want to do another harvest without a full-time person to help. They are currently asking themselves a lot of important questions:

- How can they avoid hiring someone who may leave at any time?
- Should they talk to John and Rebecca about taking over the farm? Will that put too much pressure on the young couple?
- What would happen if John and Rebecca move home to farm? How would the business be set up?
- If John and Rebecca take over the farm, what does that mean for Carol and her partner?
- Can Rob and Faye continue to manage with just seasonal help?

All these questions and more are integral to transition planning for this family.

Sample Farms Ltd. Financial Performance

Ratio Analysis

		2008	2009	2010	2011	2012
Liquidity						
Current ratio	current assets / current liabilities	**2.3**	**1.4**	**1.4**	**2.1**	**2.7**
		$1,743,077	$1,346,246	$902,137	$2,106,650	$2,591,404
		$ 756,705	$980,005	$631,263	$1,004,929	$965,588
Working capital percentage of total operating expenses	current assets - current liabilities / cash operating expenses	**74.1%**	**29.9%**	**23.0%**	**78.5%**	**120.1%**
		$ 986,372	$ 366,121	$ 270,874	$1,101,721	$1,625,816
		$1,330,637	$1,226,399	$1,176,975	$1,403,805	$1,353,326
Debt structure ratio	current liabilities / total liabilities	**35.68%**	**42.51%**	**28.75%**	**40.25%**	**41.41%**
		$ 756,705	$ 980,005	$ 631,263	$1,004,929	$ 965,588
		$2,120,646	$2,305,543	$2,195,902	$2,496,962	$2,331,731
Solvency						
Equity ratio	total equity / total assets	**54.8%**	**48.3%**	**47.4%**	**54.0%**	**60.8%**
		$2,574,515	$2,155,864	$1,982,625	$2,926,306	$3,609,359
		$4,695,161	$4,461,407	$4,178,527	$5,423,268	$5,941,090
Debt to equity ratio	total liabilities / total equity	**0.82**	**1.07**	**1.11**	**0.46**	**0.65**
		$2,120,646	$2,305,543	$2,195,902	$2,496,306	$2,331,731
		$2,574,515	$2,155,864	$1,982,625	$5,423,268	$3,609,359
Debt servicing ratio	debt servicing capacity / principal and interest	**2.06**	**-1.92**	**-0.44**	**4.55**	**3.27**
Debt servicing capacity	net income (before tax) *plus* interest on term	$ 365,683	$ (372,111)	$ (96,660)	$1,020,651	$ 756,689
Net income	debt *plus* amortization *minus* owner	$ 175,340	$ (546,751)	$ (301,339)	$ 815,581	$ 554,953
Amortization	withdrawals *minus* income tax paid	$ 99,037	$ 91,976	$ 107,625	$ 106,816	$ 99,652
Interest		$ 91,216	$ 82,664	$ 97,054	$ 98,254	$ 102,084
Principal		$ 86,059	$ 110,899	$ 122,606	$ 125,890	$ 129,380
Interest		$ 91,216	$ 82,664	$ 97,054	$ 98,254	$ 102,084
Payments		$ 177,275	$ 193,563	$ 219,660	$ 224,144	$ 231,464

Financial Efficiency

		2008	2009	2010	2011	2012
Gross margin ratio	gross margin / gross revenue	**48.3%**	**22.6%**	**4.7%**	**62.7%**	**63.0%**
		$ 639,963	$ 171,527	$ 31,319	$1,256,449	$1,166,975
		$1,324,340	$ 759,509	$ 670,053	$2,004,093	$1,851,116
Contribution margin ratio	contrribution margin / gross revenue	**28.4%**	**-13.8%**	**-18.8%**	**48.9%**	**45.9%**
		$ 375,813	$ (105,164)	$ (125,862)	$ 979,471	$ 849,964
		$1,324,340	$ 759,509	$ 670,053	$2,004,093	$1,851,116
Net operating profit margin ratio	net operating profit margin / gross revenue	**-8.0%**	**-73.6%**	**-91.7%**	**24.6%**	**21.5%**
		$ (105,334)	$ (558,866)	$ (614,547)	$ 493,472	$ 398,138
		$1,324,340	$ 759,509	$ 670,053	$2,004,093	$1,851,116
Interest expense ratio	total interest / gross revenue	**8.1%**	**13.5%**	**18.8%**	**6.0%**	**6.3%**
		$ 107,893	$ 102,551	$ 125,986	$ 120,808	$ 116,722
		$1,324,340	$ 759,509	$ 670,053	$2,004,093	$1,851,116
Amortization expense ratio	amortization / gross revenue	**7.5%**	**12.1%**	**16.1%**	**5.3%**	**5.4%**
		$ 99,037	$ 91,976	$ 107,625	$ 106,816	$ 99,652
Profitability		$1,324,340	$ 759,509	$ 670,053	$2,004,093	$1,851,116
Return on equity ratio	net income / total equity	**6.8%**	**-25.4%**	**-15.2%**	**27.9%**	**15.4%**
		$ 175,340	$ (546,751)	$ (301,339)	$ 815,581	$ 554,953
		$2,574,515	$2,155,864	$1,982,625	$2,926,306	$3,609,359
Return on assets ratio	net income + long term debt interest / total assets	**5.7%**	**-10.4%**	**-4.9%**	**16.9%**	**11.1%**
		$ 266,646	$ (464,087)	$ (204,285)	$ 913,835	$ 657,037
		$4,695,161	$4,461,407	$4,178,527	$5,423,268	$5,941,090
Asset turnover ratio	gross revenue / total assets	**28.2%**	**17.0%**	**16.0%**	**37.0%**	**31.2%**
		$1,324,340	$ 759,509	$ 670,053	$2,004,093	$1,851,116
		$4,695,161	$4,461,407	$4,178,527	$5,423,268	$5,941,090

Sample Farms Ltd. Balance Sheet

	2008	2009	2010	2011	2012
Assets					
Current					
Accounts Receivable	$ 55,885	$ 207,624	$ 170,384	$ 169,881	$ 274,665
Inventory	$1,591,159	$1,043,327	$ 656,833	$1,800,868	$2,195,199
Prepaid Expenses	$ 96,033	$ 95,175	$ 74,920	$ 135,901	$ 121,540
Total	$1,743,077	$1,346,126	$ 902,137	$2,106,650	$2,591,404
Long Term					
Patronage Dividends	$ 17,667	$ 18,931	$ 21,551	$ 23,101	$ 26,983
Land	$1,728,000	$1,728,000	$1,728,000	$1,728,000	$1,728,000
Property and Equipment	$ 630,417	$ 664,350	$ 694,839	$ 605,517	$ 506,703
Total	$2,376,084	$2,411,281	$2,444,390	$2,356,618	$2,261,686
Total Assets	$4,119,161	$3,757,407	$3,346,527	$4,463,268	$4,853,090
Liabilities					
Current					
Bank Indebtedness	$ 429,577	$ 507,092	$ 491,199	$ 631,620	$ 611,606
Accounts Payable	$ 241,069	$ 361,134	$ 17,458	$ 247,419	$ 224,602
Current Portion Term Debt	$ 86,059	$ 110,899	$ 122,606	$ 125,890	$ 129,380
Total	$ 756,705	$ 979,125	$ 631,263	$1,004,929	$ 965,588
Long Term Debt	$1,363,941	$1,325,538	$1,564,639	$1,492,033	$1,366,143
Shareholder Loan	$ 805,190	$ 805,190	$ 805,190	$ 805,190	$ 805,190
Total Liabilities	$2,925,836	$3,109,853	$3,001,092	$3,302,152	$3,136,921
Retained Earnings					
Share Capital	$ 100	$ 100	$ 100	$ 100	$ 100
Net Earnings (Loss) Current Year	$ 175,430	$ (546,751)	$ (301,339)	$ 815,581	$ 554,953
Retained Earnings Prior Year	$1,017,795	$1,193,325	$ 646,674	$ 345,435	$1,161,116
Retained Earnings	$1,193,325	$ 646,674	$ 345,435	$1,161,116	$1,716,169
Liabilities and Retained Earnings	$4,119,161	$3,756,527	$3,346,527	$4,463,268	$4,853,090
Normalizing Adjustments					
Balance Sheet					
Market Value Adjustment to Land					
Acres	2560	2560	2560	2560	2560
Market value	$ 900	$ 950	$ 1,000	$ 1,050	$ 1,100
	$2,304,000	$2,432,000	$2,560,000	$2,688,000	$2,816,000
Original cost	$1,728,000	$1,728,000	$1,728,000	$1,728,000	$1,728,000
Net worth adjustment	$ 576,000	$ 704,000	$ 832,000	$ 960,000	$1,088,000
(note: no adjustment to market value for equipment)					
Shareholder Loan Adjustment	$ 805,190	$ 805,190	$ 805,190	$ 805,190	$ 805,190
Total Adjusted Assets	$4,695,161	$4,461,407	$4,178,527	$5,423,268	$5,941,090
Total Adjusted Net Worth	$2,574,515	$2,156,744	$1,982,625	$2,926,306	$3,609,359

Sample Farms Ltd. Income Statement

	2008	2009	2010	2011	2012
INCOME					
Crop Sales	$1,265,882	$1,307,341	$1,056,547	$ 860,058	$1,456,785
Inventory Change	$ 58,458	$ (547,832)	$ (386,494)	$1,144,035	$ 394,331
GROSS REVENUE	$1,324,340	$ 759,509	$ 670,053	$2,004,093	$1,851,116
DIRECT EXPENSES					
Fertilizer	$ 291,717	$ 241,624	$ 279,728	$ 381,991	$ 240,996
Chemical	$ 147,110	$ 150,966	$ 154,134	$ 223,288	$ 240,577
Seed/grain purchases	$ 226,939	$ 179,022	$ 204,872	$ 114,958	$ 164,351
Crop Insurance	$ 18,611	$ 16,370	$ -	$ 27,407	$ 38,217
Total	$ 684,377	$ 587,982	$ 638,734	$ 747,644	$ 684,141
GROSS MARGIN	$ 639,963	$ 171,527	$ 31,319	$1,256,449	$1,166,975
VARIABLE EXPENSES					
Custom Work	$ 67,355	$ 76,637	$ 17,990	$ 82,229	$ 84,101
Fuel and oil	$ 42,186	$ 54,447	$ 44,441	$ 72,140	$ 65,821
Wages (direct)	$ 63,106	$ 59,670	$ 61,212	$ 73,374	$ 97,864
Repairs & Maintenance - Machinery	$ 91,503	$ 85,937	$ 33,538	$ 49,235	$ 69,225
Total Operating Expenses	$ 264,150	$ 276,691	$ 157,181	$ 276,978	$ 317,011
CONTRIBUTION MARGIN	$ 375,813	$ (105,164)	$ (125,862)	$ 979,471	$ 849,964
FIXED EXPENSES					
Utilities	$ 13,273	$ 11,431	$ 14,953	$ 12,143	$ 14,898
Rent	$ 64,659	$ 56,969	$ 61,201	$ 60,304	$ 66,652
Repairs & Maintenance - Building	$ 26,333	$ 20,286	$ 11,473	$ 28,179	$ 8,230
Insurance	$ 34,731	$ 39,195	$ 39,532	$ 30,876	$ 30,646
Interest & Bank charges	$ 16,677	$ 19,887	$ 28,932	$ 22,554	$ 14,638
Interest on Long Term Debt	$ 91,216	$ 82,664	$ 97,054	$ 98,254	$ 102,084
Office	$ 34,020	$ 24,577	$ 25,530	$ 31,860	$ 20,529
Professional Fees	$ 10,468	$ 7,134	$ 7,475	$ 9,050	$ 8,240
Property Taxes	$ 23,521	$ 26,284	$ 22,743	$ 11,687	$ 12,998
Salaries & Benefits	$ 67,212	$ 73,299	$ 72,167	$ 74,276	$ 73,259
Amortization	$ 99,037	$ 91,976	$ 107,625	$ 106,816	$ 99,652
Total Overhead & Administration Expenses	$ 481,147	$ 453,702	$ 488,685	$ 485,999	$ 451,826
NET OPERATING PROFIT	$ (105,334)	$ (558,866)	$ (614,547)	$ 493,472	$ 398,138
OTHER REVENUE (EXPENSE)					
Programs (Government)	$ 231,382	$ 18,988	$ 290,477	$ 291,058	$ 117,295
Rebates	$ 17,667	$ 16,384	$ 25,226	$ 17,194	$ 22,437
Custom work	$ 18,326	$ 3,255	$ 11,903	$ 13,857	$ 17,083
Gain / (Loss) on capital assets	$ 13,389	$ (26,512)	$ (14,398)	$ -	$ -
Total Other	$ 280,764	$ 12,115	$ 313,208	$ 322,109	$ 156,815
NET INCOME	$ 175,430	$ (546,751)	$ (301,339)	$ 815,581	$ 554,953

Chapter 2:
Transition Overview

How are transition planning and estate planning different?

There is often confusion between transition planning and estate planning. Though they are distinct planning topics, they complement each other. Both are key in the successful transition of farm business ownership and management from one set of hands to another (usually from one generation to the next).

Estate planning is the process of planning how your estate will be managed following your death. Specifically, estate planning includes organizing wills and legal documents, tax management strategies, estate distribution, contingencies, and other financial matters including investment, savings and insurance. If you do not intend to pass on the management of your farm business to a family member or other successor at or before your death, you likely only need an estate plan.

Transition planning is the process of planning a smooth shift in the management of your farm business, usually when one or more members of a younger generation take over a farm business from older family members. A transition plan requires a complementary estate plan.

What does a transition plan look like?

A transition plan helps guide decisions around ownership, leadership, business structure, tax strategy and contingency plans. To be successful, it needs to be a 'living document' that is updated, revised and referred to on an ongoing basis before and throughout the actual transition process.

There are several steps to developing a plan. Depending on the needs and size of the business and the needs and priorities of everyone involved in the transition, working through these steps can take from several months to several years to complete.

Once your transition plan is complete and the actual transition starts to occur, your transition plan will need to be revised frequently to align with the changing status of the farm business and family circumstances. Doing so will help create a clear, detailed plan that will support a successful transition.

What is the transition planning process?

The transition planning process is made up of three phases:

Phase 1: Readiness Assessment

Transition planning requires a significant investment of time, effort, money and emotional energy. Your farm business may not be in a position to handle the level of investment required. It is far better to identify gaps in your readiness early so you can make adjustments **before** beginning to work through the process. The Readiness Assessment phase of the planning process will help you determine whether your farm business is ready to begin transition planning.

Phase 2: Plan Development

The Plan Development phase is the 'meat and potatoes' of the planning process. This Guide breaks the Plan Development phase into a series of topics that together will form your transition plan.

Phase 3: Plan Implementation

The Plan Implementation phase of the planning process is the culmination of planning and the rollout of your farm business' ownership and management transition. While developing a transition plan can follow a standard process, the implementation phase of transition is unique to each farm business.

What are the approaches to transition planning?

Following your initial planning meeting, select one of the following five planning approaches that best suits your business and the priorities and needs of everyone involved in the transition.

Option 1 – Comprehensive Approach

The Comprehensive Approach is the most detailed and all-encompassing approach to transition planning. As such, it sets the stage for the smoothest and most pre-planned transition possible. Most farm businesses require a year or more to work through all of the topics outlined in this approach.

Option 2 – Condensed Approach

The Condensed Approach is limited to only the absolutely necessary components of transition planning. Because it does not include as many planning details as the Comprehensive Approach, the resulting transition may be somewhat bumpier. Farm businesses following this approach may be able to work through the necessary topics in six months or less.

Option 3 – Estate Planning Approach

The Estate Planning Approach is appropriate when no one is identified as successor to the farm business (i.e.: the next generation does not want to take over the family farm). In cases where the farm business will not transition to new managers, estate planning is the key priority. Farm businesses following the Estate Planning Approach may be able to work through the necessary topics in six months or less.

Option 4 – Ownership Transfer and Tax Strategy Approach

The Ownership Transfer and Tax Strategy Approach requires that everyone involved in transition planning enters the process with a strong understanding of all available transfer options and the same expectations of how the farm business will move through transition. Anyone considering using this approach must have a very competent understanding of and ability to apply the most appropriate and advantageous tax strategies possible. A transition plan created using this approach will only be effective if participants truly agree on the transition planning process and hold the necessary ownership transfer and tax strategy knowledge. Farm businesses following the Ownership Transfer and Tax Strategy Approach may be able to work through the necessary topics in six months or less.

Option 5 – User-Defined Approach

Some farm businesses may find that none of the approaches outlined above meet their needs. The User-Defined Approach allows a farm business to tailor the transition planning topics to meet its specific needs.

To make it easier to navigate and record your progress through a chosen planning approach, each approach is available as a table in the Appendix section of this Guide.

Chapter 3:
Initial Planning

Getting Started

Farm families who are in or intend to start transition planning often find it challenging to know where to begin.

Ideally, the retiring generation should initiate a first conversation about transition planning, as they hold control over the farm operations and assets and, ultimately, the timing of transition. If the retiring generation consistently delays discussion about transition planning, however, the successors may choose to attempt to get the conversation started.

Once participants agree to the concept of transition, it is time to move planning towards a more formal process. Making the leap from discussing theoretical, future-oriented ideas about transition to starting on actual transition planning can be a challenge. Many people find that creating structure by outlining the planning process and scheduling formal meetings can help.

Preparing for an initial planning meeting:

1. Write an agenda. It is very likely that the participants involved in your transition planning process are your relatives or other people with whom you feel very comfortable. Though it may feel strange to hold a formal meeting with people you know well, getting and staying on track is vital to the planning process. A sample meeting agenda is provided on the next page. Adjust it as necessary to meet the specific needs of your farm operation and all of the individuals included in the planning process.
2. Distribute the agenda to all participants before the meeting occurs. Allowing time for each person to think about the issues and formulate thoughts, questions and concerns in advance can help reduce conflict and make the meeting more productive.

3. Agree in advance how much time to allocate for the meeting and then stick to that time limit. If discussion results in not getting through all the agenda items, leave any remaining items for the next meeting. While it can sometimes work to agree mid-meeting to extend the length of meeting, be aware that as people tire, emotions can change and conflict may result. Not everyone will have the same tolerance for a longer meeting. Keep in mind that it is better to work slowly and consistently to completion than to push overly hard but burnout short of the finish line.
4. Try to minimize or eliminate distractions and interruptions during the meeting. Organize childcare; turn off televisions and mobile phones; keep conversations on track; agree to focus solely on the topics at hand, etc.
5. Consider having the meeting in a location other than the family kitchen or living room. A private off-site location will help participants focus and invest in the discussions.

The next few pages provide an outline of how to run your meeting.

Initial Meeting Agenda

Date:

Time:

Attendees:

1. Administration

Meeting Roles:

- Chairperson
    - Identify someone to chair the meeting. The role of the Chairperson is to keep the meeting on track, to ensure discussion involves everyone present, to attempt to mediate conflict, and to transition discussion from one agenda point to the next. The Chairperson can change from meeting to meeting.
- Secretary
    - Taking accurate notes at each transition planning meeting is important. The notes can be simple and point-form but should cover every key point of agreement, disagreement and discussion. Comprehensive notes help the planning process move forward rather than getting stuck. These notes should be circulated amongst all individuals involved in the transition plan, whether or not they attended the meeting.
- Attendees
    - Effective transition planning depends on input and participation from each individual who will be part of the actual transition, and may involve other key stakeholders who are invested in the farm and transition process. Wherever possible, all transition

participants should be part of each and every transition planning meeting. Luckily, distance is no longer the obstacle it once was. For example, individuals living in another town or province can join an online meeting using a web-based tool like Skype at virtually no cost.

Meeting Rules:

- Decorum
    - Transition planning discussions may initiate strong emotion in some of the participants. Emotion is not a bad thing. In some cases, in fact, it can be positive and helpful as it may help clarify priorities and / or provide deep honesty. In other cases, however, emotion can become intense and result in conflict.
    - Transition planning requires deep thought, significant effort, and a willingness to hear others. Conflict can occur among any group of transition planning participants. As such, a discussion and agreement about behaviour expectations, conflict management and positive listening is recommended. When tensions start to rise, it is the Chairperson's responsibility to remind everyone about the behavior agreement.

- Participation
    - Sometimes, one or more of the individuals who will be involved in transition may decide that they don't want to participate in transition planning. This is a difficult and unfortunate situation. Should this happen during your transition planning process, invite the individual(s) anyway and keep inviting them to every subsequent meeting. Send them copies of the notes from each meeting. While they may never actually participate in the planning process, it is best for everyone involved if they are given every opportunity to be informed and to change their negative stance on the process.
    - Those who do attend meetings and want to be part of the process should be given fair opportunity to participate. It is the Chairperson's responsibility to ensure all participants are included in every discussion, and all other participants should prioritize and foster this goal.

2. Purpose of the meeting

a) Overview

Clarify and ensure all participants agree on the initial planning meeting's purpose. Discuss the priorities of the meeting. Having clarity about and agreeing on the purpose of the meeting will help keep discussion productive, on track and moving forward throughout the meeting.

b) General discussion

c) Questions

3. Current status: personal, family and farm

a) Overview

Each participant should use this opportunity to speak about their own situations. In addition, at least one person should be prepared to speak about how the farm is currently doing. In-depth discussion about financial status and performance is not necessary now. Rather, use this opportunity to speak in general terms about the current status of oneself, the family/group, and the farm business.

b) General discussion

c) Questions

4. Current status: transition planning process.

a) Overview

Each participant should use this opportunity to speak about the transition planning process, including how they see it proceeding and what their thoughts are on the process, the priorities and the outcome. By investing time to discuss expectations now, all participants can gain better understanding of the transition process itself and other participants about their own situations.

b) General discussion

c) Questions

5. **Transition planning specifics: ownership and management transition**

a) Overview

Transition plans are unique to each farm. Depending on the circumstances and priorities of all participants and the current status of the farm, some early discussion regarding expectations about ownership and management transition may be helpful. At this early stage in planning, this discussion need only be a brief overview of initial thoughts.

b) General discussion

c) Questions

6. Estate planning specifics: wills, power of attorney, tax, insurance.

a) Overview

Estate planning is unique to each farm. Depending on the circumstances and priorities of all participants (particularly the individuals expecting to transition out of farming) some early discussion regarding estate planning may be helpful. At this early stage in planning, this discussion need only be a brief overview of initial thoughts. Note: this discussion may overlap with agenda item #4.

b) General discussion

c) Questions

7. Communication processes

a) Overview

Open and effective communication is vitally important to transition planning. Pre-planning how information will be communicated internally (within the family) and externally (to advisors) can help decrease stalls and conflict later in the transition planning process.

b) General discussion

c) Questions

8. Timelines

a) Overview

All participants must be clear on transition planning timelines, including the frequency of meetings, expected completion date, and intended implementation timing. Agreeing to specific timelines creates a degree of accountability necessary to keep the planning process moving forward.

b) General discussion

c) Questions

9. Concerns and issues

a) Overview

Open communication about concerns and issues is key to resolving potential conflicts. Participants should use this opportunity to bring up any concerns or issues that have not yet been discussed during the meeting.

b) General discussion
c) Questions

10. Next steps

a) Overview

All participants need to understand what comes next in the transition planning process. Identifying next steps helps keep the process moving forward.

b) General discussion
c) Questions

11. Next meeting

Set a specific time and day for your next meeting.

12. Adjourn

Phase 2 – Readiness Assessment

Chapter 4

- Topic 1: Goals
- Topic 2: Individual Values
- Topic 3: Family/Group Values
- Topic 4: Family First/Business First
- Topic 5: Retiring Generation
- Topic 6: Succeeding Generation

Chapter 5

- Topic 7: Financial Performance
- Topic 8: Management Assessment
- Topic 9: Personalities
- Topic 10: Historical Business Development
- Topic 11: Meeting and Communication
- Topic 12: Decision Time
- Topic 13: Statement of Intent

Phase 2 – Readiness Assessment

Before you begin creating a transition plan, it is important to first determine if your group and farm are solidly enough positioned that your transition will have potential for success.

Transition planning requires a significant investment of time, effort, money and emotional energy. Your farm business may not be in a position to handle the level of investment required. It is far better to identify gaps in your readiness early so you can make adjustments **before** beginning to work through the plan development process. The Readiness Assessment Phase of the planning process will help you determine whether your farm business is ready to begin transition planning.

The Readiness Assessment Phase includes two chapters divided into the following 13 topics:

Chapter 4: Priorities

Topic 1: Goals

Having a clear understanding of your transition planning goals, as well as those held by everyone else involved in your transition planning process, is an extremely important part of transition planning.

Topic 2 and 3: Values - Individual and Family/Group

People differ in their values and beliefs, even in the closest of families. Learning where you agree and disagree with other transition planning participants will help minimize conflict.

Topic 4: Family First/Business First

Transition planning can be an intensive soul-searching exercise. Many major decisions require achieving balance between priorities. Should decisions be based on putting the family first or the business first? Before proceeding with a transition plan, it is important to know whether participants' opinions differ regarding this balance.

Topic 5: Retiring Generation

Early in the transition planning process, it is important that the farmers intending to transition out of farming take time to write down and talk about their initial thoughts, priorities, expectations, concerns and timelines regarding retirement.

Topic 6: Succeeding Generation

Before committing to the transition process, individuals transitioning into a farm's ownership and/or management should take time to write down and talk about initial thoughts on the transition planning process, including their priorities, expectations, concerns and timelines.

Chapter 5: Assessment

Topic 7: Financial Performance

It is extremely important to have a good understanding of each individual's and the farm business's financial situation before beginning transition planning.

Topic 8: Management

Transition planning involves transferring a farm business's management and/or ownership from one set of hands to another, typically when one generation passes a farm on to the next generation. Even within a family, management practices may differ between generations. Transition participants should assess their management practices and use that information to help guide the transition.

Topic 9: Personalities/Behaviours Audit

Understanding the differences between participants' personalities/behaviours can be helpful in transition planning and ongoing plan implementation.

Topic 10: Historical Business Development

Throughout a farm's history, certain events will occur that could be considered monumental or business altering. Writing down and discussing these events will help participants understand how and why the farm is where it is today.

Topic 11: Readiness Assessment Review Meeting

Regular and structured communication is critical to achieving your transition planning goals.

Topic 12: Decision Time

Is your farm ready for transition planning? This topic summarizes the exercises completed and determines whether you are ready to proceed with developing a transition plan.

Topic 13: Statement of Intent to Proceed/Defer

If your farm is ready for transition planning, participants must agree to get started or to defer the process until a later date. Formalizing that intention into an official statement introduces a degree of accountability to the planning process.

Chapter 4: Priorities

Topic 1: Goals

Goal setting is a powerful way to motivate yourself to turn a vision of your desired future into reality. Writing down goals will not only make them more concrete and precise, it can help you determine where you need to concentrate your efforts.

Goal setting is a two-part process: you first need to decide *what* you want to accomplish, and then you need to identify *how* you will accomplish it. Many people find that the 'how' part of goal setting is problematic: they know what they want to do but they have trouble creating a plan to get there. Remember that a goal without an accompanying action plan is rarely achieved.

All stakeholders who have a vested interest in the farm should complete the goal setting exercise.

Remember that there are no right or wrong goals. However, some of your goals may clash with your other goals, or other people's goals. Review all participants' goals to see where they align and where they clash.

The most effective goals consider SMART principles:

- S — Specific: explicitly define 'what', 'why' and 'how'
- M — Measurable: identify clear methods to measure progress so you can see when change occurs
- A — Attainable: analyze whether your goals are achievable, as goals that are too far out of reach will be frustrating and ultimately fail.

- R — Realistic: goals do not need to be easy, but they should be possible given resources and limitations.

- T – Timed: set a timeline to give you a target to work towards.

Why is this relevant?

Having a clear understanding of your own and other participants' goals is critical to transition planning and the ongoing success of the family farm. If participants' goals conflict, problems are likely to occur both between individuals and within the farm business. All participants need to discuss their individual goals and then determine how these goals can fit within the business goals.

How will this help transition planning?

1. Formalizing a goal setting process encourages people to invest time thinking through personal, group and farm business priorities.
2. Putting goals in writing can help make goals more 'real'.
3. Discussing goals can help unify a family/group and help everyone work together towards common priorities.
4. Establishing goals can help define ways to measure individual, family/group and farm business success.

Goal Setting Exercise

***Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work independently to complete a separate goal-setting worksheet. Discuss the responses at your next Transition Planning Meeting.*

Instructions

1. List your goals, separated into three areas:
    - goals for myself
    - goals for my family/group
    - goals for my farm business

   Identify timelines for your goals by separating into short-term, intermediate-term and long-term. Depending on your unique circumstances and priorities, the timelines for these terms may differ. For the purposes of goal setting surrounding transition planning, many people define 'short-term' as up to one year, 'intermediate-term' as one to five years, and 'long-term' as 10 or more years.
2. Still working independently, review your goals using the SMART goal setting principles (above) and adjust your goals as necessary to meet the SMART criteria.
3. As a group, compare and contrast all participants' answers looking for areas of agreement

and disagreement. Consider using an external facilitator for this discussion if you are concerned about potential conflict.

4. Store the documents for future reference.

EXAMPLE:
Here is an example of what a partial Goal Setting Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 284 in the Appendix.

Name: *Faye Sample* Date: *Feb 14, 20xx*

Personal:

Short Term (one year)	*SMART
Talk to Rob to talk about our retirement plan twice a month.	*YES*

Intermediate Term (five years)	*SMART
Do more camping.	*NO*
(Re-written) Go camping two more times per year starting this year.	*YES*

Long Term (10 years)	*SMART
Spend more time with grandkids (hopefully)!	*NO*
(Re-written) Establish routine activities to do with the grandkids, like crafts, bicycling, baking, two to three times per month.	*YES*

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

Name: *Faye Sample* Date: *Feb 14, 20xx*

Family/Group:

Short Term (one year) *SMART

Get Carol graduated and off Sample Farm's payroll! *NO*

Get Carol graduated and off Sample Farm's payroll by Spring 2014. *YES*

Intermediate Term (five years) *SMART

Go on one family vacation per year. *YES*

Long Term (10 years) *SMART

Stay close with our children and grandchildren. *NO*

(re-written) Stay close with our children and grandchildren by communicating with them at least once per week via telephone or internet video chatting. *YES*

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

Name: *Faye Sample* Date: *Feb 14, 20xx*

Farm Business:

Short Term (one year) *SMART

Find GOOD full-time help. *NO*

(Re-written) Find GOOD full-time help by the end of this year. *YES*

Intermediate Term (five years) *SMART

Start implementing the transition plan. *NO*

Start implementing the transition plan by following our action items list and maintaining open lines of communication with our advisors, and John and Rebecca. *YES*

Long Term (10 years) *SMART

Upgrade equipment. *NO*

Upgrade equipment that requires upgrading, and take care not to push our cash flow to the limit. *YES*

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

How does this apply?

The goal setting exercise and resulting discussion will help all participants gain a better understanding of each other, and each person's priorities for life and the farm business. You will refer back to the goals identified in this exercise when creating your farm's vision.

KEEP IN MIND:

- There are no right or wrong answers in this exercise.
- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- As you compare and contrast participants' answers, note:
  - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
  - Does this exercise identify any underlying reasons for existing conflict in your operation?

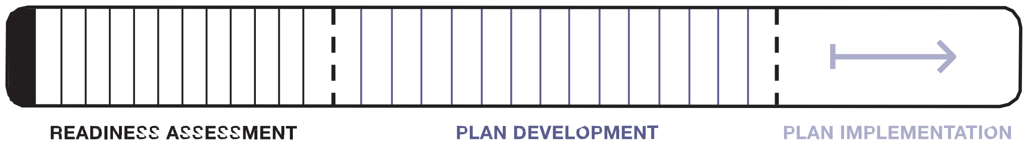
EXERCISE:

Complete the Goal Setting exercise on pages 284 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 2: Individual Values

People's values, beliefs and ideals differ, even in the closest of families. Effective transition planning depends on each participant understanding where their core values align or conflict with those held by the other participants in your transition planning group.

Why is this relevant?

A person's values, beliefs and ideals shape their goals, priorities and limitations. These core priorities set the tone for how an individual will:

- operate within the family and management group;
- direct and manage their business;
- prioritize decisions;
- present themselves and their business to the outside world.

Working to understand others' values, beliefs and ideals can help minimize conflict and improve tolerance and compromise. Recognizing differences in these core priorities among transition planning participants will set the tone for how the group will:

- make management and investment decisions;
- manage together as a group;
- allocate tasks and responsibilities;
- deal with conflict.

How will this aid in transition planning?

1. Writing down one's personal values, beliefs and ideals requires that an individual take time to think through what is important to them.
2. Discussing and prioritizing the values that will guide a farm business clarifies business direction, simplifies decision making and reduces conflict in a management team.
3. Offering employees the opportunity to identify and commit to a farm business's values will help them better understand their role in the business, which can foster 'buy-in' and improved performance.

Individual Values Exercise

***Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work independently to complete a separate Individual Values Exercise. Then, reconvene as a group to discuss.*

Instructions

1. Individually complete all of the questions on the Individual Values Exercise.
2. Reconvene as a group and create a master list of everyone's top five values.
3. Analyze the master list to create a summary list of the top five values for the entire transition planning group.
4. Discuss both the master list and the summary list at your next transition planning meeting. Consider:
   - how the master list and summary list aligns or conflicts with each individual's personal list;
   - how these values will shape the business operations and priorities;
   - whether you want to keep these lists for internal (i.e.: participant only) reference, or whether you want to share these lists externally (with a wide stakeholder group, your customers, the general public, etc.)
5. Store the documents for future reference.

EXAMPLE:
Here is an example of what a finished Individual Values Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 287 in the Appendix.

1. Start by reading the list of common work and personal values below. Feel free to add any additional values that are important to you. Circle the **ten** values that are most important to you.

accomplishment/success
accountability
accuracy
adventure
all for one and one for all
appearance
beauty
belonging
best use of time/resources
calm/quiet/peace
challenge
change
cleanliness/orderliness
collaboration
commitment
communication
community
competence
competition
concern for others
connection
content over form
continuous improvement
co-operation
co-ordination
creativity
customer satisfaction
decisiveness
delight of being, joy
democracy
discipline
discovery
diversity
ease of use
equality
excellence
fairness
faith
faithfulness
family
family feeling
flair
freedom
friendship
fun
global view
goodness
gratitude
hard work
harmony
health
helping
honesty
honour
improvement
independence
individuality
inner peace/calm/quiet
innovation
integrity
intensity
intimacy
justice
knowledge
leadership
love, romance
loyalty
meaning
merit
money
openness
patriotism
peace/non-violence
perfection
personal growth
pleasure
power
Practicality
preservation
privacy
progress
prosperity/wealth
punctuality
quality of work
recognition
regularity
reliability
resourcefulness
respect for others
responsiveness
results-oriented
rule of law
safety
satisfying
others security
self-acceptance
self-control
self-giving
self-reliance
self-thinking
service (to others)
simplicity
skill
solving problems
speed
spiritual growth
stability
standardization
status
strength
success/achievement
systemization
teamwork
timeliness
tolerance
tradition
tranquility
trust
truth
unity
variety
will to succeed
wisdom

2. Once you have circled the ten values that are most important to you, analyze your selections and narrow your list down to the five that are most important. List them here.

   a. *Family*
   b. *Teamwork*
   c. *Communication*
   d. *Honesty*
   e. *Integrity*

3. Now imagine that you may only keep three key values. Which two would you give up? list the **remaining three** here.

   f. *Family*
   g. *Honesty*
   h. *Integrity*

4. Now eliminate two values to reduce your list to just a single key value. What is the one value on your list that you care most about?

   i. *Family*

5. Now return to the list you created in question #3 and prioritize those five top values, from most important to least important.

   j. *Family*
   k. *Integrity (the two values eliminated in question 5)*
   l. *Honesty (the two values eliminated in question 5)*
   m. *Communication (the two values eliminated in question 4)*
   n. *Teamwork (the two values eliminated in question 4)*

How does this apply?

Every farm has a set of values that shapes its operation, whether the operators of the farm are consciously aware of it or not. For example, a farm that is governed by values such as perfection, integrity and continuous improvement will operate very differently than a farm governed by values such as fun, adventure and relaxation.

In a company, the ownership group or board of directors determine what values will become core to the organization. On farms, the personal values of the operator(s) and other key stakeholders become the business values.

KEEP IN MIND:

- There are no right or wrong answers in this exercise.
- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- When reviewing all participants' responses, watch for values that reoccur. You may want to include these in a values statement that defines your business vision.
- If participants cannot agree on a **top five** list, you can alternately agree to use a longer list. Be careful not to make too long of a list.
- Once your list of business values is established, it is extremely important to operate according to these values. Operating contrary to stated values may cause personal and/or business conflict and may damage your farm's reputation.
- As you compare and contrast participants' answers, note:
  - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
  - Does this exercise identify any underlying reasons for existing conflict in your operation?

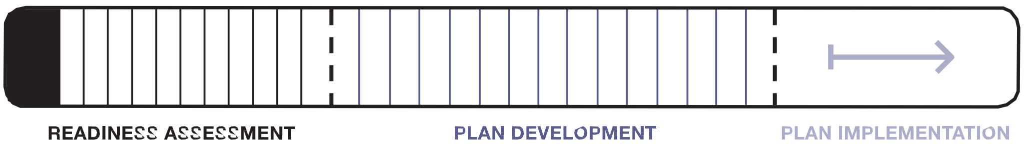
EXERCISE:

Complete the Individual Values Exercise on pages 287 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 3: Family/Group Values

Whether or not we are aware of or acknowledge them, our deeply-held values motivate and shape our decision-making. Because one's values, beliefs and ideals are strongly influenced by one's early experiences and environment, individuals within a family are more likely to share similar core attitudes and priorities. (Note: This is not always the case and should not be assumed). Be aware that individuals who join your family (through marriage or other connection) may find your family`s values very different from their own.

Why is this relevant?

People's values, beliefs and ideal differ. Effective transition planning depends on each participant understanding where their core values align or conflict with those held by other participants. Working to understand others' values, beliefs and ideals can help minimize conflict and improve tolerance and compromise.

How will this aid in transition planning?

1. Discussing and prioritizing the values that will guide farm business decisions clarifies business direction, simplifies decision making and reduces conflict in a management team.
2. Identifying and committing to shared values will help transition participants lead the business effectively.
3. Offering employees the opportunity to identify and commit to a farm business's values will help them better understand their role in the business, which can foster 'buy-in' and improved performance.
4. Identifying values provides context for making management decisions.

Family/Group Values Exercise

***Each participant should complete the following Family/Group Values exercise individually. Then, reconvene as a group to discuss at the next transition planning meeting.*

Instructions

Each line in the table below contains two opposing value statements. For each value statement pair, circle the number on the scale that best describes the strength of the **family/group's** values and beliefs (the overall family/group culture).

1. Compare and contrast each individual's answers, looking for areas of agreement and disagreement.
2. Store the documents for future reference.

EXAMPLE:
Here is an example of what a finished Family/Group Values Exercise might look like:

The following example is based on the case study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 289 in the Appendix.

Freedom is defined by rules.	4	3	2	1	0	1	2	3	4	Freedom is defined by personal choice.
An overall leader is essential.	4	3	2	1	0	1	2	3	4	Groups can provide their own leadership.
Use great caution when trusting others.	4	3	2	1	0	1	2	3	4	Trust others until they prove unworthy.
Security is more important than adventure.	4	3	2	1	0	1	2	3	4	Adventure is more important than security.
Experience is more important than creativity	4	3	2	1	0	1	2	3	4	Creativity is more important than experience.
Hard work is the key to success.	4	3	2	1	0	1	2	3	4	Planning is the key to success.

How does this apply?

Every farm has a set of values that shapes its operation, whether the operators of the farm are consciously aware of them or not. For example, a farm that is governed by values such as perfection, integrity and continuous improvement will operate very differently than a farm governed by values such as fun, adventure and relaxation.

In a company, the ownership group or board of directors determine what values will become core to the organization. On farms, the personal values of the operator(s) and other key stakeholders become the business values.

This exercise and resulting group discussion is intended to help participants gain a better understanding of each other's views of the family/group's overall value system.

KEEP IN MIND:

- There are no right or wrong answers in this exercise.
- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- Each participant should select answers based on how the farm currently operates, **not** how they hope it would operate or how it could operate in future.
- As you compare and contrast participants' answers, note:
  - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
  - Does this exercise identify any underlying reasons for existing conflict in your operation?
- Refer to this exercise when creating your farm's vision.

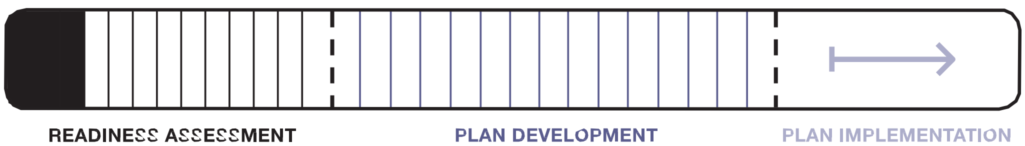
EXERCISE:

Complete the Family/Group Values Exercise on page 289 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 4: Family First/Business First

Transition planning is the process of planning to transfer the ownership (capital), management, and operations (labour) of an agribusiness to a child(ren), relative or other successor. If your intended farm transfer occurs in-family, there are many obvious benefits. However, there are also additional considerations that must be analyzed and carefully managed in order for transition to be successful.

A family and a business strive for very different goals. Whereas a family ideally prioritizes belonging and relationship, most businesses prioritize the translation of resources into profit. Blending family and business blurs the lines that distinguish one system from the other. Unless carefully managed, this blurring can cause conflict between relationship and business goals.

Participants in every family-based farm business must figure out how to balance family and business goals. Achieving this balance can be easier when participants analyze where they stand on a family first/business first scale, including:

a. Membership: who belongs?
b. Income (compensation): what are members paid?
c. Leadership or promotion: how are members chosen for promotion / leadership positions?
d. Basis of operation: what underlying values drive operations?
e. Training: how do members decide what training they need?

Category	Family System	Business System
Membership	Unconditional, based on blood (examples: direct relatives, children, spouses)	Conditional, based on qualifications and performance (examples: employees, managers, customers)
Income (compensation)	Often based on equality	Based on responsibilities and contribution to the business
Leadership or promotion	Often based on family position, birth order or gender	Based on merit (earned)

Basis of operation	Emotion based	Task oriented
Training	Based on notion of fairness or as needs dictate	Based on potential gain or earnings (return)

Why is this relevant?

Understanding your family's approach to business can minimize the potential for conflict in day-to-day farm operations and particularly during farm transition. Working together to find a balance between family and business priorities can help establish an agreed upon business culture and vision.

Family First/Business First Exercise

***Each participant should complete the following Family First / Business First exercise individually. Then, reconvene as a group to discuss at the next transition planning meeting.*

Instructions

1. For each category, mark an 'X' in the column to the left of the statement that you feel is a higher priority to your farm business.
2. Count your 'X's to identify whether the majority of answers fall under 'Family First' or 'Business First'. This represents where on the Family First/Business First scale you feel your family farm business should stand.
3. Compare and contrast each individual's answers, looking for areas of agreement and disagreement.
4. Store the documents for future reference

EXAMPLE:
Here is an example of what a finished Family First/Business First Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 290 in the Appendix.

Category	X	Family First	X	Business First
Membership	X	There is a place for each and every family member		If you're qualified to do the job, you can join and belong
Income (Compensation)		Family members are paid more (or less) than the going rate for the job, sometimes based on their or the business's needs	X	Pay is determined by responsibilities and performance
Leadership or Promotion		Leadership is bestowed. Title / office is bestowed by birthright	X	Leadership is earned. Company officers control day-to-day operations
Basis of Operation	X	Business resources are used for the family's enjoyment and benefit		Business resources are used to grow and enhance the business
Training	X	Outside experience may be less valuable than years of service in the family business		Outside experience is more important than years of service in the family business

How does this apply?

Every farm is governed by priorities that fall somewhere on a family first/business first scale, whether the operators of the farm are consciously aware of them or not.

This exercise and the resulting family discussion can help participants gain a better understanding of each other and their respective views on the family business's role within the family, and the family's role within the farm business.

KEEP IN MIND:

- There are no right or wrong answers in this exercise.
- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete the goal setting exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- Each participant should select answers based on how they believe the farm should operate, **not** how they hope it currently operates or how it is likely to operate in future.
- As you compare and contrast participants' answers, note:
  - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
  - Does this exercise identify any underlying reasons for existing conflict in your operation?
- Refer to this exercise when creating your farm's vision.

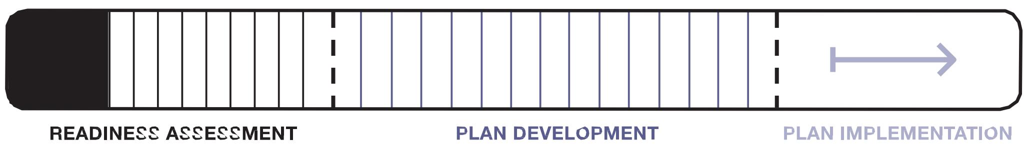
EXERCISE:

Complete the Family First/Business First exercise on page 290 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area on your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 5: Retiring Generation

Very early in the transition process, it is important that the individuals expecting to transition out of actively operating the farm **write down** their initial thoughts on retirement, the transfer of ownership and management, and their estate distribution.

One key area that should be considered by the retiring generation is how much money they will need in retirement and what lifestyle they expect to live. Typically, farmers transitioning out of a farm business will take some money from the business to finance their retirement. Multiple online calculators are available that can help retiring farmers estimate how much money they will require in retirement. Better yet, a retiring farmer should make time to speak with a financial planner.

Why is this relevant?

Discussing early in the transition process what each participant envisions will help identify common and conflicting priorities and expectations, and areas where additional research, thought or discussion is required. Taking the time to clarify expectations at the front end of the transition process will make the rest of the planning process far smoother.

How will this aid in transition planning?

1. Writing down initial thoughts on retirement:
   a. requires that people take the time to think through what's really important to them;
   b. helps to get the retiring generation(s) on the same page;
   c. helps to identify issues and/or raise questions that require additional information;
   d. helps to ensure that issues, concerns, expectations and priorities don't fall through the cracks;
   e. is an excellent way to formulate thoughts and prioritize intentions prior to group discussion.
2. Calculating the future living costs of the retiring generation helps to ensure adequate funds are available for retirement and allows the business to plan for withdrawals.
3. Identifying and discussing initial thoughts on retirement helps all participants enter the transition planning discussion from a similar starting place, and helps non-farming family members stay informed and included in the discussion.

Retiring Generation Exercise

*** Each member of the retiring generation should complete the following Retiring Generation Exercise individually or together. Each member of the succeeding generation should complete the Succeeding Generation exercise (Topic 6) at the same time. Then, reconvene as a transition planning group to discuss at the next transition planning meeting.*

Instructions

1. Download an online retirement calculator (consider using the one available at www.manitoba.ca/agriculture) and work through the retirement calculator exercise.
2. Write answers to each of the questions below or mark them as N/A if they are not applicable in your specific situation.
3. If you opted to write answers independently from any other individuals who will be retiring with you (e.g. a spouse, business partner, etc.), review and discuss your answers with those individuals.
4. Compare and contrast your answers to the answers written by the succeeding generation in their Topic 6 questionnaire. Discuss where the retiring generation's answers align or conflict with the succeeding generation's answers.
5. Follow-up any areas that require additional information, research or clarification.
6. Store the documents for future reference.

EXAMPLE:
Here is an example of what a partial Retiring Generation exercise might look like:

The following example is based on the case study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 291 in the Appendix.

Personal and Lifestyle:

1. What do you envision yourselves doing in retirement?

   Spending more time with our grandkids and taking more vacations.

2. How much income will you need to live this way?

   $40,000 - $50,000 per year.

Successor:

1. Who is taking over the family business?

   We know that our son and daughter-in-law will be involved. There may be others.

2. Will he/she/they need additional training to do so and if so, what type(s)?

   Our son comes from a farm background and has an agriculture business degree. Our daughter-in-law is a nurse. And our daughter is currently in University. They all have good educations, but will require on-the-job training as it pertains to our specific farm operations and financial recordkeeping.

Communication:

1. Have you spoken with the successor(s) regarding the transfer of the farm? Yes.
   a. If yes, what specifically has been discussed?

      We've spoken about the timeline for our transition out of managing the farm, but not much more than that.
   b. If yes, have the discussions been formal (ie: with notes recorded)?

      No.

How does this apply?

Many agricultural producers dream of the day they will pass the reins of a thriving agribusiness on to their child(ren) or other successor. But planning for life after retirement is equally important.

A successful transition not only depends on a healthy transition *into* farm ownership and management by the succeeding generation, it also depends on a healthy transition *out* of farm ownership and management by the retiring generation. The exiting generation must have clear expectations and intentions for their post-farming future, including an organized retirement financial plan.

KEEP IN MIND:

- There are no right or wrong answers in this exercise.
- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- As you compare and contrast participants' answers, note:
    - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
    - Does this exercise identify any underlying reasons for existing conflict in your operation?
- When members of the retiring generation share their answers with the succeeding generation, consider:
    - Are you discovering others' needs / wants that you were not aware of?
    - Are there issues / concerns / questions that will require more exploration, research or discussion?
    - Are there areas that will require compromise?
    - Are there areas where you or others are absolutely not willing to compromise?

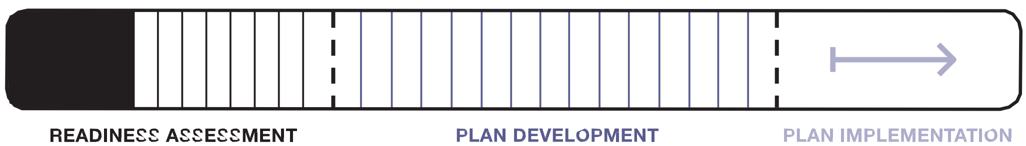
EXERCISE:

Complete the Retiring Generation Exercise on pages 291 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area on your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 6: Succeeding Generation

Very early in the transition planning process and before any commitments are made, it is important that the individuals expecting to transition into farm management and ownership **write down** their initial thoughts on transition.

Why is this relevant?

Discussing early in the transition process what each participant envisions will help identify common and conflicting priorities and expectations, and areas where additional research, thought or discussion is required. Taking the time to clarify expectations at the front end of the transition process will make the rest of the planning process far smoother.

How will this help transition planning?

1. Writing down initial thoughts on transition:
   a. requires that people take the time to think through what's really important to them;
   b. helps get all members of the succeeding generation(s) on the same page;
   c. helps to identify issues and/or raise questions that require additional information;
   d. helps to ensure that issues, concerns, expectations and priorities don't fall through the cracks;
   e. is an excellent way to formulate thoughts and prioritize intentions prior to group discussion.
2. Identifying and discussing initial thoughts on transition helps all participants enter the transition planning discussion from a similar starting place and helps non-farming family members stay informed and included in the discussion.

Succeeding Generation Exercise

***Each member of the succeeding generation should complete the following Succeeding Generation Exercise, ideally individually. Meanwhile, each member of the retiring generation should complete the Retiring Generation Exercise (Topic 5). Then, reconvene as a group to discuss at the next transition planning meeting.*

Instructions

1. Write answers to each of the questions below or mark them N/A if they are not applicable in your specific situation.
2. If you opted to write answers independently from any other individuals who will be transitioning into farm management and ownership with you (e.g. a spouse, business

partner, etc.), review and discuss your answers with those individuals.

3. Compare and contrast your answers to the answers written by the retiring generation in their Topic 5 questionnaire. Discuss where the retiring generation's answers align or conflict with the succeeding generation's answers.
4. Follow up any areas that require additional information, research or clarification.
5. Store the documents for future reference.

EXAMPLE:
Here is an example of what a partial Succeeding Generation exercise might look like:

The following example is based on the case study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 293 in the Appendix.

Personal and Lifestyle:

1. What do you envision yourself doing during your working years?
   - Working hard, raising a family, being active in sports (my own and my family's).
2. How much income will you need to live this way?
   - $70,000 to $80,000 between my spouse and me.
3. If your future is farming, will your income decrease or stay the same?
   - Depends on the salary I negotiate with my parents.

How does this apply?

A successful transition depends on everyone's needs being met. Both generations need to have clear expectations and intentions regarding how much the farm will support them financially, and what their lifestyle goals include.

KEEP IN MIND:

- There are no right or wrong answers in this exercise.
- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- As you compare and contrast participants' answers, note:
  - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
  - Does this exercise identify any underlying reasons for existing conflict in your operation?
- When members of the succeeding generation share their answers with the retiring generation, consider:
  - Are you discovering others' needs / wants that you were not aware of?
  - Are there issues / concerns / questions that will require more exploration, research or discussion?
  - Are there areas that will require compromise?
  - Are there areas where you or others are absolutely not willing to compromise?

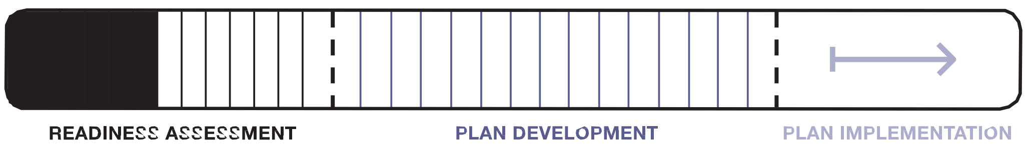
EXERCISE:

Complete the Succeeding Generation Exercise on pages 293 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area on your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



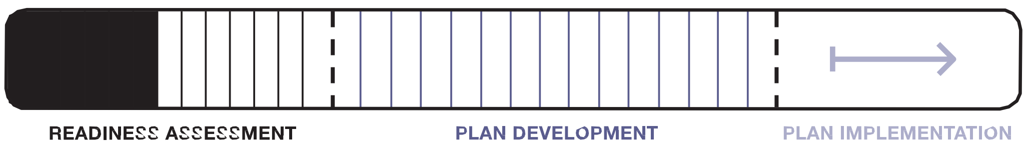
EXERCISE:

Complete the Succeeding Generation Exercise on pages 293 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area on your Transition Plan. Don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress



Chapter 4: Recap Checklist

Complete the following checklist as you work through the Chapter 4 topics. For each topic, mark the 'Red Flag' or the 'Green Light' checkboxes that best suit your planning group's status upon completion of the topic's exercise. Red Flag marks indicate that your group may need to discuss this topic further or seek professional support.

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Topic 1: Goals	☐ We were unable to complete this topic's exercise. ☐ We have conflicting goals and/or expectations regarding transition planning. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We each understand what the other planning participants expect from transition planning. ☐ Our goals and expectations for transition planning generally align.		
Topic 2: Individual Values	☐ We were unable to complete this topic's exercise. ☐ We have conflicting individual values relating to transition planning. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We each understand how the other planning participants' individual values will shape transition planning. ☐ Our values for transition planning generally align.		
Topic 3: Family/Group Values	☐ We were unable to complete this topic's exercise. ☐ We do not generally align on a set of family/group values. ☐ This topic resulted in significant	☐ We completed this topic's exercise. ☐ We generally align on a set of family/group values.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	unresolved conflict/disagreement within our planning group.			
Topic 4: Family First/Business First	☐ We were unable to complete this topic's exercise. ☐ We disagreed / were unable to identify where our group falls on a Family First/Business First scale. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise ☐ We generally agree on where our family falls on a Family First/Business First scale.		
Topic 5: Retiring Generation	☐ We were unable to complete this topic's exercise. ☐ We do not have a good understanding of / disagree with the retiring generation's post-retirement priorities and estimated financial needs. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We have a good understanding of the retiring generation's post-retirement priorities and estimated financial needs, and generally agree that their plans are within reason.		
Topic 6: Succeeding Generation	☐ We were unable to complete this topic's exercise. ☐ We do not have a good understanding of the succeeding generation's post-transition priorities and estimated financial needs. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We have a good understanding of the succeeding generation's post-transition priorities and estimated financial needs, and generally agree that their plans are within reason		

Notes:

Chapter 5: Assessment

Topic 7: Financial Performance

One of the most important tasks in transition planning is accurately analyzing the financial performance of the farm operation. Unfortunately, many people working towards transition jump into making decisions about farm buyouts, estate/inheritance plans and living arrangements with inadequate and/or inaccurate financial information. Assuming that a farm business will be able to financially support personal and business goals without adequate analysis is incredibly risky to a family/group's harmony and to the long-term operational success of the farm.

Transitioning a farm from a retiring generation to a succeeding generation can place additional demands on a farm's finances.

Additional costs that stem from the succeeding generation may include:

- salary(ies) for additional farmers during the 'overlap' period when both the retiring generation and succeeding generation are farming;
- additional residences or other living arrangements;
- potential farm buyout plans; and/or
- farm expansion or diversification based on new ideas.

Additional costs that stem from the retiring generation may include:

- increased withdrawals to fund non-farm retirement assets (RRSPs, savings accounts etc.);
- lump-sum financial needs at retirement for living costs and lifestyle choices, including housing, vacations, vacation properties, recreational vehicles, etc.; and/or
- asset splitting according to an estate plan, where funds/assets/etc. are passed out of the farm business to non-farming children.

One way to analyze financial performance is to calculate key financial ratios for each of the previous three to five years. These ratios can then be compared year-over-year to measure progress and performance trends.

Since each ratio offers only partial insight into a farm's financial story, it is important that multiple ratios be analyzed collectively. A single ratio that shows good results or a single ratio that shows poor results should not alone be the basis upon which one makes management decisions, especially decisions with transition planning implications.

Stable or improving performance trends provide a strong starting place for intergenerational transfer. Declining performance trends may make transition risky and should be analyzed carefully. Before proceeding with transition, both generations should analyze whether there are good explanations for any poor performance and whether corrective actions are necessary and/or possible.

** Unless all participants are very knowledgeable in financial analysis, it is highly recommended that an outside financial consultant is hired to assist in calculating and analyzing a farm's financial state.

RATIO CATEGORIES

Ratios can be organized into four categories: liquidity, solvency, profitability and financial efficiency. These categories and their corresponding ratios are listed in the tables below. An extended explanation of the ratios and their corresponding benchmarks is provided on page 295 in the Appendix section of this Guide.

Why is this relevant?

Very early in the transition planning process and before any commitments are made, all participants in the farm business transfer need to analyze the farm's current and historical financial situation to determine whether the business can support the additional financial draws that transition demands.

How will this help transition planning?

Having a detailed and accurate understanding of a farm's financial situation will help you decide whether to proceed with the transition planning process or not.

Financial Performance Analysis

*** All participants involved in transition planning should work together through the Financial Performance analysis and then reconvene as a group to discuss further at the next transition planning meeting.*

Instructions

1. Gather your farm's accountant-prepared financial statements or tax returns from the past three to five years.
   - If you are using tax return information, you will not be able to calculate historical

(past years') ratios that use balance sheet information. If you have prepared an annual statement of net worth for your lender, you may use this information instead of accountant-prepared balance sheets.

- If you do not have historical net worth statements, create a net worth statement for the most recent year ended December 31. This statement will allow you to calculate ratios for the most recent year. If you need help creating a net worth statement, consider meeting with a financial advisor, speaking to an Alberta Agriculture and Forestry (AAF) farm business development specialist, or using an online tool.

2. Calculate the ratios for each of the past three to five years.
3. Look at the trend in each ratio category to determine whether performance is improving or weakening for each ratio.
4. Compare each year's results and the overall trend to benchmarks recommended for each ratio.
   - Determine whether your farm is currently in or trending towards the caution zone for any of the ratios.
     - If yes, this may be a cause for concern and reason to pause the transition planning process to see what corrective actions can be taken. Talk to a financial advisor or your AAF farm business development specialist.
   - If your farm is currently showing or trending towards average or good performance for each ratio, it is likely well positioned to continue transition planning.

EXAMPLE:
Here is an example of what a partial Financial Performance Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j).

Once you review this example, complete similar ratios for your own farm business.

Liquidity: the ability of a business to meet financial obligations as they come due in the ordinary course of business. Liquidity relates to cash flow and short-term risk.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Current Ratio	Current assets / Current liabilities	Can the farm meet current obligations as they come due?	> 2:1	1.5:1	< 1:1	**2.7:1**
Working Capital Percentage of Total Cash Expenses	(Current assets – Current liabilities) / Cash operating expenses	If current liabilities are retired as they come due, what current assets will be left (percentage of annual expense)?	> 50%	20 – 30%	< 10 %	**120.1%**
Debt Structure	Current debt / Total debt	What percentage of total debt is due within the next 12 months?	< 20%	25%	> 35%	**41.4%**

Solvency: the amount of business debt relative to the amount of owner's capital invested in the business. Solvency relates to longer-term risk and how the business is financed.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Leverage Ratio* or Debt to Equity Ratio	Total Liabilities / Total Equity	For every $1 in equity, how many dollars of debt are there?	< 4:1	0.65:1	> 1:1	**0.65:1**
Equity Ratio*	Total Equity / Total Assets	What proportion of farm assets are financed by the owners?	> 70%	50 to 70%	< 50%	**60.8%**
Debt Servicing	(Net income + Amortization + Interest Family Wages**) / (Annual Principal and Interest Paid)	Can the farm come up with enough income to pay the debt requirements?	> 2 : 1	1.5 : 1	< 1.1:1	**3.27:1**

* Industry standards based on assets at market value.

** If not already included in expenses (e.g. non-corporate farms).

Profitability: the extent to which a business is able to generate profit (income) from use of business assets. Profitability rates investment decisions based on their ability to generate net income.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Return on Assets*	Net Income plus Interest / Total Assets	What return is the farm generating as a percentage of capital assets?	> 4%	2%	< 0%	**11.1%**
Return on Equity*	Net Income / Owners Equity	What return is the farm generating as a percentage of equity?	> 10%	6%	< 2%	**15.4%**
Capital Turnover*	Gross Income / Capital Assets	How efficiently are assets (capital) being used?	> 40%	20%	< 10%	**31.2%**

* Industry standards based on assets at market value.

Financial Efficiency: the extent to which a business is able to use its resources (inputs) efficiently. Financial efficiency rates annual operating cost decisions on their ability to generate gross revenue.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Gross Margin	Gross Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 65%	55%	< 50%	**63.0%**
Contribution Margin	Contribution Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 50%	45%	<40%	**45.9%**
Net Profit Margin	Net Profit / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 20%	10%	<5%	**21.5%**
Interest Expense	Interest / Gross Revenue	How much of the gross revenue generated by the farm goes to pay interest?	<10%	15%	>20%	**6.3%**
Amortization Expense	Amortization / Gross Revenue	How much of the gross revenue generated by the farm goes to pay interest?	<10%	15%	>20%	**5.4%**

How does this apply?

Analyzing farm finances prior to beginning the transition planning process will help determine if a farm business has resources to handle intended:

- buyout, financing or payment options relating to transition;
- compensation levels;
- retirement plans and payments;
- estate and inheritance plans.

If sound financial analysis shows that your farm is financially able to proceed with transition planning, congratulations!

KEEP IN MIND:

- You may use cash or accrual accounting as the basis for calculating ratios. **Accrual accounting will provide much better information.** Decisions made based on superior information will have a better chance of having successful outcomes. **If you do not have accrual information or are not sure, talk to an advisor.**
- As part of your analysis, you should include a market value for land and quota. You may also include a market value for equipment and buildings, but these values can be difficult to determine. Consider using an independent appraiser to determine market values.
- Five years of cash-based income statements (with no structural changes on the farm) can sometimes be a close approximation of accrual based statements. However, be careful with this assumption.

WHAT TO WATCH FOR:

- If you do not have a good set of historical (past years) financial information, you can try to create the statements. However, if you decide to do this, STOP and proceed no further as soon as you find that you have to make an assumption or estimate on a value. Decisions based on estimated financial information are very risky. When developing statements of net worth, watch to make sure that the dates are consistent. Differing dates can have significant impact on ratios as market inventory, accounts payable and accounts receivable can vary greatly throughout the year and year to year. As such, statements of net worth made based on inconsistent dates will be less accurate, decreasing their usefulness in decision making.
- All ratios tell something about the financial health of a farm. They should be analyzed individually for what they specifically measure but they should also be analyzed collectively. Think of each ratio acting like a piece of a jigsaw puzzle: taken together, the puzzle can be completed and an overall picture is clear.

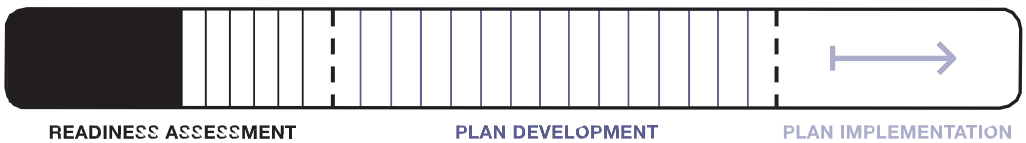
EXERCISE:

Refer to the Case Study (on pages d-j at the beginning of this Guide) to see an expanded version of Sample Farms Ltd.'s financial statements and ratios. Then, calculate similar ratios for your own farm business.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area on your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 8: Management Assessment

Transition brings added operational burden and financial cost to a farm business. For transition to be successful, current managers need to make sound decisions so that the farm can meet these additional demands.

Management practices can be assessed in five key areas: marketing, production (operations), human resources, finance, business structure and environmental responsibility.

Why is this relevant?

Management practices that might be adequate in day-to-day operations may not be the best to carry a farm through transition. In fact, transition often requires some changes to a manager's management style, decision making, and / or performance. A management assessment boils down to a single key question: will the management decisions the farm manager(s) make today pave a path so retiring and succeeding generations can achieve their goals in the future?

There is no one-size-fits-all approach to ensure that the management practices in place support transition, or to adjust management practices when necessary. Ideally, the existing manager(s) will initiate and work to achieve necessary changes. It is far less ideal (and often unsuccessful) for the succeeding generation to attempt to push change onto the existing manager(s).

Help is available. An external management advisor can be invaluable in helping to assess management practices, identify appropriate resources and implement necessary change.

How will this help transition planning?

A management assessment will:

1. identify areas where existing management practices may be negatively affecting the farm business;
2. guide the development of action plans to best support a successful transition;
3. help align management decisions with longer term objectives; and
4. start a conversation between all transition participants about management practices, thereby helping everyone get 'on the same page'.

Management Assessment Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work independently to complete an assessment of management. Discuss the responses at your next Transition Planning Meeting.*

Instructions

1. Download and print copies of the *Gaining Ground Agribusiness Assessment* available from Manitoba Agriculture.
2. Individually complete the assessment. It contains approximately 100 questions and should take about 30 minutes to complete.
3. Compare and contrast each individual's answers, looking for areas of agreement and disagreement.
4. Review your assessments **from a transition planning perspective** and look for management practices that show some room for improvement.
5. Review your results with an independent consultant and / or your Alberta Agriculture and Forestry farm business management specialist.
6. Store the documents for future reference

How does this apply?

The exercise is designed to reveal the relative strengths and weaknesses in your current management practices and can help identify management areas that may require attention or change, especially given the demands of transition planning.

KEEP IN MIND:

- A management assessment should be conducted annually to keep focus on improvement and adjust practices as needed.
- No individual is naturally skilled in every area of management. This is okay!
    - Management skills can be learned and perfected.
    - Other family members (often the succeeding generation) can develop skill sets in areas that require attention.
    - Outside resources (eg: hired consultants) can provide support in areas that require attention.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- Expect to see some areas that require attention. No one person possesses all management skill sets.
- There will be some variation in the assessments between family members who complete the assessment. This is normal. Use the different opinions as a way to start discussion about the management of your farm.
- Be aware that, unless this assessment is handled gently and tactfully, it is possible that existing managers may feel hurt or attacked, or perceive that their efforts are undervalued or unseen.
- As you compare and contrast participants' answers, note:
  - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
  - Does this exercise identify any underlying reasons for existing conflict in your operation?

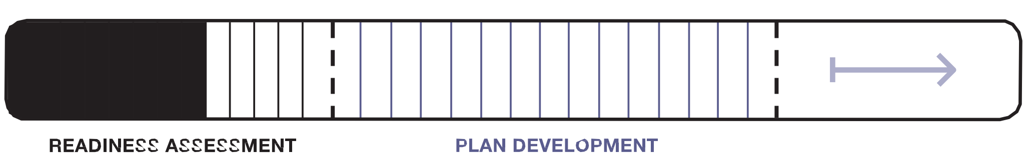
EXERCISE:

Complete the *Gaining Ground Agribusiness Assessment* available from Manitoba Agriculture.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 9: Personalities

Every person in this world is entirely unique, with a one-of-a-kind personality and set of behaviours specific to just him or her. Though this fact might seem entirely obvious, many of the biggest stumbling blocks in transition occur when one or more participants assume that another participant should think or behave in a similar way to themselves.

Different personalities can and do successfully work together to develop and implement transition plans. Patience, good communication and a willingness to work through issues are key factors necessary during transition. In addition, it can be very helpful to take time to learn about each other's personality traits and quirks and one another's default and stress behaviours.

The DISC Profile*

**Based on information from the Online DISC Profile. Personality Profile Solutions, Inc. Minneapolis, Minnesota*

There are countless personality assessment tools currently available. The DISC Profile is one such tool. It's simple and non-judgmental division of personalities into four categories ('Dominant', 'Influence', 'Steady' and 'Conscientious') can help improve work productivity, reduce conflict, promote positive communication, and improve teamwork on transitioning farms.

DiSC profiles help participants involved in farm transition increase their self-knowledge of:

- how they respond to conflict;
- what motivates them;
- what causes stress for them;
- how they typically solve problems; and
- how they can adapt their own style to get along better with others.

➢ 'D' is for Dominance

You place emphasis on shaping your situation by overcoming opposition to accomplish results.

A person with a **'D'** style:

- is motivated by winning, competition and success;
- prioritizes accepting challenges, taking action and achieving immediate results;
- is described as direct, demanding, forceful, strong willed, driven, and determined, fast-paced and self-confident;

- may be limited by lack of concern for others, impatience and open skepticism;
- may fear being seen as vulnerable or being taken advantage of;
- values competency, action, concrete results, personal freedom, and challenges.

Goals:

- unique accomplishments;
- new opportunities;
- control of audience;
- independence.

Needs others who:

- weigh pros and cons;
- calculate risks;
- use caution;
- study facts;
- think before deciding;
- recognize the needs of others.

When communicating with 'D' style individuals, give them the bottom line, be brief, focus your discussion, avoid making generalizations, keep from repeating yourself, and concentrate on solutions rather than problems.

➢ 'i' is for Influence

You place emphasis on shaping your situation by influencing or persuading others.

A person with an **'i'** style:

- is motivated by social recognition, group activities, and relationships;
- prioritizes taking action, teamwork, and being positive and having energy;
- is described as convincing, enthusiastic, warm, trusting and optimistic;
- may be limited by being impulsive and disorganized and having lack of follow-through;
- may fear loss of influence, disapproval and being ignored;
- values freedom of expression.

Goals

- victory with flair;
- friendship and happiness;

- authority and prestige status symbols;
- popularity.

Needs others who:

- concentrate on the task;
- seek facts;
- speak directly;
- develop systematic approaches;
- prefer to deal with things instead of people;
- take a logical approach;
- demonstrate follow-through.

When communicating with the ‘i’ style individual, share your experiences, allow the ‘i’ style person time to ask questions and talk themselves, focus on the positives, avoid overloading them with details, and don’t interrupt them.

‘S’ is for Steadiness

You place emphasis on cooperating with others within existing circumstances to carry out the task.

A person with an ***‘S’*** Style:

- is motivated by cooperation and opportunities to help;
- prioritizes giving support, teamwork and maintaining stability;
- is described as calm, patient, predictable, deliberate, stable and consistent;
- may be limited by being indecisive and by a tendency to avoid change;
- may fear change, loss of stability and offending others;
- values loyalty, helping others and security.

Goals:

- personal accomplishments;
- group acceptance;
- power through formal roles and positions of authority;
- maintenance of status quo and controlled situations

Needs others who:

- react quickly to unexpected change
- become involved in more than one thing
- are self-promoting
- apply pressure on others
- work comfortably in an unpredictable environment
- help to prioritize work
- are flexible in work procedures

When communicating with the ‘S’ Style individuals, be personal and friendly, express your interest in them and what you expect from them, take time to provide clarification, be polite, and avoid being confrontational, overly aggressive or rude.

‘C’ is for Conscientious

You place emphasis on working conscientiously within existing circumstances to ensure quality and accuracy.

A person with a **‘C’** style:

- is motivated by opportunities to gain knowledge, showing their expertise, and quality work;
- prioritizes ensuring accuracy, maintaining stability, and challenging assumptions;
- is described as careful, cautious, systematic, diplomatic, accurate and tactful;
- may be limited by being overcritical and overanalyzing;
- may fear criticism and being wrong;
- values quality and accuracy.

Goals

- unique accomplishments;
- correctness;
- stability;
- predictable accomplishments;
- personal growth.

Needs others who:

- delegate important tasks;
- make quick decisions;
- use policies only as guidelines;
- compromise with the opposition;
- state unpopular positions;
- encourage teamwork;
- initiate and facilitate discussions.

When communicating with the C style individual, focus on facts and details; minimize “pep talk” or emotional language; be patient, persistent and sensitive.

Why is this relevant?

Working and living together, particularly during farm transition, can be challenging for any group of people. Having a good understanding of the different personalities and behaviours of your farm transition ‘team’ will help to promote communication and minimize conflict.

During the transition process, it is not unusual for new participants to be added (as the succeeding generation gets married, for example). In addition, transition can sometimes initiate changes in existing relationships (when the succeeding generation becomes ‘partner’ as well as ‘child’, for example). While the addition of participants and/or changes in relationships can be very positive, they also can bring added conflict to the entire group if certain personalities or behaviours clash. In these instances, a strong understanding of each other’s personality types and excellent communication is even more vital.

Personalities Exercise

***Each person involved in your farm’s transition planning and any other stakeholders who have a vested interested in the farm business should participate in the following Personalities Exercise.*

Instructions

1. Have a discussion with all transition participants about differing personalities and behaviours. A simple discussion about personalities and behaviours may be all your group wants to complete. However, the following expanded exercise is recommended.
2. Work together through the Personalities Exercise. (Note: if doing so proves difficult, consider:
    a. selecting one person to research and choose a resource to help your group work through the exercise. There are numerous resources available online. Contact an Alberta Agriculture and Forestry business development specialist for more information if you run into challenges.
    b. hiring an external consultant/facilitator who has expertise in this area to help you

work through a personality assessment exercise.)

3. Each participant should identify the letter (‘D’, ‘i’, ‘S’, ‘C’) in the table that best describes his or her own personality. (Note: the exercise is based on the widely-used DiSC Profile tool outlined above. A more detailed version of this tool is available for purchase online.)
4. As a group, compare and contrast participants’ responses. Discuss how this information might help all participants work together despite differing personalities.
5. Store the documents for future reference.

EXAMPLE:
Here is an example of what a finished Personalities Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 307 in the Appendix.

Personality Style	Identify which personality best reflects your style below
‘D’ - Dominant	Rob Sample, Carol Sample
‘i’ – Influence	Rebecca Sample
‘S’ – Steady	John Sample
‘C’ - Conscientious	Faye Sample

How does this apply?

Understanding different personalities and behaviours may help:

- reduce conflict;
- promote positive communication during farm transition;
- improve teamwork;
- allow a healthy environment for transition.

KEEP IN MIND:

- Consider using an external facilitator if you have trouble with this exercise, or if you are concerned about the potential for conflict that could arise from this exercise. If you opt to use an advisor, refer to the document *How to Choose and Work with an Advisor* found in the Appendix (page 358).
- Some transition participants may think this exercise is pointless and may not want to work through it. It's okay for them not to be included. They may decide to participate later after they see what others who do complete the exercise learn about themselves and others, and how the information helps.

WHAT TO WATCH FOR:

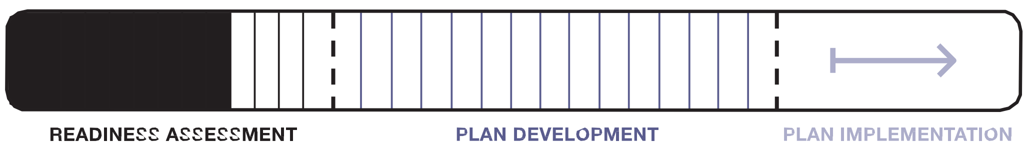
- As you compare and contrast participants' answers, note:
    - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
    - Does this exercise identify any underlying reasons for existing conflict in your operation?
- As you compare and contrast individuals' response, discuss:
    - how your differing personalities might be beneficial to the farm business;
    - how best to communicate with each other.

EXERCISE: Complete the Personalities Exercise on page 307 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area on your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 10: Historical Business Development

In the life of every farm business, certain events occur that could be considered monumental or business altering. Such events could include adding more acres to the business, changing a major operating strategy, altering management, welcoming a new business or management partner, etc. Understanding the factors that shape a farm business over time is fundamental to keeping it on a healthy path looking forward.

Why is this relevant?

To understand how and why a farm business is where it is today, current and future managers need to discuss and document the major events that shaped the business in the past. Ideally, managers should keep a diary or logbook so they can record major events and the circumstances that led to key decisions as they happen. In the absence of this kind of documentation, retiring and succeeding generations should work together to develop a timeline of major events that have occurred throughout the life of the business. This '20-20 hindsight' will help improve decision making should similar situations occur in the future.

How will this help transition planning?

Understanding how a business develops over time provides historical context for current and future decision makers. As the famous quote says, those who do not learn from the past are doomed to repeat its mistakes. Likewise, those who do not understand the past's motivations and successes will have real trouble building on them. Knowing how and why farm decisions were made can provide vital guidance to the succeeding generation.

Historical Business Development Exercise

*** This exercise is best completed by the retiring generation, with input from any individuals who might offer useful insight (e.g. the retiring generation's parents or other relatives, if they were involved in the farm's history and are able to contribute).*

Instructions

In the chart below, fill in as many important, pivotal or farm business-changing events as possible according to the following categories:

1. Year: enter the year that the significant event occurred.
2. Situation: briefly describe relevant details surrounding the significant event.
3. Outcome: describe what decisions were made and the shorter term result of these decisions.
4. Significance: describe how this particular event shaped the future of the farm and why its occurrence helped shape what the farm is today.

EXAMPLE:
Here is an example of what a partial Historical Business Development Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 308 in the Appendix.

YEAR : **2008**

SITUATION: *The neighbouring farm, consisting of 1,440 acres and some outbuildings, came up for sale. We already knew the land because we'd been renting it for a few years. We knew if we didn't buy it that someone else would.*

OUTCOME: *We purchased the land and buildings for a price of $1,400,000. We thought the asking price was steep but we decided to go ahead anyway.*

SIGNIFICANCE: *This purchase was the biggest we've made in the history of our farm.*

YEAR: **1974**

SITUATION: *My (Rob's) parents were starting to think about retirement. We were ready to start farming, so we agreed to purchase 800 acres of land from my parents.*

OUTCOME: *We purchased the 800 acres for $200,000.*

SIGNIFICANCE: *The purchase was the first farmland that we acquired. It essentially started our farm career.*

How does this apply?

Writing down a summary of the major decisions and events that have occurred over the course of your farming career might seem redundant. After all, you might argue, if someone wants to know what happened in the past, they can just come ask you, right? Wrong. Creating a recorded history of the farm can have very long term benefits. First, keep in mind that your farm may be passed down through multiple generations and will hopefully exist longer than your own lifetime. Therefore, you may not be around to provide ongoing counsel. Second, a succeeding generation may not think to ask questions about a farm's history at points in the future that specific information would be useful. In fact, once the succeeding generation takes over, they might not even appreciate significant input regarding past or best practices. Therefore, it is incredibly useful to take time in early transition to outline a detailed history of the farm business. The goal of this exercise is to have both the retiring and succeeding generations appreciate and understand how the decisions made in the past can and do affect the farm into the future.

KEEP IN MIND:

- Start by brainstorming a list of historical events in your farm's history. Fill in details once a first draft of the list is complete, since the process will likely bring to mind additional events.
- When brainstorming, start with the most current year and work backwards.
- Consider how key family events have affected the farm business (for example: a marriage may add managerial / administrative / operational capacity to a farm business; the birth of a baby may reduce these capacities).
- Significant production events (both good and bad), unusual / catastrophic weather events, major acquisitions or dispersals, and notable business accomplishments should all be included.
- Listing important events from the business's past is just the start of this exercise. Including details about why the event was significant will provide the most useful information to future generations. Recording via audio and video is an option, but brainstorming and writing notes prior to recording is highly recommended to keep the information detailed, complete and concise.

WHAT TO WATCH FOR:

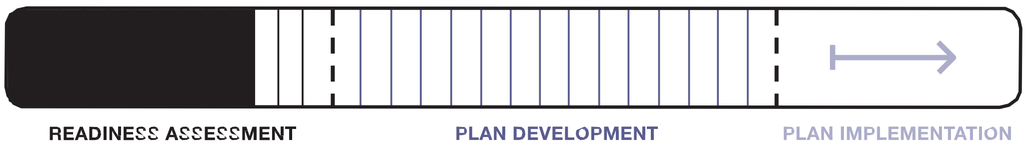
- This exercise should be completed by the retiring generation and then shared with the succeeding generation. If the retiring generation is unwilling or unable to complete the exercise, the succeeding generation should interview the retiring generation and use the information gleaned from those conversations to draft a historical summary.
- This exercise deals with past events, which may bring up sad, bad or negative memories. Be thoughtful and tread gently during discussion about difficult past events.
- Review the summary annually as past events will gain or lose significance as a farm grows or changes.

EXERCISE: Complete the Historical Business Development Exercise on page 308 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 11: Readiness Assessment Review Meeting

Congratulations: if you have completed Topics 1 through 10 of the Readiness Assessment, you have now completed the core of readiness assessment for your farm business. Hopefully, discussions among all of the transition participants (both retiring and succeeding generations) occurred frequently as you worked through Topics 1 to 9. Now the next steps are to analyze and discuss findings and make a decision on how to proceed.

Readiness Assessment Review Meeting Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work together on this Exercise.*

Instructions

1. Hold a meeting to review all Readiness Assessment findings to date, based on the agenda found on page 310 of the Appendix.

KEEP IN MIND:

- Anyone currently involved in the farm business (the retiring generation and existing managers) and anyone who may be involved in the farm business (the succeeding generation) should participate in a readiness assessment review meeting. Other people can attend as the group sees fit.

WHAT TO WATCH FOR:

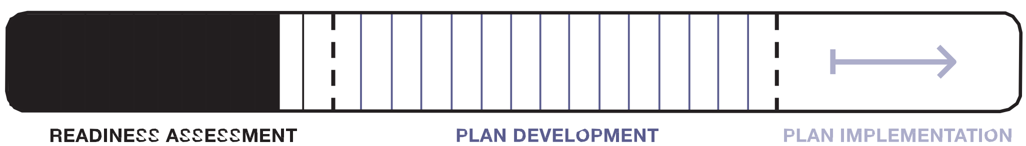
- Expect that this meeting may bring about differences of opinion, disagreement and /or conflict. Consider using an external facilitator if you are concerned that conflict may arise.
- This meeting is intended to summarize rather than rehash the nine Readiness Assessment topics already completed. Set a time limit for the meeting. If the discussion lasts beyond the agreed-upon time, plan to reconvene. Emotions may fray and discussion can become unproductive in overlong meetings.

EXERCISE:
Hold a meeting to review all Readiness Assessment findings to date. A sample agenda is available on page 310 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 12: Decision Time

The effort your transition planning group has put into Topics 1 through 11 of the Readiness Assessment has hopefully resulted in extensive and accurate background information that paints a clear picture of your farm's current status, your transition's potential stumbling blocks, and your farm business's likely future. As such, the decision of whether or not to proceed with transition may be much clearer now than it was prior to the start of the Assessment Phase. Still, it can be challenging for the transitioning group to determine whether it is ready to proceed to the Plan Development Phase.

The Decision Time Exercise will help your group summarize exercises completed in Topics 1 to 11 of the Readiness Assessment Phase. This will help your group determine whether you are, in fact, ready to proceed.

Why is this relevant?

Simply put, it is now time to make a decision on whether your farm and group should proceed with developing a transition plan.

By tying the previous 11 exercises together into a summary document, a group considering transition can determine if any issues need to be addressed before proceeding with the Plan Development Phase of transition planning.

Decision Time Exercise

*** This exercise is the culmination of the Readiness Assessment Phase. All individuals who are currently or may be involved in transition and the farm business should participate in this exercise, whether or not they actively participated in the Readiness Assessment exercises in Topics 1 through 11.*

Instructions

Complete the Decision Time Exercise as a group. Use completed exercises from Topics 1 through 11 of the Readiness Assessment as references for this exercise.

1. Read the introductory question under each heading. Discuss the question as a group and attempt to agree upon a single answer. Make note of questions where agreement is not possible.
2. If conflict, disagreement or uncertainty occurs during this discussion, attempt to brainstorm a corrective action (solution) that might solve the issue (e.g. further research to answer unresolved questions; an external facilitator to work through interpersonal conflict). Then, **discuss the following question: is the conflict, disagreement or uncertainty enough of an issue that transition planning should be put on hold until the concern is settled?**

a. If the group answers **NO,** transition planning should NOT be halted pending conflict, disagreement or uncertainty resolution, each time this question is asked, you may be ready to proceed to the Plan Development Phase of transition planning.

b. If the group answers **YES,** transition planning SHOULD be halted pending conflict, disagreement or uncertainty resolution, one or more times the question is asked, consider putting further transition planning on hold until you determine:

   i. what corrective action might solve the issue;

   ii. how you will determine whether corrective action is complete and successful;

   iii. what the timeline is for the corrective action and who will be involved in completing it; and

   iv. when you will revisit your group's readiness to proceed.

EXAMPLE:
Here is an example of what a finished Decision Time Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 311 in the Appendix.

Goals

Do we have similar goals for the future of the farm? Do our personal and group goals align with this future? Are our goals in line with transition planning?

Comments:

A major goal for Rob and Faye is to reduce Rob's stress level. John and Rebecca agree with this goal.

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Values

Do we have similar values about how a family business should be operated? Do our personal values complement each other's? Will opposing values create long term conflict (or conflict in the longer term) between those managing the farm?

Comments:

There are some minor differences between Rob/Faye's values and John/Rebecca's values but overall we share quite similar values.

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Retiring and Succeeding Generation Initial Thoughts

Are there core issues within our initial thoughts that need to be addressed before a transition plan can be developed? Do we need to conduct further research into one or more areas?

Comments:

There are some rather large gaps in our plan at this point. We aren't on the same page when it comes to roles/responsibilities during transition. We also need to figure out a lot of the finer details of our plan.

Corrective Action (if any):

No major corrective actions are needed. We are hoping that working through the rest of the transition plan will help us make decisions on the details that are lacking at this point.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Financial Performance

Are we satisfied that the farm's financial performance will sustain a transition plan?

Comments:

We are fully confident that our financial situation will get us through the transition plan. What the kids do after that is up to them!

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Management

Will management skills as identified through the Management Assessment Exercise enhance or hinder our ability to develop a transition plan?

Comments:

We are not overly worried about the results from this assessment. However, we will definitely be keeping our eyes on the HR area. It is clear that area could use some improvement.

Corrective Action (if any):

None needed immediately. We would like to get better in all areas.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Personalities/Behaviours Audit

Can the different personalities involved work together effectively to develop and implement a transition plan?

Comments:

Our personalities seem to be working together fairly well so far. However, learning about each other's differing needs and communication styles was useful. We will keep this information handy in case we run into future conflict.

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Historical Business Development

Are there events in our farm's history that need to be clarified? Are there lingering effects from historical events/decisions that need to be addressed?

Comments:

We actually found this exercise to be quite enjoyable. Reflecting on our farm's history and where we've taken it helped us to appreciate the importance of transitioning it successfully in the years ahead.

Corrective Action (if any):

None needed. However, we would like to write a better farm history in the near future. We would like this to be available for future generations.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

KEEP IN MIND:

- Some differing opinion is manageable and to be expected. You are not required to have everyone in complete agreement on all topic areas. However, everyone should agree on whether corrective action is required and whether an issue is significant enough to require transition planning to be placed on hold.

WHAT TO WATCH FOR:

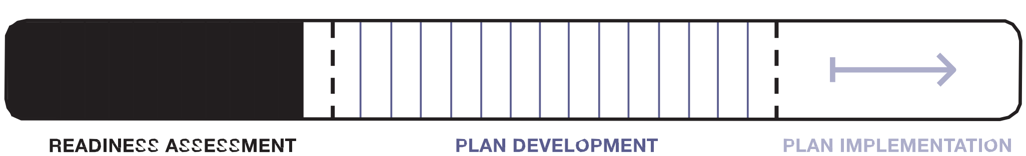
- People can have differing opinions on some or all of the topics. Differing opinions can be helpful if managed correctly. Try to come to consensus on each topic area.
- In a situation where there are some unresolved differences of opinion, you can proceed to plan development and watch to see if the differences become a problem. If they do, the process can be halted and corrective action taken. While carrying unresolved issues into the Plan Development Phase is not ideal, it may be manageable depending on the issue.
- Consider using an external facilitator if you are concerned about conflict during this discussion.

EXERCISE: Complete the Decision Time Exercise on page 311 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 13: Statement of Intent

A Statement of Intent to Proceed or Defer is designed to formalize and record a group's intent to complete or not complete a transition plan following their readiness assessment. Ideally, everyone who is or may potentially be involved in the transition will take part in creating the formal Statement of Intent. At the very least, all participants and any potential future participants should know and understand where the farm is at in the transition process.

Why is this relevant?

A Statement of Intent to Proceed outlines a group's intention to move forward with transition, creates accountability, and defines a timeline for completion. Often, families/groups that start the transition planning process give up, get stuck or encounter difficulties they cannot overcome. In the event that difficulties are encountered and planning momentum is lost, this Statement of Intent can remind participants that they are committed to this process, and can help renew confidence in completing the process.

A Statement of Intent to Defer should be completed if a family/group identifies that they are **not** ready, prepared and/or able to complete a transition plan at this time. The Statement of Intent is powerful and useful in that all participants are jointly aware that they must either fulfill corrective actions or postpone/abandon further transition planning.

A Statement of Intent to Defer should include the reason for halting the planning process and, if applicable, a date to revisit the planning process. Completing the Statement of Intent to Defer allows all participants to fully understand where the farm is at in the transition process.

Statement of Intent Exercise

*** This exercise is the culmination of the Readiness Assessment Phase. All individuals who are currently or may be involved in transition and the farm business should participate in this exercise, whether or not they actively participated in the Readiness Assessment exercises in Topics 1 through 12 or not.*

Instructions

1. Based on the results of your group's Decision Time Exercise, together decide whether you will complete a Statement of Intent to Proceed or a Statement of Intent to Defer.
2. Complete the appropriate Statement as indicated.

EXAMPLE:
Here is an example of what a finished Statement of Intent might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 315 in the Appendix.

Statement of Intent to Proceed

Sample Farms Ltd.
STATEMENT OF INTENT TO PROCEED

Rob and Faye Sample of *"Sample Farms Ltd."* intend to proceed with developing a transition plan for the purpose of transferring farm management and ownership to John and Rebecca. *"Sample Farms Ltd."* intends to have the plan completed and ready for implementation by the end of next April.

OR Statement of Intent to Defer

Sample Farms Ltd.
STATEMENT OF INTENT TO DEFER

Because we are not clear on everyone's goals, the members of *"Sample Farms Ltd"* are unable to proceed with developing a transition plan for the purpose of transferring farm management and ownership to John and Rebecca. *"Sample Farms Ltd"* intends to readdress this issue on March 31st next year.

How does this apply?

If you filled out a Statement of Intent to Proceed, view this document as your group's commitment to the transition planning process. Schedule meetings and complete exercises in a timely fashion to meet the stated deadline. Keep the document on file.

If you filled out a Statement of Intent to Defer, view this document as your group's decision to halt the transition planning process. If you have halted the process because corrective actions need to be completed, schedule these actions and family meetings in a timely fashion to meet the stated deadline. Keep the document on file.

KEEP IN MIND:

- If your group completes a Statement of Intent to Defer, remember to set a date to revisit the process.

WHAT TO WATCH FOR:

- Sometimes, every indication suggests that a farm and group are ready to proceed with transition planning, yet one individual (usually one of the retiring generation) suddenly decides he or she is not prepared to proceed. It is better to learn this now than later. And remember that this individual's opinion and priorities may change: time often helps people become more comfortable with the process and reality of transition.
- Do not give up on transition if your group opts to complete a Statement of Intent to Defer. There can be many good reasons to delay transition planning and the decision does not necessarily mean your group or farm has unpleasant issues to work through. It is far better to defer transition now and complete corrective action that will make transition successful in the future, than to move forward while issues remain that could derail successful transition.
- If one or more transition participants are not willing to sign a Statement of Intent, consider whether all aspects of the Readiness Assessment were dealt with in enough detail.
- Refer back to a completed Statement of Intent to Proceed if you run into challenges such as disagreements or lack of progress as you work through the planning process.

EXERCISE: Complete a Statement of Intent. Blank copies are available on pages on page 315 of the Appendix.

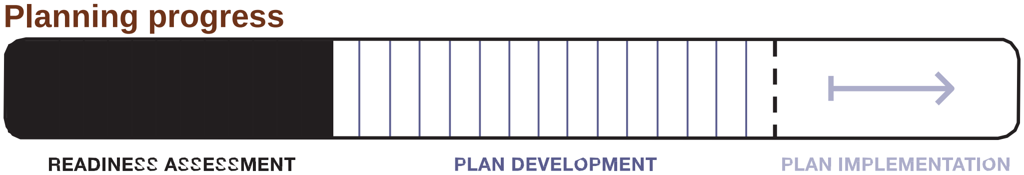
Next steps

Congratulations on completing this topic.

If you filled out a Statement of Intent to Proceed, move on to Topic 1 in the Development Phase of transition planning.

If you filled out a Statement of Intent to Defer, you have completed all necessary transition planning exercises for now. Follow up on corrective actions and revisit the transition planning process by the date you indicated on the Statement of Intent to Defer.

Planning progress



Chapter 5: Recap Checklist

Complete the following checklist as you work through the Chapter 5 topics. For each topic, mark the ‘Red Flag’ or the ‘Green Light’ checkboxes that best suit your planning group’s status upon completion of the topic’s exercise. Red Flag marks indicate that your group may need to discuss this topic further or seek professional support.

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Topic 7: Financial Performance	☐ We were unable to collect the necessary financial information to complete this topic’s exercise. ☐ We have conflicting understanding of our farm business’s current financial situation. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic’s exercise. ☐ As a group, we understand our farm business’s current financial situation. ☐ Our individual understandings of our farm business’s current financial situation generally align with the entire group.		
Topic 8: Management Assessment	☐ We were unable to complete this topic’s exercise. ☐ We were unable to assess our individual management styles. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic’s exercise. ☐ We each understand our individual management styles.		
Topic 9: Personalities	☐ We were unable to complete this topic’s exercise. ☐ We were unable to assess our individual personalities / behaviours. ☐ This topic resulted in significant	☐ We completed this topic’s exercise. ☐ We now each have a better understanding of our individual personalities and behaviours, and how best to communicate with		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	unresolved conflict/disagreement within our planning group.	and support each other based on those personalities and behaviours.		
Topic 10: Historical Business Development	☐ We were unable to complete this topic's exercise. ☐ The succeeding generation does not have a clear overview of the key events and decisions that shaped the farm business over its history. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ The succeeding generation has a clear overview of the key events and decisions that shaped the farm business over its history.		
Topic 11: Readiness Assessment Review Meeting	☐ We were unable to complete this topic's exercise. ☐ We did not successfully discuss our findings to date in the Readiness Assessment. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We successfully discussed our findings to date in the Readiness Assessment. ☐ We have the information we need to move on to making a decision about whether or not we should proceed with transition planning.		
Topic 12: Decision Time	☐ We were unable to complete this topic's exercise. ☐ We have conflicting points of view regarding whether we should proceed with or defer transition planning. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ Our points of view regarding whether we should proceed with or defer transition planning align.		
Topic 13: Statement of Intent	☐ We were unable to complete this topic's exercise.	☐ We completed this topic's exercise.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	☐ We have conflicting points of view regarding whether we should proceed with or defer transition planning. We were unable to formulate a statement of intent. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ Our points of view regarding whether we should proceed with or defer transition planning align. We were able to formulate a statement of intent.		

Phase 3 – Plan Development

Chapter 6: Foundation and Strategic Direction

Topic 14: Foundation

Topic 15: Strategic Direction

Topic 16: Strategic Direction Review Meeting

Chapter 7: Structure

Topic 17: Transition Options

Topic 18: Preliminary Advisor Review

Topic 19: Estate Plan Elements

Topic 20: Human Resources

Topic 21: Agreements

Topic 22: Deal Breaker Issues

Chapter 8: Review

Topic 23: Transition Plan Review

Topic 24 and 25: Accountant and Lawyer Review

Topic 26: Final Plan Adjustments

Topic 27: Accountant / Lawyer Sign-off

Topic 28: Final Review Meeting

Phase 3 – Plan Development

Congratulations on completing the Readiness Assessment Phase of transition planning. To get to here, your transition planning group has successfully completed a substantial amount of work. Celebrate this accomplishment!

You are now ready to begin the step-by-step planning for your farm business's transition.

The Plan Development Phase of transition is broken into three chapters and 15 topics. Depending on which planning approach your family/group selects, you will be guided through some or all of the following Plan Development Phase topics:

Chapter 6: Foundation and Strategic Direction

Topic 14: Foundation

Challenges in Transition Planning

While countless emotional issues can crop up throughout transition planning, this topic outlines the 20 most common interpersonal challenges. Though they are often called 'soft issues', make no mistake: they can be decidedly 'hard' to solve in many cases. In fact, they can be more difficult to deal with than more concrete operational and financial issues.

Guiding Principles

The Guiding Principles Survey is designed to uncover individuals' business priorities that may affect their perspectives on the transition planning process. Understanding each other's priorities and aligning all participants' priorities where possible will make transition planning far more effective and, ultimately, more successful.

Conflict Management

Transition planning includes discussion and decisions regarding many issues about which participants may have strong opinions. It is not unusual for emotion and conflict to result. Luckily, conflict can be managed if a group proactively plans for it.

Resource Team Identification

Successful transition planning requires input from various professional advisors. Collectively, these advisors should be considered a valued and vital resource team.

Advisor Information Report

Advisors can only offer good advice, resources and solutions if they receive good and timely information about your farm business and planning process. As such, they should be included very early in the Plan Development Phase of your transition planning process.

Topic 15: Strategic Direction

Vision

While every farm business is different and each participant in every transition is unique, almost all transition plans are motivated by a similar vision: the hope that a succeeding generation will build upon what was created by the retiring generation. Defining goals for that future helps clarify participants' priorities and outline a path forward.

Situational Analysis

All farms are influenced by internal and external forces. Understanding a farm's strengths and weaknesses as well as the opportunities and threats it faces can help define both a starting place and boundaries for a transition plan.

Risk Assessment

Risk is an inherent part of farming. However, some risks are significant from a transition perspective. Identifying those risks and then determining strategies to mitigate them can prove the key difference between transition success and failure.

Critical Issues

Many, many issues need to be handled throughout transition. While the decisions around some of these may be simply a matter of preference, it is important to know which decisions are critical to the success of transition planning.

Critical Issue Action Plans

Once critical management issues have been identified, detailed action plans need to be developed to address these issues. Action plans bring accountability, helping to keep the planning and implementation process moving forward.

Financial Targets

Implementing a transition plan will affect the farm's financial performance. Setting targets for key ratios helps to identify both goals and lower limits for performance.

Topic 16: Strategic Direction Review Meeting

Regular and structured communication is critical to achieving the desired outcomes of the transition planning process.

Chapter 7: Structure

Topic 17: Transition Options

Successor Assessment

Transitioning a farm's management into the hands of the succeeding generation is one of the key goals of transition planning. Both the retiring and succeeding generations often feel more confident moving forward with transition once the succeeding generations completes a readiness assessment exercise that identifies the successor(s)'s management strengths and weaknesses.

Ownership Options

There are many options available to transfer partial or complete farm ownership from the retiring to the succeeding generation. If the retiring generation intends to transfer ownership in whole or part, the options should be explored early in the planning process, long before any final decisions are made.

Business Structure

A farm business can be structured in a variety of ways to complement its ownership structure. During transition planning, it is important that all participants understand the different structures available and how they might apply given each farm's unique situation.

Financial Performance – Transition Scenarios

Using the farm's past financial performance as a baseline and financial targets as goals, participants should measure the impact that different transition scenarios might have on a farm's financial performance.

Topic 18: Preliminary Advisor Review

After discussing the different ownership and business structures available and examining the potential impact different scenarios may have on financial performance, farm families should meet with professional advisors and start to incorporate their feedback into the developing plan.

Topic 19: Estate Plan Elements

Estate Distribution

With support from one or more professional advisors, the retiring generation should start to develop a plan for how their estate will be distributed.

Wills, Power of Attorney, Executor

Writing and updating a will and nominating an executor and power of attorney are vital planning priorities for everyone, regardless of their stage of life. As such, it is highly recommended that all participants in the planning process ensure these documents and nominations are complete. For the purposes of transition planning, completing a will and nominating a power of attorney and executor are necessary components of estate planning.

Insurance

Insurance plays an important role in certain estate plans and farm transitions. Participants in farm transition should collect as much information as possible about the advantages and disadvantages of various insurance options that relate to estate and transition planning.

Topic 20: Human Resources

Management Structure

While the transfer of a farm's management is one of the most important parts of transition planning, many farms do not create a formal transfer structure or strategy. This planning gap can lead to significant conflict and confusion. The retiring and succeeding generations should work together to create a formal transition structure that suits all participants' transfer priorities.

Management Activities

Clarifying and agreeing upon who will do what throughout and after transition can reduce stress, lessen conflict potential, and improve a farm's overall performance and profitability.

Job Descriptions

Many farms operate according to a 'if the job needs doing, do it' philosophy. As such, few farms formalize on-farm job descriptions. However, job descriptions not only help create structure during the upheaval that transition brings, they also identify the full scope of each participant's role within the farm business.

Compensation

One of the most controversial and conflict-inducing issues associated with transition is compensation. Developing a compensation plan decreases the potential for longer-term conflict as individuals' contributions to the farm business will be clearly discussed and compensation structures pre-determined.

Roles, Responsibilities and Authority

In the midst of – and often even after – transition, it can be challenging for the retiring generation to give up authority over decision-making. Identifying roles, responsibilities and authority can reduce confusion, stress and conflict, and allow leadership to transition as it needs to.

Training and Skill Set Development

Before the succeeding generation begins to take over management responsibilities for the farm, they should determine what additional personal, operational or management development they require in order to position the farm for success.

Topic 21: Agreements

Unanimous Shareholder / Partnership Agreement

Much business in agriculture gets done on the basis of a handshake. However, the reality is that farming today is big business. Formalizing a shareholder/partnership agreement minimizes disagreement and conflict, reduces stress and uncertainty, can save both dollars and relationships, and is a highly recommended component of transition planning.

Business Agreements

Most farm businesses are tied to one or more formal business agreements, such as land rental agreements or marketing agreements. These agreements, and the business relationships that go with them, must be transitioned to the successors as part of the plan implementation.

Topic 22: Deal Breaker Issues

Before starting to finalize and implement a plan, participants should step back, review the planning process completed so far, and identify any critical, unresolved issues that need to be addressed.

Topic 23: Transition Plan Review

Regular and structured communication is critical to achieving the desired outcomes of the transition planning process.

Chapter 8: Review

Topic 24: Accountant Review

Once participants feel comfortable and in agreement about their transition plan, an accountant should review the plan to identify any financial concerns participants might have overlooked.

Topic 25: Lawyer Review

Once participants feel comfortable and in agreement about their transition plan, a lawyer should review the plan to identify any legal concerns participants might have overlooked.

Topic 26: Final Plan Adjustments

Participants should review and incorporate any suggestions provided through the accountant and lawyer reviews.

Topic 27: Accountant and Lawyer Sign-off

Before the transition planning group proceeds to implementation, a lawyer and accountant should complete one final review of the plan.

Topic 28: Final Review Meeting

Phase Two: Transition Plan Development is now complete. Participants should discuss how and with whom they would like to share information regarding the transition plan's implementation.

Chapter 6: Foundation and Strategic Direction

Topic 14: Foundation

Part A: Challenges in Transition Planning

Most people enter transition planning anticipating the process will require many decisions about a farm's operations and management. As such, they are often relatively well prepared for the mental exertion of decision making. Far fewer people enter transition planning expecting the intense and often difficult emotional challenges that transition can also bring.

While countless emotional issues can crop up throughout transition planning, this topic outlines the 20 most common interpersonal challenges. Though they are often called 'soft issues', make no mistake: they can be decidedly 'hard' to solve in many cases. In fact, they can be more difficult to deal with than more concrete operational and financial issues.

Why is this relevant?

Handled poorly, issues surrounding participants' emotions and feelings can slow or even stop the transition planning process. By recognizing that 'soft' issues could become a problem at any stage in the transition planning and/or implementation process, groups can pre-plan techniques and solutions to address them.

How will this help transition planning?

Examining typical 'soft issues' that can surface during transition planning: encourages participants to:

- think about different parts of the planning process;
- consider other people's perspectives; and
- calmly and rationally think through their own responses to potential conflicts before those conflicts actually occur.

Creating space for discussion about emotional concerns can:

- open lines of communication;

- encourage early resolution to any soft issues that do surface;
- decrease the likelihood of concerns festering; and
- foster a group 'culture' of open dialogue.

Part A: Challenges in Transition Planning Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work independently to complete a separate Challenges in Transition Exercise. Discuss the responses at your next Transition Planning Meeting.*

Instructions

1. Read the summaries below of 20 common transition challenges.
2. In the table following the summaries, identify which challenges are or could be a specific concern for your transitioning farm.
3. For every challenge that is identified as a current or potential concern, indicate whether that challenge:
    a. has been dealt with;
    b. has been resolved;
    c. needs follow-up in order to be resolved. Identify who will address the issue and when.
4. Store the documents for future reference.

<u>20 Key Challenges in Transition Planning</u>

1. Lack of Awareness:

The issue:

Lack of Process Awareness: It is common in transition planning to find that some or all of the participants lack awareness of the process involved to develop and implement a transition plan. Specifically, participants may lack awareness of the component parts of the process; the time commitment required to start, work through and apply a transition plan; and/or the challenges typically encountered during the process.

Lack of Interpersonal/Lifecycle Awareness: Transition affects the lives of individual participants very differently. Someone entering a farming career will have different priorities and expectations than someone mid-career; someone in the retiring generation will have different goals and concerns than someone in the succeeding generation. Transition planning can be particularly challenging when a participant lacks awareness of how transition is likely to affect others and/or lacks awareness of how transition fits into the current lifecycle stage of others or of the farm itself. Transition planning should start at least three to five years before the desired implementation date to allow all participants significant time to work through and develop an understanding for the process and each other's priorities and needs. In fact, in an ideal scenario, transition planning starts 20 or more years prior to transition in order to allow it to best develop in alignment with the farm and participants' lifecycles.

Tips:

Knowledge and understanding are the best antidotes to lack of awareness. Open communication among all participants is key to successful transition. In addition, seek out resources: information is available online, through Alberta Agriculture and Forestry, and via transition planning workshops and seminars. It is also highly recommended that your group talks to farmers who have already worked through or are currently working through transition planning.

2. Difficulty Getting Started:

The issue:

Countless farmers and farm families dream about the day the older generation will exit farming and pass their thriving farm business into the hands of successors. In reality, however, many families/groups find it difficult to move from casual conversation about succession to formal transition planning action. As such, the necessary planning that transition requires is often deferred or overlooked. In fact, a large percentage of families/groups talking about transition do not start investing in the planning process until an event or crisis forces them to react. Reactive planning is far more stressful and much less effective than proactive planning.

Tips:

- The simplest way to get started on transition planning is to call a meeting. One person's action can kick-start the entire process and get everyone moving in the same direction.
- Alternatively, you can begin by assigning someone the task of calling a meeting and/or facilitating the first meeting. Officially assigning tasks can help create accountability in your group.
- If calling an unassisted meeting seems overwhelming, help is available. Consider hiring an external facilitator to call the first meeting, ask the first questions, and get the group's planning started in the right direction. Depending on your preferences, your group may want to hire a consultant to walk with you through the entire transition planning process, or you may simply hire someone to get the process started.

3. Planning Drift (Procrastination):

The issue:

Transition planning is a significant amount of work. Many groups start the planning process with excitement and commitment but find it difficult to maintain their momentum. Conflict, uncertainty, and/or the reality of the energy investment required can all overwhelm participants and bring transition planning to a halt. Once derailed, work done on early stages of a transition plan quickly loses value, since participants may forget what has been discussed and decided, and participant and/or farm circumstances may change. Unfortunately, allowing a partially completed plan to sit idle usually results in the effort invested up to that point being lost, which means participants must start their planning all over again.

Tips:

- Create accountability. Work backwards from your end goal by first agreeing on a start date for plan implementation. Then, break the required investment into manageable pieces: identify each participant's roles and responsibilities in the planning process, preschedule meetings and timelines for key decisions, and specify due dates for specific tasks.
- Invest in process facilitation. Many groups/families find being accountable to an external facilitator decreases their desire to procrastinate. For best results, preschedule facilitator meetings: the added pressure to have certain transition items discussed or decided in advance of meetings with a facilitator can keep planning on track.

4. Avoidance/Denial:

The issue:

Farm transition can be an emotional and difficult process. Often, the retiring generation's sense of self is tied to their roles on the farm. As such, some soon-to-exit farmers may prefer to entirely avoid thinking and talking about retirement, change and/or a loss of management control. A similar 'do nothing' philosophy can also plague successors who do not want to accept a future in which the retiring generation is no longer able to work on the farm. However, one need only look at the countless stories of transition planning done wrong or forced because of crisis to clearly see how avoidance and denial can damage a farm's progress and potential.

Some participants worry that transition planning is akin to writing a death certificate or issuing a layoff notice. Others worry the transfer of ownership and management responsibilities to the incoming generation will happen too quickly once they start the planning process. In reality, transition is a gradual process that, handled with care and thought, can meet all participants' priorities, goals, needs and timelines.

Tips:

- To tackle issues of avoidance and/or denial, it is best to communicate openly about issues and directly address individual and/or group fears. An open discussion about concerns can clarify issues, solve misperceptions, and soften stress. If, after attempting to create open dialogue about concerns, one or more participants continues to avoid or deny farm transition, seek help from an external facilitator.

5. Not Wanting/Not Willing to Commit:

The issue:

While some individuals avoid or deny farm transition, others accept the need for transition planning but are unwilling to commit to the process or to the end goals. The reasons for this unwillingness are often similar to those that cause avoidance/denial: the retiring generation may not want to talk about or commit to retirement, change, and/or a loss of management control; the succeeding generation may feel anxiety about the responsibility of becoming the main decision maker, or sadness about the retiring generation's exit from active farming life.

Tips:

- One way to approach this challenge is to develop a series of smaller commitments. Start by encouraging participants to commit to one meeting and one step at a time, preferably with the help of a facilitator/advisor. Listen to concerns and address them openly and directly. Build on shared priorities with the end goals firmly in mind. Once the process is moving, create a strategy to maintain planning momentum.

6. Lack of Accountability:

The issue:

Transition planning often derails because no one feels enough individual responsibility and accountability to keep the process moving forward.

Tips:

- While responsibility and accountability can be shared, it is far more likely that a transition plan will be successfully completed if at least one person accepts control of moving the process forward, and all other participants agree to support the planning momentum.
- Few people would choose the hassle of nagging their family/group to attend meetings or to complete transition planning duties. However, this is exactly what is needed to successfully see most farm transition plans to implementation.
- Keeping the planning process moving forward does not have to be just one person's responsibility (unless he or she is willing to take on that role). Another option is divide responsibility by assigning various elements of the planning process (i.e. scheduling meetings, contacting advisors, etc.) to different people.

A lack of accountability can be real or perceived. In some cases, participants may accept responsibility for a task but not follow through on completing it. In other cases, tasks may be dropped simply because no one was specifically assigned to carry them forward.

Tips:

- It is important to discuss, agree upon, and then write down who is responsible for which tasks. Assuming that participants naturally 'know' who should do what without specifically identifying responsibilities typically results in tasks falling through the cracks. This can create frustration, resentment and conflict. At worst, it can derail planning and/or result in operational set-backs and financial costs.

- Remember that roles and responsibilities can change as the plan evolves and the business changes. As such, invest in regular discussions regarding task assignment and responsibilities.

Do not allow participants' lack of willingness to take on planning leadership and accountability to derail the planning process.

Tips:

- External consultants/advisors may be tasked with moving the process forward if no transition participants can/want to take on leadership responsibility.

7. Selfishness vs. Selflessness:

The issue:

The blending of personal (usually familial) and business priorities often makes transition planning very complicated. Whereas most business owners attempt to maximize profit when they sell their businesses, retiring farmers must balance that desire with the conflicting desire to offer the succeeding generation a strong start. Meanwhile, the succeeding generation may struggle with selflessly wanting the retiring generation to get what they deserve for the farm business, while at the same time selfishly hoping for a break on farm asset prices or payment terms. Finding balance between all participants' selfless and self-motivated priorities can be difficult to achieve.

There is a fine balance between:

- being realistic about future financial needs and wants;
- seeing the next generation get off to a good start; and
- fulfilling retirement dreams.

Tips:

- The retiring generation's needs must be considered <u>before</u> the needs of successors. Though this may appear unbalanced and the retiring generation may feel selfish following through on this hierarchy, keep in mind that the retiring generation does not have the luxury of time to fix a financial shortfall.

8. Estate Planning Gaps:

The issue:

Estate planning is the process of planning how your estate will be managed following your death. Specifically, estate planning includes organizing wills and legal documents, tax management strategies, estate distribution, contingencies, and other financial matters including investment, savings and insurance. If you do not intend to pass on the management of your farm business to a family member or other successor at or before your death, you likely only need an estate plan.

Transition planning is the process of planning a smooth shift in the management of your farm business, usually when one or more members of a younger generation take over a farm business from older family members. A transition plan requires a complementary estate plan.

Often, elements of an estate plan are missing.

Tips:

- As part of transition planning, ensure an estate plan is entirely completed, as an incomplete or non-existent estate plan can hugely impact a farm upon the death of one or more of the retiring generation.
- A lawyer and accountant should be consulted regularly to make sure wills and tax strategies are current and complete. Depending on the preferences and priorities of participants, it may be helpful to also consult with investment and insurance advisors.

9. Conflicting Goals, Priorities and Values:

***The issue*:**

It is natural and common for there to be differences between the goals, priorities and values of the retiring and succeeding generations, simply due to their respective stages in life. From a business perspective, the retiring generation will often be more focused on conserving equity, minimizing risk and securing funds for retirement. The succeeding generation, on the other hand, will often be more focused on growth, which may include borrowing money, taking on risk, and finding ways to increase the farm's cash flow.

Tips:

- Differences in goals, priorities and values need to be openly communicated between all participants and managed in the transition plan. Until each person's desires are raised, it can be difficult or impossible to determine what differences exist between participants, and incredibly challenging to come up with strategies to deal with these differences.

10. Fears:

The issue:

It is entirely normal for many and varied fears to come to light during the transition planning process. Some of the most common fears surrounding transition are related to control (i.e. the uncertainty of giving up or taking over managerial control of the farm business), wealth (i.e. the potential of carefully earned equity being eroded by successors), and conflict (i.e. the possibility of transition negatively affecting personal relationships).

Tips:

- Addressing fears requires acknowledging that they exist, communicating to others that they exist, and then developing tactics to mitigate them. Implementing a transition plan without first properly addressing all participants' fears may prove a recipe for disaster.

11. Fair is Not the Same as Equal:

The issue:

When considering estate planning and distribution, ownership and management transfer, and the division of labour, keep in mind that equal and fair do not mean the same thing. Whereas fair translates to equitable, equal means 'the same', an almost impossible ideal during farm transition. The retiring generation can derail transition if they become stuck on trying to treat all of their successors equally.

Tips:

- Ideally, each family/group should work to find a balance between fair and equal that is acceptable to all stakeholders. That said, for the purposes of transition and estate planning, 'fair' need only make sense to the retiring generation. As owners of a business they've built over time and shouldered all risks for, they have full control over deciding what they would like to do with it at their retirement and/or death.

12. On-Farm Versus Non-Farm Successors:

The issue:

The reality for most families working towards farm transition is that at least one of the retiring generation's children will not be directly involved in the farm business. The challenge of on-farm and non-farm successors outlined here is not about how they will be treated in the final transition plan but how they will be involved in the actual planning process. Some families want all successors at all meetings while others keep non-farming successors advised as the retiring generation deems necessary.

Tips:

- Regardless of whether non-farming successors will be actively involved in transition planning or not, maintain open lines of communication. Regular and open conversation allows non-farming successors the opportunity to voice concerns and opinions. Further, it can help solve misperceptions that exist or could develop regarding 'special treatment' and the retiring generation's relationship with the on-farm successors.

- During the planning process, many personal and financial issues will come to light. Both the retiring and succeeding generations' individual privacy wishes need to be respected. This may mean that non-farming successors may not actively participate in certain or all aspects of the planning process.

It is possible that certain non-farming successors may refuse to participate in the transition planning process. There can be many reasons for a successor to opt out of transition planning, ranging from immaturity to geographic distance to a general lack of interest.

Tips:

- Participation cannot be forced. In situations where a successor does not want to participate, it is strongly recommended that the active participants continue to attempt to include them in the process wherever possible by inviting them to meetings, providing them with meeting notes and transition related information, and keeping them informed of decisions. If ongoing attempts have been made to include a non-participating successor, he or she cannot later declare that they weren't given a chance to participate.

13. Entitlement:

***The issue*:**

Feelings of entitlement are common in transition planning. Successors who have been working on the farm prior to transition planning will often believe they deserve a greater share of the farm and the retiring generation's estate than successors who lived and worked elsewhere. Yet, successors who have not worked on the farm may feel entitled to an equal share through birthright. Meanwhile, the retiring generation may feel entitled to spend the equity that they have earned as they please. These feelings must be acknowledged, balanced and incorporated into the transition plan.

Tips:

- A first step to tackle entitlement issues is to openly discuss each individual's goals and values. Shared goals and values set a strong foundation for a transition plan's development and implementation. Working together towards compromise in areas where goals and values diverge can help minimize tension and conflict in the short and longer terms.

14. Successor Training and Skill Development Requirements:

The issue:

Given the size of most farms today, their increasingly high-tech nature, and the high cost of land, equipment and inputs, farming now requires higher level agronomic skill, more technological know-how, and a sharper business mind than ever before. Ensuring that the succeeding generation has the necessary skills to take on all areas of a farm's management must be a top priority. Tackling this issue can be tricky because some successors may feel personally attacked/hurt if their management skill deficiencies are pointed out.

Tips:

- Management skills are almost always learned rather than natural. As such, someone entering farm management will generally require operational, financial, leadership and business management training before they are ready to take over the business.
- Many excellent farm management training programs exist: talk to your Alberta Agriculture and Forestry farm business management specialist for more information.

15. The Challenge of Compensation:

The issue:

Because most farm businesses have few staff, individuals usually wear many hats: the owners and managers are often also the labourers, the administrators, the marketers, etc. As such, it can be very difficult to determine appropriate compensation in the form of wages, dividends, bonuses, personal loans, and ownership and equity gains in land. Add to that the fact that farming is a lifestyle rather than just a job, that succession is often in-family, and that compensation often includes gifts (housing, school, vehicles,) training, perks (vehicles, vacations, trips, business/personal expenses), and/or inheritance, and calculating appropriate compensation becomes even more difficult. Finding a balance between these forms of compensation can be challenging and can create conflict during transition planning.

Tips:

- A formal compensation plan outlines exactly how money will flow out to participants (retiring and succeeding generations) and under what terms, including performance expectations.

16. Communication Gaps/Problems:

The issue:

Open and frequent communication is a vital part of helping the transition planning process flow smoothly. Within the planning group, open communication allows participants to provide feedback and input throughout the planning process, and creates space for conflict resolution. Open communication's necessity extends to advisors as well: advisors will only be able to provide relevant and timely advice if they are kept abreast of discussions and potential decisions. Unfortunately, not all transition planning groups find open communication easy. Because planning groups are often made up of family members or others who know each other well, long term habits can shape how the group communicates: if one member has always been the dominant ‘head of the family’, for example, changing that pattern during transition planning can be challenging.

Tips:

- Conduct meetings according to an agenda, take notes and circulate them to everyone in attendance and others as necessary.
- Ensure all stakeholders are informed about transition planning progress.
- Create opportunities for all participants to provide input.

17. Management Conflict:

The issue:

Transitioning the management of a farm is one of the most important aspects of transition planning. It can also be one of the most challenging, since the successor’s management style and management priorities will be somewhat different than those of the retiring generation.

Tips:

Include all participants in a discussion and try to agree on:

- whether the farm should operate according to a business-first or family-first approach;
- ways to connect financial performance and human resource management;
- investment objectives and priorities; and
- strategic direction, planning priorities, and ownership guidelines.

18. Tax Planning Challenges:

The issue:

Transition planning’s tax implications are complex and should be considered with the help of a professional advisor. Tax implications can be very costly if ignored. That said, it is important not to let tax implications drive transition as doing so can create a plan that is hard to understand, difficult to implement and impossible to work within.

Tips:

- Work closely with your accountant regarding the tax implications of your transition plan.

19. Risk:

The issue:

Risk is a reality in agriculture. It can take many forms, from market fluctuations to weather challenges to safety concerns and more. Mitigating risk must be a key priority for management.

Tips:

- Wherever possible, risks should be proactively identified and their probability and potential impact measured.
- Mitigation plans should be developed for potentially significant risks (high probability and high impact).

Transition planning participants will have different personal tolerances for risk. Usually, as people age, their tolerance for risk decreases. This means that it is common for there to be differences of opinion between the retiring and succeeding generations when it comes to decisions that include elements of risk.

Tips:

- A good understanding of risk and personal risk tolerance may help minimize conflict. Each participant should work through an exercise that helps them to gauge their personal risk tolerance.
- The transition planning group should then discuss their individual risk tolerances, identifying where differences exist and talking about how these differences may influence transition plan development and related management decisions.

Certain risks may significantly impact transition planning and should be specifically considered.

Tips:

- The ‘Five Ds’ (death, divorce, disability, dispute and disaster) should be discussed and, if and where possible, contingency plans formed.

20. Process facilitation:

The issue:

All transitioning farms face issues, disagreement and conflict. Some challenges are best addressed and managed through a facilitated process in which a trained, unbiased professional helps the group discuss issues they find difficult to tackle on their own. The right facilitator can help your group negotiate emotions, conflict, financial and legal matters.

Tips:

- What are the traits your group needs in a facilitator? Do you need a mediator? A financial expert? A motivator? Look for a professional who will meet your group’s specific requirements. For more information, see the Advisors document on page 358 of the Appendix.

EXAMPLE:
Here is an example of what a completed Challenges in Transition Planning Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 317 in the Appendix.

Challenges	Applicable / Not Applicable	Reviewed?	Resolved?	Follow-up Required?	Follow-up by Whom? When?
1. Lack of Awareness	*Not Applicable*				
2. Difficulty Getting Started	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye, John. ASAP*
3. Planning Drift (Procrastination)	*Applicable*	*Yes*	*Yes*	*Maybe*	*All. Ongoing monitoring*
4. Avoidance/Denial	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye ASAP*
5. Not Wanting/Not Willing to Commit	*Not Applicable*				
6. Lack of Accountability	*Not Applicable*				
7. Selfishness vs. Selflessness	*Not Applicable*				
8. Estate Plan Gaps	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye Within one year.*
9. Conflicting Goals, Priorities and Values	*Applicable*	*Yes*	*Yes*	*Maybe*	*All. Ongoing monitoring*
10. Fears	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye, John, Rebecca ASAP*
11. Fair is Not the Same as Equal	*Not Applicable*				
12. On-Farm Versus Non-Farm Successors	*Applicable*	*Yes*	*N/A*	*No*	
13. Entitlement	*Not Applicable*				
14. Successor Training and Skill Development Requirements	*Applicable*	*Yes*	*No*	*Yes*	*Rob, Faye, John Ongoing.*

15. The Challenge of Compensation	*Applicable*	*Yes*	*Yes*	*No*	
16. Communication Gaps/Problems	*Applicable*	*Yes*	*No*	*Yes*	*All parties Ongoing/ASAP*
17 Management Conflict	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye, John, Rebecca*
18. Tax Planning Challenges	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye ASAP*
19. Risk	*Not Applicable*				
20. Process Facilitation	*Not Applicable*				

How does this apply?

As you work through these topics, your group will identify issues that require follow-up. Staying on top of these tasks and ensuring they get completed is key to a successful transition. When your group identifies issues that require follow-up, it is recommended that you add the task to a master list of follow-up items, and the write a specific action plan for the item. The action plan should:

- clearly identify who should follow-up on the issue and by when;
- list specific steps required to adequately tackle the challenge, including a time line to each of these steps;
- list any specific materials or resources that will be needed to complete the follow-up;
- list how often the action items should be monitored, and who will be responsible for monitoring;
- identify how your group will be able to assess whether progress is being made.

Addressing the challenges in transition planning that apply to your group and farm and then developing specific follow-up plans to address them is a huge step towards successfully completing farm transition.

KEEP IN MIND:

- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about conflict that may come from discussing one or more of the challenges.
- Consider using an external facilitator if you find it difficult to lead a discussion about some or all of the challenges.

WHAT TO WATCH FOR:

- Not all challenges will be encountered by all farm families.
- The challenges identified are common to farm transition but may not appear all at the same time. Refer to this topic during planning and implementation to see how the challenges are being managed.
- Identify someone as responsible for keeping this exercise's checklist current throughout transition planning and for making sure action items and monitoring are completed as necessary.

EXERCISE: Complete the Challenges in Transition Planning Exercise on page 317 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part B: Guiding Principles

The Guiding Principles Survey is designed to uncover individuals' business priorities that may affect their perspectives on the transition planning process. Understanding each other's priorities and aligning all participants' priorities where possible will make transition planning far more effective and, ultimately, more successful. Guiding principles can be broken into three major categories:

a. *Major Concerns:*

   A listing of each participant's key priorities and major 'red flags' as they look forward towards transition. These concerns may change as the group works through transition. Open communication can often mitigate some major concerns.

b. *Planning Objectives:*

   A listing of each participant's priorities surrounding transition planning (the 'who, what, when, where and how' of transition).

c. *Strategic Goals:*

   A listing of longer term goals for the business that define what each participant wants to accomplish and how they want the operation to look in the future.

Why is this relevant?

The Guiding Principles Survey builds on the Goals exercise (Chapter 4, Topic 1) completed in the Readiness Assessment Phase. By helping each participant outline their major concerns, planning objectives and strategic objectives for the farm, the survey encourages individuals and the group to think through priorities for both the farm and the transition planning process. The resulting discussion can help identify where group members' priorities align and conflict regarding the future of the farm. For the best chance of transition planning success, differences of opinion should be addressed now, before the group proceeds further with plan development.

How will this help in transition planning?

The Guiding Principles exercise:

- helps to promote communication and discussion about priorities, concerns and goals related to transition planning;
- helps to ensure all participants are on the same page; and
- helps to decrease the likelihood of conflict.

Ag Planner IV. Don Jonovic. Family Business Management Services, Inc. Cleveland, Ohio

Guiding Principles Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work independently to complete a separate Guiding Principles worksheet. Discuss the responses at your next Transition Planning Meeting.*

Instructions - Major Concerns

1. Individually read each of the 15 Major Concern statements listed. As you read each statement, consider whether you are worried that the issue is currently or could become a problem for your group and/or business in the foreseeable future.
2. Rate the issue on the numbered scale: the more concerned you are about it, the higher the number you should circle.
    - If you are confident the item is not of concern for your group and/or farm, circle a number close to 0.
3. If you are not particularly concerned about an item but believe there is some possibility that it could be or become a problem, rate the item in the 'somewhat concerned' range between 3 and 6. As a group, compare and contrast participants' answers, looking for areas of agreement and disagreement.
    - Discuss areas of alignment and conflict.
4. Store the documents for future reference.

Instructions – Planning Objectives

1. Individually read each of the 15 Planning Objective statements listed. As you read each statement, consider how important it is to you that your group/business take on that particular challenge.
2. Rate the issue on the numbered scale: the more important you think it is, the higher the number you should circle.
    - If you are confident the item is not likely to be important to your group and/or farm, circle a number close to 0.
    - If you are not sure whether the item is important to your group and/or business, rate the item in the 'somewhat important' range between 3 and 6.
3. As a group, compare and contrast participants' answers, looking for areas of agreement and disagreement.
    1. Discuss areas of alignment and conflict.
4. Store the documents for future reference.

Instructions – Strategic Objectives

1. Individually read each of the seven Strategic Objective statements listed. As you

read each statement pair, consider which of the two opposing goals or standards on each line is more important to you, and by how much.

2. Mark the number (one number only) on the line that you feel represents the best answer.
    - Try to avoid selecting 0, which means you are truly undecided about relative importance. Think more deeply. If you are truly undecided, it may be best to follow your first inclination.
3. As a group, compare and contrast participants' answers, looking for areas of agreement and disagreement.
    - Discuss areas of alignment and conflict.
4. Store the documents for future reference.

How does this apply?

While all transition planning participants may share excellent intentions and commitment regarding a farm's transition, differences in individuals' guiding principles can derail the process and the success of the ultimate plan.

These differences must be reconciled during the planning process and within the transition plan. The only effective way to reconcile conflicting principles is to communicate very openly, working towards agreement and consensus.

Keep in mind that there are often natural differences in priorities between the retiring and succeeding generations due to their respective stages in life. The retiring generation is typically more concerned with preservation of their wealth (equity) and keeping to known paths of success. In comparison, the succeeding generation may be more inclined to take on risk and try new methods or business practices. Understanding how stage of life impacts priorities can help participants be open to others' perspectives.

Note: You will refer back to this exercise in the Risk Management and Critical Issues topics ahead.

KEEP IN MIND:

- There are no right or wrong answers in this exercise.
- Everyone who is actively involved in the business now and anyone who will be actively involved in the business in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.
- Differences of opinion can sometimes simply be a different interpretation of the statement.
- Try to build on agreement.
- Not all of the statements will be relevant to all farm families.

WHAT TO WATCH FOR:

- Be open minded: there is as much to learn from areas where participants agree as there is from areas where they disagree.
- As you compare and contrast all participants' answers, note any major differences or similarities:
    - Are there major differences that could impede the transition process?
    - In what ways might you capitalize on similarities for the success of the farm?
- If you find that there are major differences of opinion, try to find common ground.
    - With effort, the differences of opinion may be resolvable. Consider using a facilitator or advisor to assist in working through the differences of opinion if the differences are severe.
    - Differences of opinion sometimes cannot be resolved. Depending on the specific difference and the group/farm, this may or may not be a problem. Sometimes it is best to wait to see if and how these differences arise later in transition planning process, and agree to deal openly with them then.

EXERCISE:

Complete the Guiding Principles exercise on page 318 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part C: Conflict Management

Transition planning brings change, decisions, and intensive discussion: all prime opportunities for conflict to arise among planning participants. While conflict can be uncomfortable, remember that it is a normal part of human interaction. With effort, most conflict can be managed.

Why is this relevant?

Managed positively, conflict can actually be beneficial to the planning process, opening doors to better, deeper conversation; encouraging participants to consider other people’s perspectives, and moving groups towards compromise. Managed incorrectly, however, conflict can derail the entire transition planning process.

Transition planning typically occurs within a family or other group of closely-tied people. When conflict occurs among people who know each other well, the conflict may involve much more than the surface dispute. Because the people involved bring with them a history of expectations, assumptions and old hurts, getting to the deeper issue may be key to transition planning success.

How will this help transition planning?

- Having all planning participants read about and discuss conflict management may help avoid conflict.
- Working through conflict in a constructive and proactive way can be a positive experience for individuals and the entire planning group.
- Working effectively through conflict can bring energy and confidence to the transition planning process.

Conflict Management Exercise

***Each person involved in your farm’s transition planning and any other stakeholders who have a vested interested in the farm business should work together to read through and discuss the Conflict Management resources provided on page 321 of the Appendix.*

Instructions

1. Individually or as a group, read the information on conflict management provided on page 321 of the Appendix.
2. As a group, discuss your individual and group's:
   a. sources of conflict;
   b. conflict management styles; and
   c. strategies to find win-win solutions.
3. Discuss how your group should proceed if conflict currently is or becomes an issue.
4. Discuss when and how your group might use an external facilitator to assist:
   a. if group members are concerned about issues that have the potential to turn into conflict; and
   b. if conflict actually occurs.

How does this apply?

As your group continues to work through the transition planning process:

- Be aware what issues may cause conflict within your group/farm business.
- Be aware of your individual conflict management style and how this style can positively affect or hinder resolution of conflict.
- When your group encounters conflict, refer to and apply the strategies to find win-win solutions as outlined on page 321 of the Appendix.

KEEP IN MIND:

- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- Conflict can be a positive experience when it leads to more creative solutions, deeper discussion, better engagement, and/or stronger group bonds.
- Conflict sometimes remains unresolved. There is no perfect solution to deal with unresolved conflict. However, open communications and a commitment to rediscussing the issue at a later date is always better than sweeping the unresolved conflict under the carpet.

EXERCISE:

Review the Conflict Management resources on pages 321 of the Appendix. Discuss as a group.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part D: Resource Team Identification

Throughout the transition planning process, various professional advisors should be consulted regarding transition planning decisions and options, where the farm business's finances currently stand, and the business's future potential. These professional advisors should be considered a highly valued resource team, vital to your farm's transition planning success.

Why is this relevant?

The Resource Team Identification Template is intended to provide an at-a-glance summary of your farm business's resource team.

How will this help transition planning?

Organization is key to effective transition planning. Creating a listing of your resource team and then maintaining easy access to this list will keep your professional help top of mind and will make leveraging their valuable input more likely.

Resource Team Identification Exercise

***Key individuals involved in your farm's transition planning can take the lead on this exercise, with input from any other participants and, if desired, other stakeholders who have a vested interested in the farm business.*

Instructions

The Resource Team Identification Chart (page 324 of the Appendix) outlines nine key areas in which most transitioning farms require external support.

1. In each area's corresponding row, fill in the name and contact information of your farm business's current advisor.
2. List any comments that may be pertinent to the advisor's ongoing involvement in the transition plan, including:
    a. length of time they have been involved with the farm business and/or your group's transition planning;
    b. frequency of meetings;
    c. information on where to find notes from advisor meetings; and
    d. other comments, as necessary.
3. Post/store the Resource Team Identification Chart in a common location accessible to all group members.
4. Consider sending a copy of your Resource Team Identification Chart to each advisor so they know who else is on your resource team.
5. Update the Resource Team Identification Chart annually or as changes occur.
6. Store the documents for future reference.

How does this apply?

A completed Resource Team Identification Chart provides all transition planning participant's easy access to your farm business's professional advisors. In addition, this chart will be necessary in future transition planning steps, including the Advisor Information Report (Topic 14 Part E) and the Advisor Review topics (Topics 24 to 27).

KEEP IN MIND:

- Your group may have more than one advisor per resource area.
- Your group may want to add additional resource areas.
- If your group needs to choose one or more new advisors, refer to page 358 in the Appendix for more information about how to choose and work with an advisor.

WHAT TO WATCH FOR:

- Highlight any resource areas noted in the Resource Team Identification Chart for which your group does not yet have an advisor. Discuss as a group whether an advisor is necessary in this area. Remember that dollars spent on professional advisors are usually very well spent, given that the costs associated with financial, operational and/or management errors can be very significant.

EXERCISE:

Complete the Resource Team Identification Exercise on page 257.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part E: Advisor Information Report

The purpose of the Advisor Information Report is to begin a conversation with your advisors regarding your preliminary plans for the farm transition. An Advisor Information Report is optional. If your group already has regular contact with your advisors regarding the progress of your plan, this kind of formal report may be unnecessary. The report is designed to provide an at-a-glance overview of your group's efforts, decisions and planning progress to keep advisors up-to-date.

A completed Advisor Information Report should include the following sections:

1. advisor(s);
2. family members involved (now and in the future, as applicable);
3. plan development completion date;

4. summary of your planning group's initial thoughts regarding your farm business's transition plan; and
5. other relevant information.

Why is this relevant?

Professional advisors should be included very early in and then frequently throughout the planning process. Creating a formal overview report of your planning process promotes communication with your advisors and is a simple and efficient way to ensure they have the information they need to provide timely, relevant, accurate advice.

How will this help transition planning?

Seeking advisor input as soon as possible when starting on preliminary stages of transition planning will:

- allow the advisor to provide feedback and influence direction now, while changes are easiest to make;
- allow your group time to prepare information required by each advisor, and then to make adjustments to the information and/or answer advisors' questions as required;
- establish or improve communication with your advisors so they feel invested in the overall process;
- reflect positively on your group's management abilities; and
- provide your group with information necessary to build the most effective and informed transition plan possible.

Advisor Information Report Exercise

***Key individuals involved in your farm's transition planning can take the lead on this exercise with input from any other participants and, if desired, other stakeholders who have a vested interested in the farm business. Before submitting the Advisor Information Report to your advisors, all planning participants should review and provide input on the report.*

Instructions

Fill out the applicable sections of the Advisor Information Report (page 325 of the Appendix) with the following information:

1. Advisors: list advisors in all areas that are helping your group complete a transition plan. Refer to your Resource Team Information Chart.
2. Group Members Involved: list the family/group members that are directly or indirectly involved in your farm business's transition plan, and what level of participation or contact they will have in developing the plan.

3. Plan Completion Date: indicate the date your group plans to have the transition plan completed and ready to implement.
4. Summary of Transition Plan to Date: describe your progress to date, including any major discussions or decisions, any priorities and goals, etc.
5. Other Relevant Information: detail any additional thoughts or explanations that may help the advisor best understand your group, your transition process to date, and/or your farm business.
    a. Make sure each advisor receives a preliminary copy of your group's Advisor Information Report.
6. Provide updated Advisor Information Reports to your advisors as necessary throughout the planning process when major changes/decisions occur. Store the document for future reference.

EXAMPLE:
Here is an example of what a partial Advisor Information Report might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 325 in the Appendix.

Advisors

Resource Area	Name	Firm	Contact Information
Accounting	John Money	Money & Money	John.money@moneymoney.com (555)555-5555
Tax	John Money	Money & Money	John.money@moneymoney.com (555)555-5555
Legal	Andy Will	Will & Company	Andy.will@willandco.com (555)555-5556

Family Members Involved

Name	Relationship	Direct/ Indirect Involvement	Contact Information
Rob Sample	Current owner of Sample Farms; husband to Faye.	Direct	Rsample@samplefarm.com Cell: (555)555-1111 Home: (555)555-1234
Faye Sample	Current owner of Sample Farms; wife to Rob.	Direct	Fsample@samplefarm.com Cell: (555)555-22222 Home: (555)555-1234
John Sample	Primary management successor of Sample Farms; son to Rob and Faye.	Direct	Jsample@samplefarm.com Cell: (555)555-3333 Home: (555)555-4321
Rebecca Sample	Daughter-in-law of Rob and Faye; wife of John.	Direct	Rsample@samplefarm.com Cell: (555)555-4444 Home: (555)555-4321
Carol Sample	Daughter of Rob and Faye.	Indirect	Csample@otherjob.com Cell: (555)555-5555 Home: (555)555-5678
Brad	Carol's partner	Indirect	Brad@otherjob.com Cell: (555)555-6666 Home: (555)555-5678

Transition Plan Completion Date: Date: April 20xx

Summary of Transition Plan to Date:

We have:

- Established individual and business goals.
- Identified individual and business values.
- Worked through an initial discussion of Rob and Faye's retirement needs.
- Written down John and Rebecca's initial thoughts on becoming involved in the business.
- Reviewed our financial information and looked at our management style and structure.
- Decided to go ahead with developing a transition plan.

Other Relevant Information:

We have some additional work to do:

- We're not sure about our tax situation.
- We've not had much chance to talk to Carol and Brad.
- We think we should be talking to someone about life insurance.

How does this apply?

Once completed, present your Advisory Information Report to any advisors you would like to keep informed of your transition plan progress. Be prepared to answer questions about your group's progress. Ensure you identify a contact person so advisors can easily request clarification and additional information.

KEEP IN MIND:

- The Summary of Transition Plan to Date (point #4) should simply be a short overview of the most important points you wish to highlight. Additional information can be provided to the advisor(s) as necessary later.
- Other Relevant Information (point #5) could include key questions that you want to keep top of mind.
- Before submitting the Advisor Information Report to your advisors, all planning participants should review and provide input on the report.
- Some advisors require confidentiality agreements to be agreed upon and upheld for the protection of the advisor and/or the client. Confidentiality may require that some details of your client-advisor relationship be excluded from this report.
- As your transition planning process progresses, update your Advisor Information Report and forward to each advisor to keep everyone up-to-date.

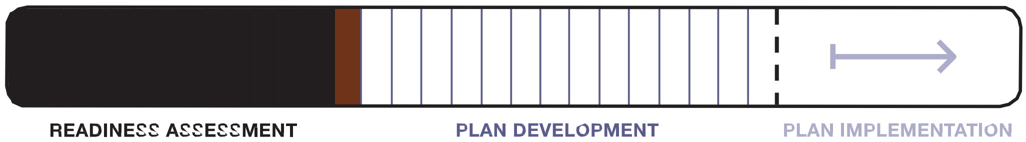
EXERCISE:

Complete the Advisor Information Report on page 325 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 15: Strategic Direction

Part A: Vision

Your farm business's vision is a description of what you would like the business to become and accomplish in the mid and long-term future. A vision statement acts as a guide to help farm business managers/owners choose current and future courses of action.

Specifically, vision helps a farm business to:

- define what it hopes to achieve and what its purpose is;
- define who will play what roles within it;
- create energy and momentum;
- keep all players working together in the same direction;
- provide everyone involved with an understanding of why they are investing their effort in the business.

A vision statement should include:

- A short summary of the values/priorities that form the heart of the farm business; (i.e. What is important to the farm business?)
- A description of the business's future when it achieves its goals; (i.e. Where is the business going?)
- Recognition of how the farm business serves its stakeholders. (i.e. What does the business do?)

Why is this relevant?

A vision describes a farm business's overarching purpose and goals for the future. In order to know if your business is on track, it is incredibly important to know *why* you are in business and *where* your business is going in order to measure direction and progress.

As a farm business begins to implement its finished transition plan, it can be challenging to know if the changes being put into action are moving the business in a positive or negative direction. Referring to a vision statement can offer clear insight into whether the business is on track or becoming misdirected.

How will this aid in transition planning?

The Vision Exercise:

- challenges groups working towards transition to think specifically and creatively about the farm business's future;
- identifies the farm business's direction and purpose;

- promotes communication between group members;
- encourages participants to be open to different ideas and suggestions;
- can help individuals/the entire group recognize a need for directional change if the business is off track/coasting/selecting the path of least resistance rather than a chosen direction;
- promotes a common interest and commitment to the business; and
- builds corporate 'culture' (the 'personality' of the business, as defined by its priorities, commitments, and goals).

Vision Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should brainstorm independently to start the Vision Exercise, and then work together through steps #4-9.*

Instructions

Refer to page 327 in the Appendix.

1. As goals and values are closely tied to vision, review the Goals and Values Exercises (Topics 1-3 in the Readiness Assessment) completed earlier.
2. Individually write down initial thoughts about the farm business's vision. The thoughts do not have to be in sentence or paragraph form. Single words or phrases are absolutely fine. Answer:
    - What values/priorities are important/define the farm business?
    - Where is the farm business going? What are its goals?
    - What does the farm business do? How does the farm business serve its stakeholders?
3. If your group experiences difficulty describing vision, imagine that you are hovering in a helicopter 3,000 feet over your farm, five years in the future:
    - What does the farm look like?
    - How has it changed?
    - What has happened in the industry and how has the farm business responded?
    - Who is now working on the farm? What are they doing?
    - What business is being conducted? Is the business different than it was during the transition planning process?
    - What are the neighbours likely seeing and thinking when they look over at your farm?

- How is the community likely to view your business?

4. Discuss all participants' responses. Look for areas of agreement and conflict; talk about what descriptors best define the farm business.
5. Begin to condense and refine the responses into a single statement that all participants agree to. Ideally, the statement should consist of two or three phrases. At maximum, a vision statement can be two to three paragraphs.
6. Set the exercise aside for a few days so participants can reflect individually.
7. Reconvene to review and edit the vision further.
8. Store the documents for future reference.
9. Review and edit the farm business's vision at least annually.

EXAMPLE:
Here is an example of what a Vision Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 327 in the Appendix.

Sample Farms Ltd. Vision

Sample Farms Ltd. is a progressive grain farm that values the personal needs of our owners, managers, employees and their families. We strive to provide a work/life balance that motivates our people to achieve their highest performance. We operate with modern equipment and employ proven technologies. We are profitable and ready to take calculated risks that will not jeopardize our financial security.

How does this apply?

The goal of the Vision Exercise is to create a statement that all participants agree captures the heart and goals of the farm business. It can be very challenging to summarize a farm business's multiple priorities, its direction and its unique 'essence' into short, written form. Keep in mind that your farm business will not be unchangeably tied to the vision written in this exercise. Vision often takes time to define, and can change and evolve over time. Therefore, consider this exercise an ongoing work in progress that should be re-discussed throughout and

KEEP IN MIND:

- There are no right or wrong answers to the brainstorming component of this exercise. However, working to consensus in the second part of the exercise is very important so everyone strives towards a similar idea of the business's future.
- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion, or if working towards consensus proves too difficult.
- Your farm business's Vision Statement should be communicated both internally (to managers, owners, and staff inside the business) and externally (to advisors, key stakeholders, and customers). Think about placing your vision statement on a plaque and displaying it in a prominent place in your office or home.
- Your farm business's Vision Statement should be reviewed at least annually.

after the transition planning process.

WHAT TO WATCH FOR:

- The vision that develops from this exercise may not be perfect. Perfection is not the goal. Instead, getting participants thinking about a shared vision is the priority at this stage. Keep in mind that a Vision Statement is a work-in-progress that requires substantial effort and that will evolve over time.
- Most groups find it difficult to successfully develop a well-worded Vision Statement that concisely and completely expresses the 'heart', priorities and goals of their business. If your group runs into this difficulty, consider hiring an external facilitator.

EXERCISE:

Complete the Vision Exercise on page 327 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part B: Situational Analysis

Every farm business is impacted both by those factors that occur inside its boundaries and within its control, and those that occur outside its boundaries and beyond its control. A situational analysis analyzes these internal and external impacts according to a strengths, weaknesses, opportunities, and threats (SWOT) analysis.

- Strengths: advantages stemming from within your operation;
- Weaknesses: points of concern stemming from within your operation;
- Opportunities: potential advantages or factors that could positively impact your business, stemming from outside your operation (in the surrounding community, market, landscape, culture, etc. in which you currently or could conduct business).
- Threats: potential disadvantages or factors that could negatively impact your business, stemming from outside your operation (in the surrounding community, market, landscape, culture, etc. in which you currently or could conduct business).

Why is this relevant?

Strategy, goals and business decisions should be considered using a situational analysis that analyzes negative and positive potential influenced by both internal and external factors. Wherever possible, farm businesses should:

- build on strengths;
- acknowledge weaknesses;
- capitalize on opportunities; and
- minimize threats.

How will this help transition planning?

Conducting a situational analysis, and then using the identified strengths, weaknesses, opportunities and threats in all business goal setting and decision making:

- helps participants get 'on the same page' about internal and external forces that affect the farm business;

- encourages participants to be realistic about goals and decisions; and
- promotes open communication between transition planning group members.

Situational Analysis Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work together to complete the Situational Analysis Exercise.*

Instructions

Refer to page 328 in the Appendix.

1. As a group, brainstorm your farm business's strengths, weaknesses, opportunities and threats in the corresponding spaces.
2. Discuss each list and prioritize in order of importance.
3. Discuss the four lists again, this time considering which strengths, weaknesses, opportunities and threats are most critical from a transition planning perspective.
4. Store the document for future reference.

EXAMPLE:
Here is an example of what a completed Situational Analysis Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 328 in the Appendix.

Strengths	Strengths Prioritized	Weaknesses	Weaknesses Prioritized
Management team has decades of experience to draw from.	*1. Good debt-to-equity ratio. We should be ok even if a few bad years happen in a row.*	*Succeeding generation lacks experience.*	*1. The labour situation is unstable outside of the management team.*
The farm is incorporated, which will make managing future changes easier.	*2. Management team has decades of experience to draw from.*	*Work life balance is heavy on the work side.*	*2. Succeeding generation lacks experience.*
Planning: we have always been careful in our approach.	*3. Planning – the farm has always been careful in our approach.*	*The labour situation is unstable outside of the management team.*	*3. Work life balance is heavy on the work side.*
Good debt-to-equity ratio. We should be ok even if a few bad years happen in a row.	*4. The farm is incorporated which will make managing future changes easier.*		
Opportunities	**Opportunities Prioritized**	**Threats**	**Threats Prioritized**
Grain prices are high and look like they will stay high for a while.	*1. Grain prices are high and look like they will stay high for a while.*	*Global recession could drop grain prices and hurt land values.*	*1. Weather is always a threat in farming.*
Lots of neighbouring farmers are starting to retire. Growth potential.	*2. Lots of neighbouring farmers are starting to retire. Growth potential.*	*Weather is always a threat in farming.*	*2. Global recession could drop grain prices and hurt land values.*

How does this apply?

Identifying your farm's strengths, weaknesses, opportunities and threats can:

- help determine direction and focus;

- reduce over-positive, high-risk decision-making;
- influence plans made throughout transition planning;
- improve group communication; and
- help all participants gain/maintain a realistic perspective of the farm business's potential and limitations.

Your farm business will build on the SWOT analysis in the Risk Assessment (Topic 15 Part C) and in the Critical Issues Exercises (Topic 15 Part D and E) ahead.

KEEP IN MIND:

- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.
- The SWOT analysis exercise should be reviewed annually and changes made to reflect the current situation and surroundings.

WHAT TO WATCH FOR:

- Try to maintain balance between the positive (strengths and opportunities) and negative (weaknesses and threats).
- Prioritizing the lists in each area helps focus the planning process.
- It is common that what one participant considers an opportunity or a threat is not something other participants feel is important. Write the idea down anyway. When reviewing the SWOT analysis at a later date, the opportunity or threat may be more or less critical and can either be moved up the priority list or removed entirely depending on how participants feel at this time.

EXERCISE:

Complete the Situational Analysis Exercise on page 328 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part C: Risk Assessment

Every farmer knows that farming is risky. From unexpected weather events to market fluctuations to safety issues, risk is inherent to farming.

In a farm business context, risk can be defined as any event that could result in the business performing below expectation.

Risks to farm businesses can be broadly classified as:

- business risk:
  - operations risk
  - strategic risk
- financial risk
- market risk (cost of inputs and product/commodity pricing)

Risk should be measured by both its impact (consequence) should it occur, and its probability (likelihood) of occurring.

Impact	Description	Score
Very High	Significant consequences to the achievement of stated goals and objectives.	5
High	Considerable consequences to the achievement of stated goals and objectives.	4
Medium	Modest consequences to the achievement of stated goals and objectives.	3
Low	Limited consequences to stated goals and objectives.	2
Very Low	Negligible consequences to stated goals and objectives.	1

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Probability	Description	Score
Very High	Almost certain to occur in the context of stated goals and objectives.	5
High	Likely to occur in the context of stated goals and objectives.	4
Medium	May occur in the context of stated goals and objectives.	3
Low	Unlikely to occur in the context of stated goals and objectives.	2
Very Low	Extremely unlikely to occur in the context of stated goals and objectives.	1

Why is this relevant?

Change brings risk. As such, the process of transferring a farm business's ownership and management to a succeeding generation typically increases the business's risk potential.

How will this help in transition planning?

Risk Management is the process of identifying, measuring and managing uncertain events. Creating a detailed risk management plan and then carefully implementing it helps:

- allow a farm business to capitalize on business opportunities while protecting itself from undesirable outcomes or severe losses;
- promote discussion and communication between transition planning participants;
- encourages participants to consider different perspectives;
- identify risk areas that may require specific attention or mitigation efforts;
- minimize the potential for conflict within the transition planning group and/or farm management team; and
- increase the likelihood of a successful transition.

Risk Assessment Exercise

***Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work together to complete the Risk Assessment Exercise.*

Instructions

Refer to page 329 of the Appendix.

1. Under each risk category, read the list of risk examples and circle those that apply to your farm business.
2. If applicable, add additional risks specific to your farm business in the space provided.

3. Refer to your farm business's SWOT analysis (from the previous exercise in this Topic). Determine which of your business's listed weaknesses and threats may be risks.
4. Using the 1 to 5 rating described in the Impact and Probability tables above, rate the probability and impact of each risk to your farm business.
5. Score each risk by multiplying your probability and impact ratings.
6. Total the scores in each risk category.
7. As a group, discuss how you might mitigate risks of key concern. Focus your attention on areas with the highest scores.
8. Store the document for future reference.

EXAMPLE:
Here is an example of what a partial Risk Assessment Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 329 in the Appendix.

Human Resources

Risk category	Description	Probability	Impact	Score
Human	Four Ds (death, divorce, disability, departure); management and ownership capacity; transition; performance and training	2	5	10
	Your Farm			
	We are at risk if our succeeding generation does not grow their management capacity to match the demands/growth of the farm			

Financial Risk

	Description	Probability	Impact	Score
Financing and Financial Structure	Debt servicing capacity, leverage, liquidity, profitability	2	5	10
	Your Farm			
	We are at risk if we take on too much debt and are unable make our payments.			
Interest Rate	Foreign exchange, cash savings, interest rates on debt, investment assets	4	5	20
	Your Farm			
	We are at risk if interest rates rise significantly (more than 3 points.)			
			TOTAL	**30**

How does this apply?

Completing the Risk Assessment Exercise will help groups involved in transition planning understand the many and varied risks that applies to a farm business. Groups should consider developing specific risk mitigation strategies for risk categories that have the highest scores.

KEEP IN MIND

- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Farms businesses encounter some risks that cannot be controlled, such as weather.
- When working through the exercise, try to step back and look at the risks from an outside perspective.
- **Proactive risk management is always preferable to reactive crisis management.**

WHAT TO WATCH FOR:

- Refer to this Risk Assessment Exercise when developing your Critical Issue Action Plan (Topic 15 Part E).
- A farm business's Risk Assessment Exercise should be reviewed and updated annually.
- Risk associated with unfavourable events can cause stress within a farm family/group, which can lead to disagreements and conflict. Consider using an external facilitator if you are concerned about potential for conflict during a discussion about risk, or at such point that your group faces any unfavourable event.

EXERCISE:

Complete the Risk Assessment Exercise on page 329 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part D: Critical Issues

Critical issues are the handful of factors that are most critical to the future of the farm business. Their importance can generally be measured by how big a gap there is between where the farm currently is and what it requires to successfully achieve its priorities and goals. Common critical issues for farm businesses include human resource gaps (i.e. lack of manpower), financial resource limitations, and/or environmental challenges.

Unmanaged, critical issues can affect a farm's ability to grow, to develop financial stability, and to transition successfully. Additionally, critical issues can create significant stress and conflict within the farm business.

Unfortunately, critical issues are typically difficult to solve and rarely have obvious solutions. (In fact, if a solution appears obvious, the solution is more likely solving a symptom rather than the root of the issue).

Why is this relevant?

Handled incorrectly, critical issues may negatively affect a farm business's performance, and/or create barriers that limit a farm business's ability to accomplish its vision.

In the day-to-day busy-ness of farming, it can be easy to focus only on *doing things right* rather than on taking time to prioritize and focus on *doing the right things*. Critical issues are farm business priorities that must be consciously and effectively tackled rather than left to chance.

How will this help in transition planning?

Working through a process that identifies the issues that are critically important to the long-term success of the farm business helps prioritize where to invest mental and physical energy. Unless one identifies what is important over the longer term, what *gets done* may not necessarily be what *needs to get done*. Open discussion about a farm business's critical issues between all transition planning participants helps get everyone on the same page about priorities and goals, which can decrease conflict, disagreement and frustration.

Critical Issues Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work to complete the Critical Issues Exercise. Complete steps 1 and 2 of the exercise individually and steps 3 through 6 as a group.*

Note: this exercise builds on and uses the self-assessment information from the *Gaining Ground Agribusiness Assessment* used in the Management Assessment Exercise (Topic 8 of the Readiness Assessment). Downloadable and print copies of the *Gaining Ground Agribusiness Assessment are* available from Manitoba Agriculture.

I

Instructions

1. Refer to page 332 of the Appendix, and your completed *Gaining Ground Agribusiness Assessment* (referenced above).
2. Individually, review your own self-assessment and write down up to three critical issues in each of the following categories:
    - Business Structure
    - Production/Operations
    - Environmental Responsibility
    - Human Resources
    - Marketing
    - Financial Management
3. As a group, review, compare and discuss individuals' responses.
4. Compile all responses into a master list.
5. Prioritize the issues.
6. Compare the prioritized issues to the SWOT (Topic 15, Part B) and Risk Assessment (Topic 15, Part C) exercises completed earlier.
    - Look for additional issues that may be critical to a successful transition. Add these to the master list, ranked according to their importance and priority.
7. On the final prioritized list, record a brief summary of each critical issue including:
    - the issue;
    - underlying causes; and
    - its potential impact on the farm business and transition planning.
8. Store the document for future reference.

EXAMPLE:
Here is an example of what a partially completed Critical Issues Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 332 in the Appendix.

Business Structure

1. *We are currently lacking several plans. The most glaring one is we have no contingency plan in the event of financial/operational crisis. The farm has grown to a point where we need to treat it like a small business and make sure we have the proper plans and processes in place to be successful.*

Operations

1. *We have not yet determined the most cost-effective balance between acres, custom work and machinery upgrades. It needs to be affordable, provide labour efficiency and fit into our operations.*
2. *We need to find an operational structure that allows Rob more time away from the farm.*

Environmental Responsibility

1. *We need an Environmental Plan. (This is tied to the critical issue already identified in the "Business Structure" section above.)*

Human Resources

1. *The farm is at risk because we don't have a long-term plan for the attraction and retention of both full and part-time employees.*
2. *We need to develop an organizational structure that meets our current management needs and accommodates a possible transition plan (that may or may not involve the next generation).*
3. *We need to develop job lists and related job descriptions.*

Marketing

1. *We have not found any critical issues for the Marketing section.*

Financial Management

1. *We need to analyze financial performance in more detail, considering current performance as it relates to opportunities and potential retirement / transition planning.*
2. *We need to structure the farm so that is consistently profitable, able to capture opportunities as they arise (e.g. purchasing additional land), and able to withstand some bad years.*

Final Prioritized List

1. *Our farm lacks a contingency plan, an environmental plan, and an HR recruitment and retention plan.*
    - *Underlying cause: we got by without them in the past but the farm has grown to a point where these plans are now needed.*
    - *Impact: during our transition planning process, the lack of these plans could seriously hinder our progress. In the future, the success of the farm could potentially be compromised if this gap is not addressed.*
2. *We need to develop an organizational structure that meets the current management needs and accommodates a possible transition plan (that may or may not involve the next generation).*
    - *Underlying cause: we got by without one in the past but the farm has grown to a point where we would benefit in having our organizational structure more defined.*
    - *Impact: having a developed org chart will provide clarity in regards to roles on the farm for us (Rob and Faye) and for the kids (John and Rebecca).*
3. *We need to find the most cost effective balance between acres, custom work and machinery upgrades. It needs to be affordable, provide labour efficiency and fit into our operations.*
    - *Underlying cause: we think that this is a new reality that we are facing. As margins get thinner and weather becomes more variable, we need to be more efficient and thoughtful about making operational decisions.*
    - *Impact: this balancing act is one of the most important aspects for the succeeding generation (John and Rebecca) to learn, since it may make the difference between continued success for the farm and failure.*

How does this apply?

The very first step in tackling critical issues is identification. In the next section (Topic 15 Part E), you will work to develop action plans to address your critical issues.

KEEP IN MIND:

- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the critical issues discussion.
- The most common areas for critical issues are within finance and human resources. These are also the areas with the biggest impact on intergenerational transfer.
- Transition planning groups should try to limit their prioritized list of critical issues to four or fewer. Critical issues are challenging and time-consuming to tackle. Farmers tend to be very busy and can expect to experience challenge and frustration trying to address a longer list. That said, if the group cannot come to consensus on a shorter list of priorities, it is acceptable to create a slightly longer list of critical issues.

WHAT TO WATCH FOR:

- Avoid the urge to drill down into detail at this stage, or to attempt to solve the critical issues. Detail will come in the next section: Part E: Critical Issue Action Plans.

EXERCISE:

Complete the Critical Issues Exercise on page 332 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part E: Critical Issue Action Plans

In Topic 15 Part D, your planning group identified critical issues that have the potential to make or break your farm business. This section develops action plans to best deal with the identified issues.

Critical issue action plans often require the investment of financial, mental, informational, equipment or infrastructure resources. While most planning groups focus mainly on whether they have the financial resources to tackle specific issues, groups should think first about their human resource capacity (manpower and/or mental energy), since this resource tends to be the most difficult to supply. Transition planning groups often simply run out of time or lack the knowledge/skill required to solve critical issues and keep the planning process moving forward.

Once critical issues and associated action plans are identified, it is vital that a planning group designate individuals responsible for each action and each overall action plan in order to move the action along and keep progress monitored.

Why is this relevant?

No matter how well-intended the plan or how committed the planning group, a transition plan will remain on paper unless specific action steps are outlined to translate it into reality and counter critical issue roadblocks.

How will this help transition planning?

Creating action plans is one of the most important components of transition planning. Action plans:

serve as a step-by-step map to achieving transition planning's goals;

- foster accountability;
- keep the planning and implementation process moving forward;
- stimulate communication between planning participants;
- counter roadblocks; and
- minimize potential for conflict.

Critical Issue Action Plans Exercise

*** Everyone who completed the Critical Issues Exercise (Topic 15 Part D) should work together to complete the Critical Issue Action Plans Exercise.*

Instructions

1. As a group, review the list of prioritized critical issues identified in the Critical Issues Exercise (Topic 15 Part D).
2. Using the blank templates on page 335 of the Appendix, work through each critical issue from your prioritized list as follow:
3. Write a statement that defines the critical issue in more detail. (Note: though this step is optional, it is recommended as it will help participants gain better understanding of the issue and the actions needed to address it.)
    a. Identify the sequence of the actions.
    b. Identify how the task should be carried out.
    c. Identify the personnel, equipment and other resources needed to accomplish the action.
    d. Specify who will do what and when.
4. Identify one person from the planning group to take primary responsibility for each action plan.
5. Store the document for future reference.

EXAMPLE:
Here is an example of what a partial Critical Issue Action Plan Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 335 in the Appendix.

Critical Issue: *Absence of SEVERAL important long-term plans*

Person with Primary Responsibility: *Faye*

Statement that Defines the Critical Issue (optional): *The plans we need are Contingency Plans, Environmental Plan, and an HR Recruitment and Retention Plan.*

Action Items	How	Specifics		
		Resources	When	By Whom
1) Hold a meeting to discuss this Critical Issue to make sure we don't duplicate anything that might already exist in our files.	Call John and Rebecca and set up a time and place	Time. No money involved.	November 1, this year	Faye
2) Assign responsibility so we know who is taking care of which plans.	Complete at the meeting and record it in the notes.	Time, discussion, computer. No money required.	November 1, this year	Everyone
3) Review progress in three months.	Email the group to check on their progress	Time, computer	February 1, next year	Faye
4) Make changes or assign help as needed	After reviewing progress, make sure no one is lagging behind. If they are, regroup to provide help or possibly hire an external advisor.	Time, computer, perhaps some fees for an external advisor if necessary	February 15, next year	Faye leads; each person with their own plan to complete.

critical Issue: *Absence of an organizational chart/structure*

Person with Primary Responsibility: *Rob*

Statement that defines the critical Issue (optional): *Develop an organizational structure that meets the current management needs and accommodates a possible transition plan.*

Action Items	How	Specifics		
		Resources	When	By Whom
1) Create a first draft of an org. chart	Use a template or draw one on our white board	Time, computer	November 15, this year	Rob
2) Hold a meeting to discuss with the team	Call John and Rebecca and set up a time and place.	Time	November 30, this year	Rob
3) Make changes based on decisions from team meeting.	Update org chart. Put it in electronic format if not already.	Time, computer	January 15, next year	Rob
4) Share and post final org. chart	Email it to the group, and print a copy and post it in the office	Time, computer	March 1, next year	Rob

How does this apply?

Critical issues can seem daunting until clear steps to mitigate/solve them are laid out. Assigning responsibility for each separate action plan and then for each individual step within each action plan fosters accountability and helps ensure the jobs get done.

KEEP IN MIND:

- Everyone who participated in identifying critical issues in the previous exercise should complete this exercise. Other key stakeholders may optionally participate as well.
- Identify one individual as responsible for overseeing completion of each action plan, and then identify individuals as responsible for completing each point within each action plan.
- Regular meetings and frequent discussion about the critical issues, their associated action plans, and each individual's efforts will keep the process moving forward. When people know the action plans and their individual efforts will be regularly reviewed, they tend to be much more accountable.

WHAT TO WATCH FOR:

- Be realistic about what can be accomplished and by when.
- Action plans must be monitored to be effective. Schedule regular reviews of the plan.
- Action plans with too little detail will be of less value to the process.
- Many things can change as the transition plan is developed and implemented. Action plans should be adjusted or new plans created to accommodate these changes.

EXERCISE:

Complete the Critical Issue Action Plan Exercise on page 335 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part F: Financial Targets

In Topic 7 of the Readiness Assessment Phase, your planning group reviewed your farm business's historical financial performance. In Financial Performance: Transition Scenario (Topic 17 Part D, coming up), your group will analyze the impact of different transition scenarios on your future financial performance. A very important step that links historical financial performance and potential future financial performance is the setting of financial targets.

As explained in the Historical Financial Performance Exercise (Topic 7), it is important to look at multiple ratios when analyzing financial performance. When setting financial targets during transition planning, analyze a minimum of six ratios, preferably including one ratio from each of the four categories: liquidity, solvency, profitability and financial efficiency. These categories and their corresponding ratios are listed in the tables below (reprinted from Topic 7). An extended explanation of the ratios and their corresponding benchmarks is provided on page 336 in the Appendix section of this Guide.

Liquidity: the ability of a business to meet financial obligations as they come due in the ordinary course of business. Liquidity relates to cash flow and short-term risk.

Ratio	Formula	Explanation	Good	Average	Poor
Working Capital Percentage of Total Cash Expenses	(Current Assets – Current Liabilities) / Cash Operating Expenses	If current liabilities are retired as they come due what current assets will be left? (percentage of annual expense)	> 50%	20 – 30%	< 10 %

Solvency: the amount of business debt relative to the amount of owner's capital invested in the business. Solvency relates to longer-term risk and how the business is financed.

Ratio	Formula	Explanation	Good	Average	Poor
Leverage Ratio* or Debt to Equity Ratio	Total Liabilities / Total Equity	For every dollar in equity, how many dollars of debt are there?	< 4 : 1	0.65 : 1	> 1 : 1

Debt Servicing	(Net income + Amortization + Interest - Family Wages**) / (Annual Principal and Interest Paid)	Can the farm come up with enough income to pay the debt requirements?	> 2 : 1	1.5 : 1	< 1.1: 1

* Industry standards based on assets at market value.

** If not already included in expenses (e.g. non-corporate farms).

Profitability: the extent to which a business is able to generate profit (income) from the use of business assets. Profitability rates investment decisions based on their ability to generate net income.

Ratio	Formula	Explanation	Good	Average	Poor
Return on Assets*	Net Income plus Interest / Total Assets	What return is the farm generating as a percentage of capital assets?	> 4%	2%	< 0%

*Industry standards based on assets at market value.

Financial Efficiency: the extent to which a business is able to use its resources (inputs) efficiently. Financial efficiency rates the annual operating cost decisions on their ability to generate gross revenue.

Ratio	Formula	Explanation	Good	Average	Poor
Gross Margin	Gross Margin / Total Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 65%	55%	< 50%

Net Profit Margin	Net Profit / Total Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 20%	10%	< 5%

Why is this relevant?

Financial targets are measurable success markers that can serve as goals (high thresholds to aim for) and baselines (low thresholds to stay above).

Note: ratios are ranked as 'good', 'average' and 'poor'. However, do not assume that a decision that moves a farm business from one rating to a lower rating (i.e. 'good' to 'average') is a bad decision. How a farm ranks in various ratios will depend on its unique financial situation and operating style, its lifecycle stage, and its progress towards transition. For example, a farmer nearing retirement might have little debt and therefore rank in the 'good' category for debt servicing ratio. However, if that same farmer needed to borrow money as part of the transition plan, the debt servicing ratio might change from 'good' to 'average'. This kind of ranking decline is often unavoidable during transition.

How will this help transition planning?

- To remain a viable business, a farm needs to operate within healthy financial thresholds. The first step to profitability, efficiency and financial health is understanding a business's financial ratios.
- Calculating how various transition scenarios might affect your financial performance is key to making good operational and management decisions. To be able to do calculate potential financial performance, you must first establish financial targets.
- Discussing and agreeing upon financial performance targets can minimize conflict stemming from poor financial results, differing financial expectations and/or differing risk tolerances.

Financial Targets Exercise

***Each person involved in your farm's transition planning should participate in this exercise. Other stakeholders who have a vested interested in the farm business may optionally participate.*

Instructions

1. Unless one or more of your farm business's transition planning participants have an extremely competent understanding of financial planning, seek professional guidance before proceeding with this exercise:

   a. hire a farm financial advisor and/or
   b. talk to the Alberta Agriculture and Forestry farm business advisor for more resources and support.
2. Refer to page 336 in the Appendix for a blank copy of the Financial Targets Exercise.
3. Review and discuss the Historical Financial Performance Exercise from Topic 7 in the Readiness Assessment Phase.

Based on your farm business's historical financial performance and the good, average and poor thresholds included in the tables above, discuss and agree upon financial targets for each of the ratios, taking transition planning into consideration.

How does this apply?

Once you have set financial targets (as per this exercise), your planning group will have the groundwork set to analyze the impact of various transition scenarios on your future financial performance (coming up in Topic 17 Part D).

KEEP IN MIND:

- If you do not have adequate and accurate financial information, setting targets will be difficult and may not prove useful.
- Review financial performance annually and test the performance against your targets.
- Talk to a financial advisor and/or an Alberta Agriculture and Forestry farm business advisor if you are concerned about your farm business's performance or if you have questions.

WHAT TO WATCH FOR:

- The six targets only represent a portion of an overall financial performance assessment.
    - If your performance in any of the six areas is less than desired, it is a good idea to apply a more detailed evaluation.

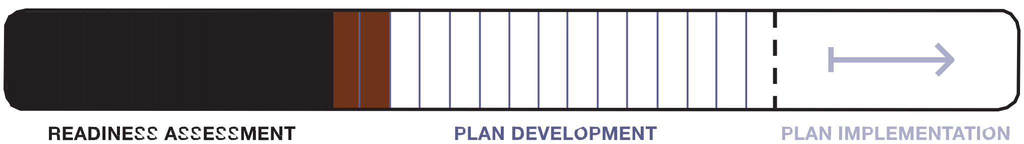
EXERCISE:

Complete the Financial Targets Exercise on page 336 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Notes:

Topic 16: Strategic Direction Review Meeting

Congratulations on completing the Strategic Direction (Topic 15) component of transition planning. Now is an appropriate time to schedule a meeting to discuss your progress with your transition planning team and make any necessary changes to your plan.

How will this help transition planning?

Transition planning requires dedication, communication, and the investment of much time and energy. Periodically pausing in order to review progress:

- supports open communication;
- allows adjustments to planning as necessary; and
- gives an opportunity for participants to celebrate the completion of important milestones.

Strategic Direction Review Meeting Exercise

***Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should meet to review your strategic direction to date.*

Instructions

1. Refer to the sample agenda on page 338 of the Appendix.

KEEP IN MIND:

- At the very least, your Strategic Direction Review Meeting should include your farm business's management team, the retiring generation, and the succeeding generation. Additional stakeholders with a vested interest in your farm's transition may be included as your group sees fit.
- Consider using an external facilitator if you are concerned about the potential for conflict.

WHAT TO WATCH FOR:

- It is not unusual in many transition planning groups for one or more participants to be strongest/loudest. In a review meeting such as this one, it is very important that all participants are given the opportunity to share their perspective. It is the meeting chair's responsibility to ensure that all participants are given a fair chance to speak.
- As you compare and contrast participants' answers, note:
    - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
    - Does this meeting identify any underlying reasons for existing conflict in your operation?

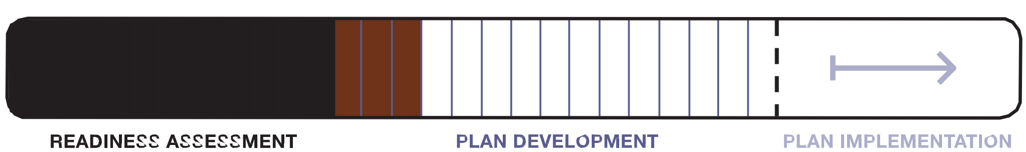
EXERCISE:

Complete the Strategic Direction Review Exercise according to the sample agenda included on page 338 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Chapter 6: Recap Checklist

Complete the following checklist as you work through the Chapter 6 topics. For each topic, mark the 'Red Flag' or the 'Green Light' checkboxes that best suit your planning group's status upon completion of the topic's exercise. Red Flag marks indicate that your group may need to discuss this topic further or seek professional support.

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Topic 14 Part A: Challenges in Transition Planning	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ After completing the topic, some or all of us do not have a good understanding of the many complex 'soft issue' challenges that our business could face. ☐ This topic resulted in significant unresolved conflict / disagreement within our planning group.	☐ We completed this topic's exercise. ☐ As a group, we understand the many complex 'soft issue' challenges that our business could face. ☐ Our individual feelings on which 'soft issue' challenges currently affect or could affect our farm business generally align.		
Topic 14 Part B: Guiding Principles	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us do not	☐ We completed this topic's exercise. ☐ We understand each other's business priorities including major concerns, planning objectives and		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	understand each other's business priorities (major concerns, planning objectives and/or strategic goals). ☐ We have very conflicting business priorities. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	strategic goals. ☐ ☐ Our individual business priorities generally align with each other's and/or can be made to work with each other's priorities where there are differences.		
Topic 14 Part C: Conflict Management	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us do not understand the existing/potential sources of conflict within the group, each other's conflict management styles, and/or strategies to find win-win solutions. ☐ Some or all of us are not committed to managing conflict proactively and openly. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We understand existing/potential sources of conflict within the group, each other's conflict management styles, and strategies to find win-win solutions. ☐ Our individual understandings of conflict generally align. ☐ We are all committed to managing conflict proactively and openly.		
Topic 14 Part D: Resource Team Identification	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise.	☐ We completed this topic's exercise. ☐ We agree on the importance of a resource team.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	☐ Some or all of us do not agree on the importance of a resource team. ☐ Some or all of us do not agree on who should be part of our resource team. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We agree on who should be part of our resource team.		
Topic 14 Part E: Advisor Information Report	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We were unable to create an overview of our planning group's efforts, decisions and planning progress to date. ☐ Some or all of us do not agree on who should be part of our resource team. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise and/or already have ongoing conversation with our advisors about our transition process so deemed this exercise unnecessary. ☐ We agree on the importance of keeping advisors up-to-date and informed.		
Topic 15 Part A: Vision	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us have conflicting ideas of our farm business's vision.	☐ We completed this topic's exercise. ☐ We were able to agree on a vision for our farm business. ☐ We are all comfortable with the vision we have drafted for our farm		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	business, recognizing that the statement may change over time.		
Topic 15 Part B: Situational Analysis	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us have conflicting understanding of the strengths, weaknesses, opportunities and threats that face our farm business. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ Our individual understanding of the strengths, weaknesses, opportunities and threats that face our farm business generally align.		
Topic 15 Part C: Risk Assessment	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us have strongly conflicting understanding of the risks that our farm business faces. ☐ Some or all of us have not discussed our individual risk tolerance levels. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ Our individual understanding of the risks that our farm business faces are not in huge opposition to each other's. ☐ We understand that it is normal and natural that some individuals are more risk adverse than others, and we have discussed our individual risk tolerance levels.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Topic 15 Part D: Critical Issues	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us do not understand the critical issues our farm business faces and/or may face. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We understand the critical issues our farm business faces and/or may face. ☐ Our individual understandings of our farm business's critical issues generally align.		
Topic 15 Part E: Critical Issue Action Plans	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We were unable to form critical issue action plans for the critical issues our farm business faces and/or may face. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We were able to form critical issue action plans for the critical issues our farm business faces and/or may face. ☐ Our individual understandings of the actions that need to be taken to manage our farm business's critical issues generally align.		
Topic 15 Part F: Financial Targets	☐ We were unable to complete this topic's exercise. ☐ We do not have the necessary financial information to complete this topic's exercise. ☐ Some or all of us have conflicting	☐ We completed this topic's exercise. ☐ We understand our farm business's current financial situation and agree on financial targets. ☐ Our individual		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	understanding/insufficient understanding of our farm business's finances and/or financial targets. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	understandings of our farm business's current financial situation and our financial targets generally align.		
Topic 16: Strategic Direction Review Meeting	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us have conflicting views/understanding on one or more components of our strategic direction. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ Our individual views and understanding of our strategic direction generally align.		

Chapter 7: Structure

Topic 17: Transition Options

Part A: Successor Assessment

Many factors determine who will be chosen as a farm's successor. While a potential successor's professional competence is important, most farm succession planning decisions are based on family connections (i.e. inheritance), a potential successor's interest in farming, and family needs.

Typically, a farm's choice of successor is one or more of the retiring generation's children, a close relative or a trusted personal connection. Just because someone is chosen as a successor does not necessarily mean that they are ready to take over management of the farm, nor does it mean that they have the necessary management, financial and operational skills. The successor of a farm business will be the future leader and manager of the business and will make or break its success. As such, assessing where they need to build their leadership and management skills is vital to the long term success of the business.

Why is this relevant?

Determining a successor's skills, strengths and areas for growth is a necessary starting point in order to build an appropriate plan for leadership training and development.

In addition, the discussion provides a great opportunity for both generations to discuss the leadership and management traits that have brought the farm to its current state, and what skills will be necessary looking forward to successfully achieve stated goals.

Because the retiring generation knows the farm business best, they will also know best what management and leadership traits are necessary for their business.

How will this help transition planning?

Analyzing a potential successor's management and leadership skills, strengths and weaknesses can:

- reveal deficiencies/areas of weakness that require attention and/or additional training. Proactively dealing with concerns can help to avoid undesirable outcomes;
- promote discussion between the generations about leadership and management;
- help a successor see their strengths and weaknesses, so they know what to build on and areas of caution;
- help the retiring generation see that the successor's strengths and weaknesses are different than their own, and that they will influence the business differently;
- help the retiring generation celebrate a successor's strengths, and better understand how to support the successor's weaknesses; and
- help the retiring generation set expectations regarding the type of leader and manager they want to carry their business into the future.

Farm Journal Legacy Project. Legacy by Design, LLC. Chico, California

Successor Assessment Exercise

***All members of the retiring generation should work together to complete the following Successor Assessment Exercise.*

Instructions

1. Refer to the Successor Assessment Exercise on page 339 of the Appendix.
2. Read each statement listed under the leadership and management categories.
3. For each statement, rate your successor(s) as follows:

   (5) Exceeds Expectations

   (4) Meets Expectations

   (3) Inconsistently Meets Expectations

   (2) Below Expectations

   (1) Needs Improvement
4. Add the scores for leadership and management together and assess the results using the following scale.

   < 40: Successor's leadership and management skills are less than desired.

   Attention to improving these skills should be a priority **before** proceeding with implementing a transition plan.

> 40 < 70: Successor's leadership and management skills are adequate.

Attention to improving these skills is still required. Proceed with implementing a transition plan **cautiously**.

> 70: Successor's leadership and management skills are strong.

The farm business should not expect to encounter significant difficulties arising from the successor's leadership and management skills.

Proceed with implementing your transition plan.

5. Discuss the survey results with the successor(s). Make sure that you discuss both strengths and weaknesses.
6. Decide where improvements could and should be made.
7. Store the documents for future reference.

How does this apply?

No one is naturally blessed with all leadership and management skills. Becoming a competent farm leader is a learning process that requires an understanding of one's strengths and weaknesses, and a commitment to continuous improvement. Honest and constructive feedback from the retiring generation, who know the farm business's needs and (typically) have a good understanding of their successor's strengths and weaknesses, is an excellent first step towards developing a strong farm business leader in the succeeding generation.

KEEP IN MIND:

- The survey is designed to be a general guideline rather than an absolute scoring of a successor's skillsets.
- In the event that a farm business is to be taken over by multiple successors, this exercise is best completely separately for each individual successor. However, it can be completed jointly for all successors.

WHAT TO WATCH FOR:

- Be positive rather than critical when reviewing the results with successor(s). Virtually no one successor will have all the traits outlined in the survey. The intention of this exercise is to constructively determine areas for improvement, not to attack or hurt a successor's pride.
- This exercise has significant potential for differences of opinion, disagreement and conflict. Consider using an external facilitator if you are concerned about the discussion resulting from this exercise.

EXERCISE:

Complete the Successor Assessment Exercise on page 339 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part B: Ownership Options

So far, your group's transition planning has focused on examining your group's goals, the farm business's health and long-term plans, and the successor's skills. All play extremely important roles in determining how the farm business will transition. Now it is time to determine how the ownership of the farm business will transfer to successors, either during the retiring generation's lifetime(s) and/or through the retiring generation's estate(s).

This Ownership Options exercise, adapted from Saskatchewan Ministry of Agriculture's *Estate Planning Checklist for Farm Families* publication, is designed to draw out questions and preliminary decisions on how, when and what farm assets (if any) will be transferred to on-farm and non-farming successors. These preliminary decisions will then be tested in the next topic to determine their ramifications on the farm business's financial performance.

(Note: it may be necessary to go back and forth between this exercise and the next, adjusting the ownership transition plan and then testing it to determine which transition plan achieves optimal financial or retirement goals).

There are five main areas to consider when making decisions about ownership transfer options:

1. Ownership: who will ultimately own farm business assets and when?
2. Control: who will ultimately control farm business assets and when?
3. Security: is the retiring generation willing to put their assets at risk? What level of income does the retiring generation need for retirement?
4. Living Arrangements: how will living arrangements be handled for both the retiring and succeeding generations?
5. Equal Versus Equitable Treatment of (on-farm and non-farm) Successors: an equitable arrangement does not necessarily mean that all successors receive equal/identical share in the farm business and/or inheritance. In many situations, an on-farm successor receives a greater value of assets but is required to take on the risk and stress of running the farm business. This arrangement often lets the retiring generation remain associated with an active farm operation longer than would be the case if they did not have a succeeding generation ready to take over the farm. Each transition group's succession arrangement will be unique.

Why is this relevant?

This Ownership Options Exercise is intended to create a preliminary ownership transfer plan, which should then be taken to advisors for review and suggestions.

Note: all decisions made through this exercise should be viewed as preliminary pending discussions with an accountant, lawyer, investment/financial planner, and/or insurance advisor.

How will this help transition planning?

- There are no easy answers to many of these questions. However, thinking about options and writing down initial thoughts can help to develop a preliminary plan.
- Many of the questions detailed in this exercise will be asked by an accountant, lawyer, investment/financial planner, and/or insurance advisor at some point. Thinking through preliminary answers in advance will make the meetings with advisors more productive.
- Transition of ownership is a key but often challenging element of farm transition, particularly when the retiring generation has multiple on-farm and non-farm successors. Thinking through options can help the retiring generation narrow down their choices and make initial discussions with successors more direct and productive.
- Proactively thinking through these difficult questions can help transition move forward, and can reduce potential for conflict.

Ownership Options Exercise

*** All members of the retiring generation should work together to complete the following Ownership Options Exercise. If the retiring generation so chooses, the succeeding generation may provide input to this exercise.*

Instructions

1. Read through the Ownership Transfer questions on page 340 of the Appendix.
    a. Write answers to the questions that are applicable to your operation. These answers will, together, form a preliminary plan for the ownership transfer of your assets.
2. At minimum, the plan should include:
    a. who the assets will be transferred to;
    b. when they will be transferred;
    c. what the price will be;
    d. when the funds will flow to you (as a lump sum, over time or a combination);
    e. whether you will retain assets for your estate or sell all during your lifetime; and
    f. outstanding questions for your advisors.
3. Keep this preliminary plan accessible for future discussions with your accountant, lawyer, investment/financial planner, and/or insurance advisor.
4. Store the documents for future reference.

How Does This Apply?

Once the retiring generation creates a preliminary ownership transfer plan, it can provide the basis for discussion with successors. Initially, the retiring generation may choose to discuss their plans solely with their on-farm successors and not their non-farm successors in order to consider the on-farm successor(s)' concerns, comments or suggestions. However, eventually all successors should be involved in discussion regarding ownership transfer.

Note: the preliminary plans drafted in this exercise will be used in Topic 17 Part C (Business Structure), Topic 17 Part D (Financial Performance – Transition Scenario), and Topic 18 (Preliminary Advisor Review).

KEEP IN MIND:

- Remember that the details drafted in this exercise form a **preliminary** plan only. Nothing is set in stone at this point.
- The questions in this exercise are difficult for many retiring farmers. If they prove too difficult to answer, talk to a financial advisor or an Alberta Agriculture and Forestry farm business specialist.

WHAT TO WATCH FOR:

- An effective technique for this exercise is to make a first attempt at answering the questions and then set them aside for several days before working through them again. Pondering answers over several days may allow clearer, more thoughtful responses.

EXERCISE: Complete the Ownership Options Exercise on page 340 of the Appendix

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. . You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part C: Business Structure

Once the retiring generation comes up with a preliminary plan regarding to whom and when they'd like to transfer ownership of the farm business, it is time to explore actual methods of ownership transfer.

Note: Business structure and ownership transfer are complicated topics. While the following exercise provides an overview of the topic, it is not meant to replace advice from professionals. The retiring generation (and, optionally, the succeeding generation) should talk to an accountant and lawyer about their unique situation and options.

1. Transfer Methods

Determining the best method to transfer farm ownership depends upon many factors, including:

- number of successors (both active and non-active in the farm business);
- current financial health of the farm business;
- financial health of the retiring generation (which may include taking into account sources of wealth and income other than what is generated by the farm);
- current ownership structure of the farm business;
- management ability of on-farm successors;
- borrowing capacity of the farm and its on-farm successors;
- personal and group goals and objectives; and
- retiring and succeeding generations' preferences for immediate or gradual ownership transfer.

The basic methods of transfer are:

- sale;
- gift; or
- bequest.

Most farm transfers occur gradually over a period of time based on a combination of sale, gifts and bequest. The appropriate combination of methods is unique to each farm.

Transfer by Sale

Most farms are transferred at least in part by a sale from the retiring generation to the successors. A sale is a direct and 'clean' way of making an ownership transfer. Capital from the sale can be used to fund the retiring generation's retirement goals and/or passed on as inheritance to any non-farm successors.

Be aware that the sale price and repayment terms (if the retiring generation provides financing) can cause friction between the retiring and succeeding generation, and/or between on-farm and non-farm successors.

Planning the Future. Manitoba Agriculture, Winnipeg, Manitoba

Transfer by Gift

Few people can afford to give a farm away. However, most transfers that occur between family members include some amount of gifting, either in the form of specific assets or in a reduced transfer price. Gifting helps successors get over the hurdle of paying for assets that have inflated market values, allowing the successors to gain initial equity in the farm. With this equity, the successor then has borrowing power to raise additional capital for the farm operation.

Be aware that gifting can reduce the retiring generation's financial comfort and flexibility, and may cause friction between on-farm and non-farm successors.

Transfer by Bequest

A bequest is a gift that successors (beneficiaries) receive upon a benefactor's death, as directed by the benefactor's will. This is not the best option for farm ownership transfer but is an essential tool should the retiring generation die before a transfer plan is complete.

Ideally, a bequest should include only the final elements of farm transfer, including such things as forgiving debts still owed by the younger generation, or distributing an inheritance to non-farming successors.

2. Structuring the Transfer

Several structures can be used to transfer ownership of farming assets to successors. Because each farm is unique, there is no one-size-fits-all transfer method. The best arrangement must consider:

- the needs of the retiring generation;
- the needs of the succeeding generation (on-farm and non-farm);
- the value of the farming operation;
- potential financing arrangements; and
- debt servicing capacity of the farm.

Retiring Generation's Needs

When determining how best to transfer farm property to the succeeding generation, a primary consideration is how much money the retiring generation will require for living expenses for the rest of their lives. Many farmers spend their farming lives building equity in the farm business, which often results in their being asset rich but cash poor. If the assets are gifted or mostly gifted to the succeeding generation, the retiring generation may have very little money to live on unless they have another source of income.

Keep in mind that life expectancies are increasing, so it is important to plan for a long retirement. It is also important to factor in an allowance for inflation. A two per cent annual increase in inflation equals approximately 22 per cent over ten years. Four per cent inflation equals an increase of approximately 50 per cent in the cost of living over ten years.

Succeeding Generation's Needs

Farm transfers typically occurs at a time in the succeeding generation's life that living costs are increasing due to marriage and a growing family. These costs must not be underestimated. The succeeding generation will require the farm business to cover operating expenses, income taxes, loan repayments and investment, as well as sufficient income for family living expenses.

Keep in mind that the succeeding generation may face certain additional/higher costs than the retiring generation. In many cases, the retiring generation will live on the farm before and after ownership transfer while the succeeding generation will remain living off-farm. When determining living expenses for the succeeding generation, do not forget that costs like utilities, automobile expenses and mortgage payments may be higher for those who live off-farm compared to on-farm.

Selling Price

In a succession situation, a farm business's selling price is largely determined by the retiring generation's willingness and ability to financially assist the succeeding generation. Cash flow and debt-servicing capacity of the farm business also impact the decision.

Typically, some assets are transferred at or near fair market value; others will be sold to the succeeding generation for much less or given as gifts. The total sale price is usually determined by the retirement and estate objectives of the retiring generation and the financial capacity of the succeeding generation, in consultation with an accountant and financial planner.

Borrowing Arrangements

Transfer of farm ownership can be financed by a commercial loan from a bank or mortgage company, or – if the retiring generation is willing and able – via private financing by the retiring generation.

While it is very generous of the retiring generation to offer to finance a farm transfer loan, keep in mind that doing so can jeopardize retirement plans and, in a worst-case scenario, the relationship between retiring and succeeding generations. If the succeeding generation decides to grow the farm business too fast, makes a major mistake, or otherwise causes cash flow to fall short of debt payments, it is common for the retiring generation financing a farm loan to be the last to receive payment. Further, if the retiring generation provides financing or defers repayment, they by association assume some of the farm business risk and will not be completely free from the farm until all of the succeeding generation's outstanding financial commitments are met.

Debt Servicing Capacity

The debt-servicing capacity of a business is the amount of money (from all sources of income) left after paying all operating expenses (including an allowance for family living expenses and income taxes), before loan payments are made. This amount is available for loan (interest and principal) payments.

3. Business Structures

Sole Proprietor

A sole proprietorship occurs when the business and all its assets are personally owned by one person (the sole proprietor). Income produced by the business is taxed to the sole proprietor personally. A sole proprietorship is the easiest and least expensive form of business structure to set-up and organize.

Within a sole proprietorship, the owner is:

- in absolute control of all management decisions;
- taxed at the personal, marginal rate in effect at the time;
- able to do anything an individual citizen can do; and
- personally liable for all debts of the business, which means personal assets may be seized to pay off the debts of the business.

A sole proprietorship ends upon the death of the owner. The property may be transferred to another person upon death, but the person receiving the property becomes a new business entity.

Partnership

A partnership is a relationship between two or more people who agree to together operate a joint, for-profit business. It also applies to any arrangement where, in the absence of a written agreement, the conduct of the people indicates they are carrying on a business together.

Generally, a partnership exists if:

- The individuals carry on a business in common. (Joint tenancy, tenancy in common, joint property, common property or part ownership of something such as land does not necessarily create a partnership, even if profits from the land are shared).
- The parties involved plan to make a profit from the venture.
- All parties are prepared to share any losses that the business might incur.
- All parties participate (not necessarily equally) in management.

Types of Partnerships

There are two types of partnerships: limited and general. In a general partnership, each of the partners is liable for any debts incurred in the name of the partnership. In a limited partnership, partners are liable for the debts of the partnership only to the extent of their investment.

Typically, most farm partnerships are classified as general partnerships.

Liability is a key consideration when considering partnership. In a general farm partnership, each partner **is liable jointly and severally** with the other partner(s) for debts and obligations incurred by the farm while they are partners. If for any reason the liabilities of a partnership exceed its assets, a creditor or injured party may sue the partnership, each partner, or any individual partner for the full satisfaction of a claim. This liability is extremely important to keep in mind when entering a partnership agreement or a business arrangement which could be declared a partnership by a court action.

In addition to liability, partnerships can be grouped according to whether assets are owned by the partnership or the agreement partners, as follows:

Full Partnership:

- The partnership owns all assets.
- Individual partners have an interest in the partnership only.
- This form of partnership most clearly parallels the concept of an independent entity.

Modified Partnership:

- Some assets are owned by the partnership and other assets are owned by individual partners.
- Individual partners retain ownership of certain assets and also carry some partnership interest.

Operating Partnership:

- Individual partners retain title to all assets used by the partnership.
- This type of partnership simply shares labour, income and expenses.
- A partnership interest would only be created through retained earnings.

Partnership Profits

For income tax purposes, a partnership must calculate its net income as if it were a separate entity. However, no income tax is levied on partnership income as the partnership itself is not required to file a tax return. Instead, the net income (or loss) is allocated to each partner according to the sharing agreement. Partners must then include their share of partnership income or loss in their own individual tax returns. In effect, while net income is determined at the partnership level, it is taxed at the individual partner level. Capital cost allowance on partnership assets must be accounted for at the partnership level. Profits may be shared in any manner agreed upon by the partners. The profit sharing ratio need not be predetermined, nor does it have to be consistent from year to year. Normally, the sharing ratio should be consistent with the amount of capital and labour contributed by each member. Farmers should be aware that the Canada Revenue Agency (CRA) has the discretionary power to reallocate partnership profits.

Special income tax provisions permit a rollover (deferral of tax) on the transfer of property to a partnership. These rollover provisions apply to land, buildings, machinery, quota and inventory.

When dissolving a partnership, the general rule is that assets are deemed to be disposed of at fair market value when a partnership is dissolved. This may result in capital gain (loss). However, special rules exist to defer the tax on the dissolution of a partnership in certain situations. These include:

- transfer of partnership property to individual partners;
- transfer of partnership property to a limited company;
- transfer of property from one partnership to another; and
- partnership dissolved with one partner continuing as a sole proprietor.

Corporation

A corporation or company is a separate legal entity that exists independent of the shareholders or members who compose it. As a legal entity, a company can do many of the things that a person can do. For example, it may purchase, hold and transfer property, obtain financing and enter into contracts in its own name.

Owners of a company are known as shareholders. Their financial interest in the company is represented by ownership of shares. Once a farmer transfers property to a company, the company takes title to such property. In turn, the farmer has title to the allotted shares, which are held as personal property. The farmer may continue to control the farming business carried on by the company by virtue of shares held in the company but the company is the legal owner of the farm.

The share structure that a company adopts can be critical in terms of transition and estate planning and taxation. Several classes of shares can be created, each offering varying benefits to its holder. Factors such as voting privileges, realization of dividends and equity participation distinguishes one class of shares from another. A company's equity financing is accomplished through the issuance of shares and notes. A note may represent a loan by a shareholder to the company, thus the shareholder becomes a creditor of the company as well.

Tax considerations

A corporation differs from both a sole proprietorship and a partnership in that it pays its own taxes on earned income, whereas tax flows through to the hands of the partner or proprietor in a partnership or sole proprietorship. That said, shareholders in a company also pay tax on any dividends or salary received from the company.

Salaries are a deductible expense to the corporation, thereby reducing its taxable income, while dividends are not.

Advantages of a corporation

- Farm business continuity
    - A company has perpetual existence. Provided that managerial responsibilities are shared by two or more shareholders, many of the problems that develop upon the death of a sole proprietor are avoided.
- Transferability of ownership
    - The corporate form of organization converts ownership of specific assets into more readily transferable preferred or common shares, which represent the ownership of the business as a whole. For estate planning purposes, it is much easier to implement an orderly transfer of shares from principal shareholders to successors (both during the principal shareholders' lives and after their deaths).
- Tax savings
    - A Canadian-controlled private corporation is taxed at a lower rate than the personal tax rate. Tax savings, which are really a tax deferral, are only possible if profits are reinvested in the corporation. The withdrawal of profit as dividends, salaries, interest, rent, etc., largely eliminates the tax deferral.
- Limited liability
    - The liability of a shareholder is limited to the value of shares owned. Investments outside the company are not required to be used to settle company liabilities. This advantage is lost if lenders require personal guarantees.

- **How will this help transition planning?**
- High cost of incorporation
    - There are significant start-up costs and annual operating costs related to incorporation. Opening and annual financial statements must be prepared, along with a more complex income tax return. The services of an accountant are normally required, which could result in a high annual cost.
- High Cost of Dissolution
    - Because there is no rollover provision when transferring assets out of a corporation, the tax costs may be very high if and when dissolution occurs.
- Extra Administration
    - More administration of a corporate farm business is required and it involves more work with lawyers and accountants.

Characteristics of a farm business that incorporates:

- consistent, high level of farm income and net taxable income;
- income left in the company as opposed to flowing through the company to the shareholders;
- large untaxed inventories;
- paying a spousal salary (over $30,000 per year);
- some debt;
- capital gains exemption available; and
- estate freeze required.

Transfer Options by Structure

Note: The income tax and business considerations associated with each of the options below are complex and should be discussed with competent professional advisors. The information provided here is intended as an overview only.

Sole Proprietor

- outright sale with commercial mortgage;
- sale with mortgage back (retiring generation holds the mortgage);
- agreement for sale;
- promissory note;
- option to purchase.

Partnership

- admit farming successors as partners of the existing partnership;
- transfer partnership to a corporation;
- sell or gift partnership interests to farming successors.

Note: Transferring a partnership interest creates a one-time opportunity to make use of an additional capital gains exemption limit. If you are presently operating as a sole proprietor and are considering incorporation as a way to enable the transfer, it could be very beneficial to first form a partnership and then, after the required period of time (as per CRA rules), proceed to incorporate. Contact your accountant for more information.

Corporation

- Transfer existing shares of the corporation to the succeeding generation;
- Freeze the estate and transfer growth shares to succeeding generation.

Why is this relevant?

It is important to understand the different options available for ownership transfer of the farm business. Understanding options and their advantages and disadvantages allows the transitioning group to begin to formulate a preliminary plan that accomplishes the transition goals.

How will this help transition planning?

- All participants need to understand all of the available business structure and farm transfer options before making further decisions regarding the transition plan.

Business Structure Exercise

*** Each person involved in your farm's transition planning should complete this exercise.*

Instructions

1. Based on the preliminary decisions made in the Ownership Options Exercise (Topic 17 Part B) and the information included in the introduction to this section, answer the following questions as a group:
    a. Does the farm business currently have the correct structure to implement the preliminary decisions from the Ownership Options Exercise?
    b. If no, what changes might be beneficial or necessary to implement the preliminary plan?
    c. What questions would be useful to ask an advisor (especially an accountant) regarding current and potential business structure

changes?

2. If you are unsure about any of the different structures and/or how they might apply to your farm business situation, talk to an accountant and lawyer.

How does this apply?

Business structure is one of the most important parts of the transition plan. Selecting the appropriate business structure can help make your plan implementation more effective, and can help the business avoid paying tax unnecessarily.

You will refer to this exercise when completing Financial Performance: Transition Scenarios (Topic 17 Part D), at which point you will test your preliminary decisions to see if they are financially viable.

KEEP IN MIND:

- Regardless of how much you trust your accountant and lawyer, it is appropriate and wise to get a second opinion regarding your business structure. Seeking a second opinion does not mean you intend to change accountants or lawyers. Rather it is a double-check to ensure you have the best possible and most comprehensive information and understanding of this highly important topic. Consider the cost of a second opinion a small investment compared to the value of the assets being transferred.

WHAT TO WATCH FOR:

- Decisions around business structure and ownership options can be complex, include several options, and involve large sums of money. Make sure you have all the information you need to make the best possible and most informed decisions. Seek professional advice.

EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part D: Financial Performance: Transition Scenario

In this section, your transition planning group will build on the historical financial performance analysis conducted in Topic 7 and the retirement financial needs calculated in Topic 5 to determine whether the transition scenario(s) you are considering are financially possible for your farm. (If the retiring generation did not complete the retirement calculator exercise in Topic 5, they should complete it now before proceeding with this topic).

The first step in this analysis is to prepare a baseline one to three year financial projection (estimate of financial performance) for the farm based on sales (production), expenses, and anticipated pricing. Keep in mind:

- For the purposes of testing your different transition scenarios, your financial projections should be based on your historical performance averages, **not** on how you expect the farm to do in the near term. This is because the projection is being used to evaluate long-term decisions and, therefore, should be based on long-term averages.
- Use conservative production, pricing and expense estimates to make sure the scenario you are evaluating will work if the farm encounters one or more bad years.
- The baseline projection should be prepared on a **no change** basis, as if the farm were to remain unchanged for the next one to three years. The baseline projection can be expanded to include a beginning and ending balance sheet or statement of net worth and monthly cash flow.

The next step in analyzing your transition scenarios is to add in the transition options discussed by your planning group. The list of transition factors can be very long and may be largely unknown in advance. Your farm's financial analysis should include any options discussed so far. Keep in mind that your plan is still only preliminary, so looking at every option is a worthwhile investment of effort.

Transition scenario factors may include:

- addition of / increase in wages to the succeeding generation;
- addition of / increase in wages or retirement draw for the retiring generation (Note that the retiring generation may want to consider the option of taking only what they need from the farm and/or taking additional money to allow for a retirement safety net);

- addition of / increase in draw for non-farming successors' estate/inheritance;
- the potential for other successors joining the farm in the future;
- farm business expansion/growth plans (and their associated revenues and expenses);
- new capital purchases;
- new financing;
- internally financed buy-out plans; and/or
- land or other rental payments.

Why is this relevant?

Your planning group may have discussed a number of transition options to date. It's important to understand the financial capacity and limitations of your farm when considering transition options. The final decision should depend at least in part on what works best financially for the operation. The Financial Performance: Transition Scenario analysis is a tool designed to test 'what-if' scenarios, providing insight and background to the discussions and decisions, and narrowing down your options to those that are financially realistic to implement.

How will this help transition planning?

- Knowing how possible transition scenarios are likely to impact financial performance is a vital component of making good decisions around transition.
- Discussing and then analyzing possible transition scenarios promotes open communication between planning participants.
- Open communication may help lessen potential for conflict.

Financial Performance – Transition Scenario Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should participate in this exercise.*

Instructions

1. As a group and with or without the help of a financial advisor/accountant, prepare a one to three year baseline projection for your farm. You can prepare this information using:
    a. a spreadsheet tool (Excel or other);
    b. the Agricultural Business Analyzer, a downloadable software available at http://www1.agric.gov.ab.ca/$Department/softdown.nsf/main?openform&type=ABA&page=information; or
    c. another farm projection tool of your choice.

2. Analyze the financial ratio results as discussed in Topic 7 (Financial Performance).
3. Determine whether the ratio results in the baseline projection are trending towards improvement or, at the very least, remaining acceptable?
    a. If yes, proceed with next step.
    b. If no, you can still proceed with the next step but be aware that adding a transition scenario is unlikely to, by itself, improve your financial performance. Instead, review the baseline projection and look for areas that can be changed so that financial performance can be improved before proceeding with a transition plan.
4. Add your transition scenario to the baseline projection.
5. Compare the financial information (ratios) from your transition scenarios to the financial targets that you established in Topic 7: Financial Performance.
6. You now have two options:
    a. If you are satisfied with the viability of the scenario and financial results, proceed to the next topic (Topic 18) in this Guide.
    b. If you are not satisfied with the viability of the scenario and financial results, try adjusting the scenario to find a combination of factors that work financially and still achieve your farm transition goals.
7. Store the documents for future reference.

How does this apply?

- Use the Financial Performance: Transition Scenarios Exercise to test multiple possible scenarios. The more scenarios your planning group tests, the more comfortable you will be with the scenario that you choose to put into your final transition plan. Look for a scenario that:
    - yields the best overall financial ratio results;
    - satisfies cash flow and debt service requirements;
    - accomplishes your transition goals while putting the least financial strain on the farm;
        - Example: While the farm could complete a retiring generation buy-out plan in 10 years, the retiring generation goals will still be met if the buy-out is extended over 20 years. This second option would meet transition goals but allow financial room for other farm-related opportunities that will likely occur in the future.
        - Is supported by your lender, accountant and other advisors;

KEEP IN MIND:

- If you are **unable** to find a transition scenario that yields acceptable financial results and accomplishes your transition goals, seek professional help. Consult your current advisors or speak to an Alberta Agriculture and Forestry farm business development specialist.

WHAT TO WATCH FOR:

- Including financial performance in your transition plan discussions can be complicated. It is important that you have the best financial information possible.
- If you are unsure or have questions about how various transition planning scenarios might impact your farm's financial performance, consult your current advisors for help or speak to an Alberta Agriculture and Forestry farm business development specialist.

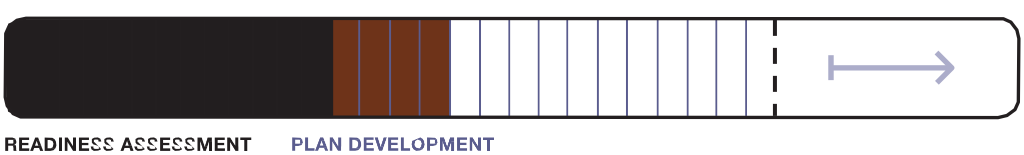
EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 18: Preliminary Advisor Review

Your transition planning group has just worked through several topics that discussed various transition options. Though you should now have a better understanding of the options available, you will likely have many unanswered questions. It's now time to take your information and questions to professional advisors.

Why is this relevant?

Now that you have an idea of the transition option concepts and preliminary thoughts on your farm business's priorities and plan, you need professional feedback on how various transition options may or may not suit your unique situation. It is better to find out now, before committing to particular transition options, whether the options you are considering are feasible and optimal for your farm business.

How will this help transition planning?

Meeting with advisors can:

- build on your planning group's current understanding of the options, providing clarity, answering questions, and alerting you to potential roadblocks or concerns;
- clarify misunderstandings and answer questions, helping to keep the process from stalling;
- ensure all planning group members share information and understanding, helping keep communication lines open and minimizing potential for conflict;
- ensure your group has correct and comprehensive information and understanding before moving too far ahead in the planning process, which can save significant time and money.

Preliminary Advisor Review Exercise

***Each person involved in your farm's transition planning and any other stakeholders who have a vested interest in the farm business should work through the following exercise*

Instructions

1. Update your Advisor Information Report (from Topic 14 Part E).
2. Prepare lists of questions for each advisor.
3. Determine who will be attending meetings with your advisors.
4. Schedule appointments for the meetings.
5. Send a copy of your Advisor Information Report to each advisor in advance of a meeting.
6. Include key questions so your advisors have time to prepare for the meeting.
7. Report back to planning group members after each meeting.
8. Store documents for future reference.

How does this apply?

The meetings will give you important information and clarity that will help direct your planning process.

KEEP IN MIND:

- Ask a lot of questions. Advisors will be able to help your group far better if they understand what you need to know.
- You may need to schedule a follow-up appointment after you have a chance to think about what you learn in the initial meeting(s).
- Money spent on advisor meetings is typically money well invested. The more you know and the more carefully a plan is built, the more likely transition is to succeed.

WHAT TO WATCH FOR:

- Some advisors require confidentiality agreements to be agreed upon and upheld for the protection of the advisor, the client, or both. Confidentiality may require that the details of your relationship not be shared with other advisors.

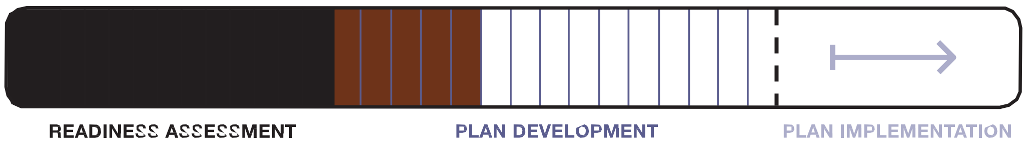
EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 19: Estate Plan Elements

There is often confusion between transition planning and estate planning. Though they are distinct planning topics, they complement each other. Both are key in the successful transition of farm business ownership and management from one set of hands to another.

Estate planning is the process of planning how your estate will be managed following your death. Specifically, estate planning includes organizing wills, legal documents, tax management strategies, estate distribution, contingencies, and other financial matters including investment, savings and insurance.

The purpose of Topic 19 is to begin to focus the retiring generation's thoughts on components of their estate plan. An estate plan should be created in conjunction with a transition plan.

Manitoba Agriculture offers an online publication called *A Guide to Farm Estate Planning In Manitoba*. This publication offers comprehensive information on estate planning in an agricultural context and will be referenced throughout Topic 19.

➢ *Part A: Estate Distribution*

During transition, certain farm business assets are transitioned to the succeeding generation. Any assets that are not transitioned to the succeeding generation or otherwise disposed of during the retiring generation's lifetime make up the retiring generation's estate. Providing clear estate plan instructions will ensure the retiring generation's estate is managed and distributed as they desire.

How will this help transition planning?

The retiring generation should understand estate distribution options and form preliminary estate distribution plans now in order to:

- make advisor meetings regarding estate planning most productive;
- begin working towards estate equity between on-farm and non-farm successors;
- begin shaping an estate plan that complements a transition plan;
- open lines of communication regarding estate expectations between members of the retiring generation and/or between the retiring generation and their successors;
- ensure the distribution and management of the retiring generation's estate is handled as they would want after their death.

Estate Distribution Exercise

*** All members of the retiring and succeeding generations should complete this exercise. Those in the retiring generation are likely to be more interested than those in the succeeding generation, but all should participate. Any other stakeholders who have a vested interest in the farm business can optionally be included.*

Instructions

1. Download a copy of the Manitoba Agriculture's *Guide to Farm Estate Planning in Manitoba.*
2. Read the Guide, paying particular attention to the sections that include information about estate distribution.
3. Write down questions that you can take to meetings with your professional advisors based on what you read. Questions should:
   - seek clarity on any estate planning concepts you find confusing; and
   - seek insight into how the estate planning concepts might best suit your situation.
4. If the succeeding generation chooses not to read the entire Guide, the retiring generation should consider sharing key details of the Guide with them.
5. Keep the publication handy for future reference.

How does this apply?

Reading the *Guide to Farm Estate Planning in Manitoba* and using the information you learn as the basis for discussions and decisions about estate planning will help clarify and optimize the estate planning process.

KEEP IN MIND:

- While the retiring generation is likely to be more interested in this exercise than the succeeding generation, it is important that the succeeding generation participate. It is never too early to learn about estate plan issues.
- It might be helpful to find other retiring generation farm families and talk to them about their estate plan ideas.

WHAT TO WATCH FOR:

- The Guide to Farm Estate Planning is informational only and cannot make estate distribution decisions for the retiring generation. The retiring generation should plan to talk to advisors and their successors, and invest time thinking through and making decisions about their estate.
- Estate planning can be complicated and controversial.
  - Ultimately, decisions regarding an estate are entirely the retiring generation's to make.
  - Successors should not make the mistake of expecting or feeling entitled to portions of an estate; rather, estate distributions should be viewed as a final and generous gift from the older generation.
  - The older generation should keep fairness among successors in mind where possible, understanding that perceived inequity between successors can cause serious harm to successors' relationships with each other.

EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part B: Wills, Power of Attorney, Executor

During transition, certain farm business assets are transitioned to the succeeding generation. Any assets that are not transitioned to the succeeding generation or otherwise disposed of during the retiring generation's lifetime make up the retiring generation's estate.

This section is intended to inform transition participants (especially the retiring generation) about the key documents and individuals that will ensure your estate is handled after your death as you desire.

NOTE: ALL transition planning participants should complete a will. A will is a necessary and vital document regardless of your stage of life, and should be considered a key component in protecting a farm business's health and viability.

How will this help transition planning?

The retiring generation should understand estate decision options and form preliminary estate plans now in order to:

- make advisor meetings regarding estate planning most productive;
- begin working towards estate equity between on-farm and non-farm successors;
- begin shaping an estate plan that complements a transition plan;
- open lines of communication regarding estate expectations between members of the retiring generation and/or between the retiring generation and successors;
- ensure the distribution and management of the retiring generation's estate is handled as they would want after their death.

Wills, Power of Attorney, Executor Exercise

*** All members of the retiring and succeeding generations should complete this exercise. Those in the retiring generation are likely to be more interested than those in the succeeding generation, but all should participate. Any other stakeholders who have a vested interest in the farm business can optionally be included.*

Instructions

1. Download a copy of the Manitoba Agriculture's *Guide to Farm Estate Planning in Manitoba.*
2. Read the Guide, paying particular attention to the sections that include information about wills, power of attorney and executors.
3. Write down questions that you can take to meetings with your professional advisors based on what you read. Questions should:
    a. seek clarity on any estate planning concepts you find confusing; and

   b. seek insight into how the estate planning concepts might best suit your situation.

4. If the succeeding generation chooses not to read the entire Guide, the retiring generation should consider sharing key details of the Guide with them.
5. Keep the publication handy for future reference.

How does this apply?

Reading the *Guide to Farm Estate Planning in Manitoba* and using the information you learn as the basis for discussions and decisions about estate planning will help clarify and optimize the estate planning process.

KEEP IN MIND:

- It might be helpful to find other retiring generation farm families and talk to them about their estate plan ideas.
- While the retiring generation is likely to be more interested in this exercise than the succeeding generation, it is important that the succeeding generation participate. It is never too early to learn about estate plan issues.

WHAT TO WATCH FOR:

- The Guide to Farm Estate Planning is informational only and cannot make estate distribution decisions for the retiring generation. The retiring generation should plan to talk to advisors and their successors, and invest time thinking through and making decisions about their estate.
- Estate planning can be complicated and controversial.
    - Ultimately, decisions regarding an estate are entirely the retiring generation's to make.

EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part C: Insurance

During transition, certain farm business assets are transitioned to the succeeding generation. Any assets that are not transitioned to the succeeding generation or otherwise disposed of during the retiring generation's lifetime make up the retiring generation's estate.

This section is intended to inform transition participants (especially the retiring generation) about how insurance can impact one's estate. Life insurance can support beneficiaries, offer liquidity, and provide a tax-savings strategy for large estates.

How will this help transition planning?

The retiring generation should understand how insurance affects estate planning decision options in order to:

- make advisor meetings regarding estate planning most productive;
- begin working towards estate equity between on-farm and non-farm successors;
- begin shaping an estate plan that complements a transition plan;
- open lines of communication regarding estate expectations between members of the retiring generation and/or between the retiring generation and their successors;
- ensure the distribution and management of the retiring generation's estate is handled as they would want after their death.

Insurance Exercise

*** All members of the retiring and succeeding generations should complete this exercise. Those in the retiring generation are likely to be more interested than those in the succeeding generation, but all should participate. Any other stakeholders who have a vested interest in the farm business can optionally be included.*

Instructions

1. Download a copy of the Manitoba Agriculture's *Guide to Farm Estate Planning in Manitoba.*
2. Read the Guide, paying particular attention to the sections that include information about insurance.
    a. The Guide does not include a lot of information on insurance. You may

decide to arrange a meeting with an insurance advisor to learn more about the advantages and disadvantages of using insurance as part of your estate plan.

3. Write down questions that you can take to meetings with your insurance advisors based on what you read. Questions should:
    a. seek clarity on any estate planning concepts you find confusing; and
    b. seek insight into how the estate planning concepts might best suit your situation.
4. If the succeeding generation chooses not to read the entire Guide, the retiring generation should consider sharing key details of the Guide with them.
5. Keep the publication handy for future reference.

How does this apply?

Reading the Guide to Farm Estate Planning in Manitoba and using the information you learn as the basis for discussions and decisions about estate planning will help clarify and optimize the estate planning process.

KEEP IN MIND:

- It can be helpful to find other retiring generation farm families and talk to them about their estate plan ideas.
- While the retiring generation is likely to be more interested in this exercise than the succeeding generation, it is important that the succeeding generation participate. It is never too early to learn about estate plan issues. Learning about insurance options early can save money in the future.

WHAT TO WATCH FOR:

- The Guide to Farm Estate Planning is informational only and cannot make estate distribution decisions for the retiring generation. The retiring generation should plan to talk to advisors and their successors, and invest time thinking through and making decisions about their estate.
- Estate planning can be complicated and controversial.
    - Ultimately, decisions regarding an estate are entirely the retiring generation's to make.

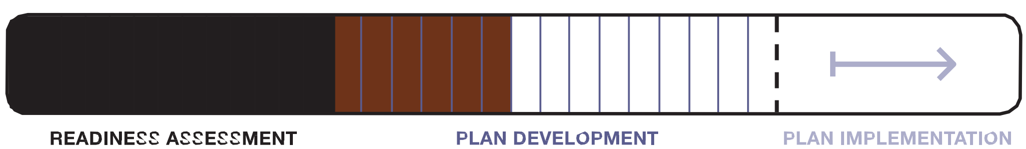
EXERCISE:

- There is no form or template for this exercise. Record your notes and questions for professionals on a separate piece of paper as per the questions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 20: Human Resources

A business is only as strong as its people. Managing the human element of a farm business is vital to ensuring the business's success and viability.

Part A: Management Structure

In an organization of any size or complexity, employees' roles and responsibilities are defined by their job tasks and whom they report to. Managers' roles and responsibilities are defined by who reports to them.

In most businesses with few employees (including most farm businesses), the roles are assigned to specific individuals (i.e.: 'Joe supervises Ron'). In a business with a larger number of employees, the roles are assigned to positions in the organization rather than to specific individuals (i.e.: 'the production manager supervises the seasonal crop harvesters'). Relationships between these positions can be illustrated graphically in an organizational chart.

In many farm businesses, job roles are filled by family members. Often, the roles are general and assumed (i.e.: Dad looks after production; Mom handles administration and payroll and helps with production when necessary) rather than specific and expressly stated. Due to the large number of tasks that require completion and the small number of people available to do those tasks, farm staff tend to each handle/participate in multiple roles. Sometimes responsibilities are filled by default or by whomever has time to take on the task.

It can be challenging to find answers to complex supervisory and leadership questions in farm businesses, especially when family members report to other family members. Among other big questions farms must tackle:

- Who gets to manage what?
- Who gets to be the boss?
- How do you discipline a family member?
- Is there room for promotion?

There are an increasing number of farms where management positions are filled by outside (non-family) individuals. This situation eliminates some of the family-related challenges but introduces new challenges, specifically:

- External employees can become frustrated with the lack of management structure.
- External employees can be confused by/disagree with a management structure based on family dynamics rather than professional attributes and managerial know-how.
- External employees may question family structures and the "because that's the way we've always done it" decision making common on family farms.
- External employees tend to be less committed to the long-term success of a family farm.
- Family members may question whether an external employee will do an adequate and acceptable job.

Why is this relevant?

For the vast majority of farms, no formalized (written) management structure exists. While individuals involved in the farm have roles, those tasks and responsibilities are usually thought to be implicitly understood.

While it may feel strange to formalize working relationship structures in a farm business, especially if the employees are family members, doing so is very healthy for the business. Understanding and defining management structure is hugely important for farms that are in the process of transition planning, regardless of how many people are involved in the organization. Clarifying who reports to whom:

- means an employee knows where to go to when a question occurs or a problem arises;
- simplifies decision making;
- decreases conflict and frustration;
- improves efficiency;
- explicitly defines roles, increasing accountability;
- explicitly defines roles, fostering trust between employees; and
- sets the stage for more effective transition planning.

People working in the business should all clearly understand:

- whom they report to;
- who the main decision maker is; and
- what decisions they are permitted to make/are responsible for making on their own.

It is essential to organize your management structure so that each person has only one boss.

Transition planning presents an excellent opportunity to develop a formal management structure because:

- There will be a period during management transition where roles and responsibilities may be unclear.
- Transition planning adds an element of complexity to day-to-day operations.
- There will be more individuals involved, especially during the transition period.
- Transition is an opportunity to start fresh with new rules or ways of doing things.

How will this help transition planning?

Transferring management is one of the most important parts of transition planning.

- Effectively transferring the management significantly increases the likelihood of a successful transition.
    - Having people know and understand their roles and responsibilities helps reduce the potential for conflict.
    - A well-developed plan to transfer management to the succeeding generation can reduce the retiring generation's concerns about giving up control.

Management Structure Exercise

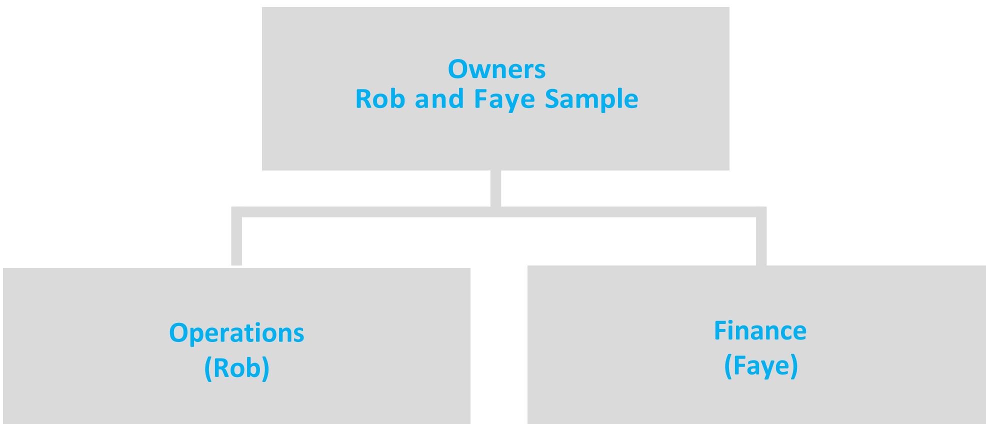
*** All members of the transition planning group should complete this exercise together.*

Instructions

1. Refer to page 342 in the Appendix for a blank copy of the Management Structure Exercise form.
2. Identify the various areas of management that together form the **current** overall management structure of the farm business. (Note that these roles are not necessarily full-time management positions.) Typically, managerial area include:
    a. operations (production),
    b. marketing,
    c. human resources, and
    d. finance,
    e. and may optionally include:
        i. environment,
        ii. technology, and/or
        iii. safety
3. Determine who is currently responsible for each of the management areas.
4. Outline the current reporting relationships within each of the identified management areas.
5. On a separate form/piece of paper, determine what will the chart look like after the transition plan is completed and being implemented (ie: three years from now).
6. Determine whether there will be any changes to the management areas.
7. Determine who will be responsible for each of the management areas.
8. Outline the reporting relationships within each of the identified management areas.

EXAMPLE:
Here is an example of what a partial Management Structure Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise using the blank form on page 342 in the Appendix.



How Does This Apply?

You will refer to this exercise when working through Management Activities (Topic 20 Part B) and Roles, Responsibilities and Authority (Part 20 Part F).

KEEP IN MIND:

- Try not to become bogged down in details. If your group finds this exercise difficult, make your best attempt to create a general overview and then review it on a regular basis. Time may help clarify this exercise.
- If your planning group has trouble identifying your farm business's areas of management and/or assigning responsibility for them (as per steps one and two above), try thinking through the exercise backwards:
    - Identify all the management personnel on the farm.
    - Identify which areas of management they are currently responsible for.
    - Write those management headings on your chart and assign the identified people to the headings.
- Review the structure annually and make changes as necessary.

WHAT TO WATCH FOR:

- One person may be assigned to more than one management area.
- It is not ideal to have more than one person responsible for a single management area. Though this may be the necessary reality for the current structure, try to ensure only one person is responsible for each management area when planning for the future.
- If two people are listed as responsible for a single management area, try to separate the responsibilities so that each is in charge of separate tasks/responsibilities.
- Though teamwork is positive, try to avoid creating the chart with a “We do everything together” attitude. While it is perfectly acceptable to discuss many management decisions with other farm managers, remember that:
    - Someone should ultimately be responsible for each management area.
    - Management transition is far more difficult if successors feel they need to get approval for every decision from the retiring generation.
- Discussing every decision and sharing every responsibility:
    - is inefficient and can lead to errors or gaps;
    - defeats the purpose of formalizing a management structure;
    - is not sustainable during the busiest times of the year or as the farm grows in size and complexity; and
    - slows the decision making process.
- Consider using an external facilitator if you are having difficulty with this exercise. It is very important that there is a clear management structure as you work through transition.

EXERCISE:

- Go to page 342 of the Appendix for a blank copy of the Management Structure Exercise form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part B: Management Activities

In the Management Structure Exercise (Topic 20 Part A), your planning group identified your farm business's broad areas of management (ie: finance, production, etc.). In this exercise, your group will break each of those areas into a number of smaller management functions, and then assign those functions to specific management personnel.

Management functions are any job tasks that are managerial or supervisory in nature. For example, tasks such as developing a harrowing schedule or supervising an employee's harrowing work are management functions, whereas actually doing the harrowing of a field would not be a management function.

Why is this Relevant?

Working through the Management Activities Exercise is the next step towards creating a defined management structure.

For the vast majority of farms, no formalized (written) management structure exists. While individuals involved in the farm have roles, those tasks and responsibilities are typically thought to be implicitly understood. While it may feel strange to formalize working relationship structures in a farm business, especially if the employees are family members, doing so is very healthy for the business. Understanding and defining management activities is hugely important for farms that are in the process of transition planning, regardless of how many people are involved in the organization. Clarifying who reports to whom and who is in charge of what tasks:

- means an employee knows where to go to when a question occurs or a problem arises;
- simplifies decision making;
- decreases conflict and frustration;
- improves efficiency;
- explicitly defines roles, increasing accountability;
- explicitly defines roles, fostering trust between employees; and
- sets the stage for more effective transition planning.

How will this aid in transition planning?

The exercise will help:

- clearly identify management activities;
- determine who currently manages which functions;
- define what management activities need to be transitioned to the succeeding generation;
- align a farm business's management with its strategic direction;
- help all planning participants see a comprehensive overview of managerial responsibilities;
- promote communication among planning participants;

- reduce the potential for conflict; and
- improve farm managers' understanding of what needs to be done, creating clarity and purpose that will help attract and retain employees.

Management Activities Exercise

*** All members of the transition planning group should complete this exercise together, according to the farm business's* ***current*** *management structure (ie: the first management structure chart you developed in the previous topic).*

Instructions

1. Read through the list of management areas and activities detailed on page 343 of the Appendix. These are the most common areas and activities for farm businesses. Discuss where your farm business does or does not align with this management description.
2. Your farm business may have more, less or different management areas and activities than the ones listed. Add or delete activities according to your farm business's unique operating reality and both the first (current) and second (future) management structure charts you made in the Management Structure Exercise (Topic 20 Part A).
3. Where necessary, break the management activities into sub-activities to provide the best possible picture of your current management reality, and to divide activities among multiple managers if applicable.For each management area and sub-area, fill in appropriate information based on the current situation and an anticipated future reality (three years from now).
4. File these documents for future reference.

EXAMPLE:
Here is an example of what a partial Management Activities Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 343 in the Appendix.

Management Area	Management Activity	Sub-Activity (if applicable)	Who Manages the Work	Who Does the Work	Who Manages the Work	Who Does the Work
			Currently		*In 3 Years*	
Human Resources	Benefits		Faye	Faye	John	John
	Payroll		Faye	Faye	John	Rebecca
	Wages		Faye	Faye	John	Rebecca
	Performance Reviews		no one	no one	John	John
	Workplace Safety and Training		Faye	Robert	John	John
Marketing	Projected Yield		Robert	Robert	John	John
	Inventory Management	Inventory Reports	Robert	Robert	John	John
		Grain Marketing	Robert	Robert	John	John
		Grain Deliveries	Robert	Robert	John	John
	Advertising		Robert	Robert	John	Rebecca
	Website		Robert	Robert	John	Rebecca
Finance	Record Keeping		Faye	Faye	John	Outsourced
	Year-end Analysis		Faye	Faye	John	Outsourced
	Accounting		Faye	Faye	John	Outsourced
	Invoicing		Faye	Faye	John	John
	Accounts Payable		Faye	Faye	John	John
	Accounts Receivable		Faye	Faye	John	John
	Insurance		Faye	Faye	John	Outsourced
	Compensation		Faye	Faye	John	John
	Crop Insurance		Faye	Faye	John	Outsourced
Operations	Machinery		Robert	Robert	John	John
	Planning	Needs for Upcoming Year	Robert	Robert	John	John
		Usage Next Three Years	Robert	Robert	John	John
		Scheduled Maintenance	Robert	Robert	John	Employee
	Service Intervals		Robert	Robert	John	Employee
	Calibration of all Monitors		Robert	Robert	John	Employee
	GPS Equipment		Robert	Robert	John	Employee
	Trucking		Robert	Robert	John	Employee
	Safeties		Robert	Robert	John	Employee
	Manpower/Scheduling	Daily Work Schedule	Robert	Robert	John	John
		Weekly Work Schedule	Robert	Robert	John	John
		Monthly Work Schedule	Robert	Robert	John	John
	Nuts and Bolts Inventory				John	Employee

	Buildings		Faye	Employee	John	Employee
	Maintenance	General Buildings	Robert	Employee	John	Employee
		Bins	Robert	Employee	John	Employee
	Improvements		Robert	Employee	John	Employee
	Crop 1 - Canola				John	Employee
	Field Records		Robert	Robert	John	John
	Soil Test		Robert	Outsourced	John	Employee
	Fertilizer Recommendation		Robert	Outsourced	John	Employee
	Fall Fertilizer Application		Robert	Robert	John	Employee
	Spring Field Work		Robert	Robert	John	Employee
	Planting		Robert	Robert	John	Outsourced
	Pest Monitoring		Robert	Robert	John	Outsourced
	In-crop Spraying		Robert	Robert	John	Outsourced
	Harvesting		Robert	Robert	John	Employee
	Drying		Robert	Robert	John	Employee
	Fall Field Work		Robert	Robert	John	Employee

How does this apply?

Transition planning participants need a very clear understanding of their farm business's management activities in order to complete a transfer smoothly and with as little conflict and operational disruption as possible.

You will build on this exercise when working through Roles, Responsibilities and Authority (Part 20 Part F).

KEEP IN MIND:

- This exercise can be completed with the template provided in the appendix on page 343. However, using a computer spreadsheet program will allow you to make changes much more easily. Feel free to build your own management activities spreadsheet if you wish.
- **Note**: This exercise refers to employees. On farms where family members do the work rather than hired employees, consider family to be employees for purposes of this exercise.
- There may be uncertainty about what the farm business's structure will look like in three years. Make your best estimate about what you think needs to happen.
- Review the structure annually and make changes as necessary.
- Consider using an external facilitator if you are having difficulty with this exercise. It is very important that there is a clear management structure as you work through transition.

WHAT TO WATCH FOR:

- It is common for management activities to overlap each other, for managerial responsibility to overlap between two or more people, and/or for there to be uncertainty in how different activities are managed.
- One person may be assigned to more than one management area.
- It is not ideal to have more than one person responsible for a single management area. Though this may be the necessary reality for the current structure, try to ensure only one person is responsible for each management area when planning for the future.
- If two people are listed as responsible for a single management area or activity, try to separate the responsibilities so that each is in charge of separate tasks/responsibilities.
- Try not to become bogged down in details. If your group finds this exercise difficult, make your best attempt to create a general overview and then review it on a regular basis. Time may help clarify this exercise

EXERCISE:

- Go to page 343 of the Appendix for a blank copy of the Management Activities Exercise form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part C: Job Descriptions

Most farms operate according to an 'if it needs to get done, just do it' attitude. Farm managers and employees typically do multiple tasks on an as-needed basis. Specific tasks are distributed based largely on who has done them in the past, and who is available and able to take them on at that moment. Because most farm businesses have few employees, farms rarely take the time to create formal job descriptions. While this system can and does work in certain situations for day-to-day farm operations, a lack of job descriptions and specific job tasks is problematic both during transition and as a farm business grows.

In the previous topics (Topic 20 Parts A&B), your transition group outlined a management structure for both your current and future (three year) realities, and then detailed your farm business's specific management activities.

In the next section (Topic 20 Part D), your group will look at compensation. Job descriptions, which your group will develop in this exercise, are a vital link between management structures, activities and compensation.

Why is this relevant?

Transition planning requires thinking through the transfer of a farm's ownership, management and labour. While retiring and succeeding generations may have a similar end goal for transition, they may have very different ideas of their roles and responsibilities during transition. Clearly defining management structure and activities, job descriptions and compensation are each key to helping ensure planning stays on track.

How will this help transition planning?

Writing formal job descriptions is beneficial in various ways throughout transition planning:

- Job descriptions provide clear 'instructions' regarding what needs to be done and by whom, which helps reduce confusion, errors, frustration, conflict and overlooked tasks, ultimately making for happier farm managers and employees and improving the farm business's financial performance.
- Job descriptions define each person's roles, which helps:
    - clarify appropriate compensation levels;
    - shape training and development requirements;
    - define performance expectations;
    - define job postings, helping to attract the right employees;
- As the succeeding generation moves into active farm involvement, job descriptions can help separate tasks so both retiring and succeeding generations know exactly what their roles are while the farm is jointly operated.
- Later, as the retiring generation steps more fully aside, job descriptions can help the succeeding generation move seamlessly into the roles the retiring generation is vacating.

Job Description Exercise

*** Key people (current managers and owners) involved in your farm's transition planning should take the lead on this exercise. The succeeding generation, regardless of whether or not they currently hold key or managerial positions in the farm business, should be involved in this exercise as well.*

Instructions

1. Select one or more individual(s) to research (via the internet or elsewhere) information about and examples of on-farm job descriptions.
    a. If it proves difficult to find good information, talk to an advisor or an Alberta Agriculture and Forestry farm business management specialist.
2. Once your group develops a good understanding of possible job descriptions and finds several good examples to refer to, work together to develop a job description for one of the management or labour functions on your farm.
3. Review the job description you have created with the larger planning group, if they were not all involved from the start of this exercise. Make changes where required.
4. If you have existing employees, get their input on the job description developed by your planning group. Make changes where required.
5. Once your group is comfortable with this first effort, move on to developing job descriptions for other positions.
6. Keep generic job descriptions on file, and file one job descriptions for each employee or family member in their personnel file.
7. Review job descriptions annually and make improvements or adjustments as required.

EXAMPLE:
Here is an example of what a partially completed Job Description Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 344 in the Appendix.

Position Title: General Farm Labourer

Reports To: Farm Manager

Date: April, 20xx

Job Description

Job Purpose/Objectives:

- *To assist farm manager in completing daily tasks in all departments of Sample Farms Ltd.*

Percentage of Time	Key Tasks

80%	**Activity 1:** *Grain Enterprise*
	- operate various pieces of harvest equipment including grain truck, combine, and auger
	- operate stone picker
	- act as assistant yard manager
	  • *direct and organize incoming farm vehicles*
	  • *complete end-of-day yard clean up and equipment servicing*
	  • *prepare yard vehicles for daily tasks*

20%	**Activity 2:** *General Farm Labour* - perform various tasks as required

Education and Training:

Applicant must be a high school graduate. Agricultural degree or diploma is an asset but not required (students of these programs are encouraged to apply). Chemical safety course certification is essential; however, Sample Farms Ltd. will cover the cost of certification of a successful applicant who does not already hold this certificate. A Class 1 Driver's License is required. Applicants willing to complete the Class 1 licensing requirements will be considered. An on-farm training and development program will be established.

Experience and Skill Requirements:

No experience is required providing applicant is willing to go through rigorous on-the-job training. However, applicants who have a farm background will be considered over those who do not.

Supervision:

Supervision will be provided by Rob Sample.

Physical Requirements:

The successful candidate must be physically fit and able to conduct a variety of physical tasks including walking and lifting, etc. The work can be very physically demanding.

Salary Range:

Minimum: $x/hr *Maximum: $x/hr*

Work hours:

8:00 am – 5:00 pm; one hour of unpaid break time. Average 40 hours/week.

Overtime:

Seasonal

Benefits:

Two weeks paid vacation after one year increasing to three weeks after five years. Vacation cannot be taken during seeding or harvest.

Comments:

Opportunities for advancement will be considered after two years.

How does this apply?

Creating a job description for every farm worker, from paid labourer through most senior farm manager, greatly decreases confusion, stress, and misunderstanding, significantly increasing the chance of a successful transfer of management and labour to the succeeding generation.

PLANNING POINTERS:

- Developing job descriptions does not need to be a difficult task.
- When writing job descriptions, review your Management Areas (Topic 20 Part A) and Management Activities (Topic 20 Part B) and ensure ever area and activity is contained in at least one job description.
- Review job descriptions annually and make improvements and adjustments as required.
- Consider using an external advisor if you do not have the time or are concerns/questions about this process.

WHAT TO WATCH FOR:

- If you have existing employees, include them in the job description writing process. Forcing a complete and final job description on an employee may cause him or her to feel ignored, uninvolved or even undervalued. At worse, this may cause the employee to decide to leave.
- It is important that a job description is created for a function/role rather than an individual (ie: a job description titled ‘Farm Labourer’ is correct; a job description titled ‘John’ is problematic). The job description should stand independent of any individual.

EXERCISE:

- Go to page 344 of the Appendix for a blank copy of the Job Description Exercise form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part D: Compensation

Compensation is one of the more challenging components of transition planning. Discussions around compensation are necessary during transition because the succeeding and retiring generations' financial situations typically change during the transition process. As discussed in previous sections:

- The retiring generation may want increased compensation to fund their retirement plans and/or gifts to non-farming successors.
- The succeeding generation may want increased compensation to fund the financial costs of taking over the farm and/or growing the farm.
- The succeeding generation may explore the option of giving up an off-farm job, but will require additional on-farm income to compensate.

Designing a compensation plan for a farm business brings up many questions:

- How is a fair wage determined for family members and non-family employees?
- How should shareholders be paid?
- How can we resolve disputes over compensation?
- How should family assets be handled?
- How should pay be impacted by performance?

The issue of fairness is difficult because each person will have a different concept of what 'fair' means. Those individuals who subscribe to a business-first farm operating philosophy would argue that 'fair' means compensation should be based on the job requirements; the employee's skill, experience, and initiative level; and the market rate for comparable jobs. Those individuals who subscribe to a family-first farm operating philosophy, on the other hand, might argue that the family is a team and all members of the family should be paid similarly regardless of what on-farm roles they handle. Others who subscribe to a family-first farm operating philosophy might believe that, if one of the successors is less successful than others (either on-farm or off-farm), that individual's compensation should be such that he or she can enjoy the same lifestyle as others in the family.

Money can move from the family farm business to individual family members in a variety of ways:

- wages, bonuses, merit increases, training allowances;
- dividends, ownership and equity gains in land;
- loans;
- gifts (housing, school, vehicles, etc);
- perks (vehicles, vacations, trips, business and personal expense allowances);
- inheritance, trusts and bequests;

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Why is this relevant?

A well designed compensation system that makes sense and is understood by everybody:

- maintains control and structure over pay;
- allows a business to accurately plan for its financial future;
- keeps the business on track;
- promotes individual development;
- provides a clear statement about work ethics and values;
- encourages individuals to accept financial responsibility for themselves;
- provides a clear understanding about the value of different jobs;
- promotes trust;
- motivates individuals to perform well;
- distinguishes between compensation and gifts.

An effective compensation plan also includes specific guidelines relating to the implementation of the transition plan.

How will this help transition planning?

- Discussing compensation and creating a clear compensation plan can help reduce the potential for hard feelings between:
    - On-farm and non-farm successors, since all successors are up-to-date and involved in compensation discussions.
    - Hired employees and successors who may be doing similar jobs but getting paid differently.
- Once developed, a compensation plan creates a more fair way of determining compensation for any additional successors who may return to the farm at a later date.

Compensation Exercise

*** Each person involved in your farm's transition planning and any other stakeholders (off-farm successors, hired employees, etc.) who have a vested interest in the farm business should work together to complete this exercise.*

Instructions

As a group, discuss the following questions. Record the answers. Identify areas of agreement and disagreement.

1. Will wages be paid? If yes, to whom (all/some)?
2. How will wage rates be determined (ie: market value, equal wages for all, perception of need, other)?

3. What criteria will influence wage increases (ex: inflation, cost of living, company performance, need, merit)?
4. How often will wage increases occur? Will dividends be paid? (NOTE: Even if your farm is unincorporated, the concept of dividends can still be applied.)
5. What will dividends be based upon (ex: farm equity growth, net income performance)?
6. Will bonuses be paid?
    a. If so, what will bonuses be based upon (ex: company performance, individual performance, achievement of training or education milestones, seasonal milestones such as Christmas or harvest, etc.)?
7. What will the farm business's philosophy be regarding gifts and entitlements (ex: gifts to successors, paid entitlements such as annual vacations, interest-free loans from the business, etc.)?
8. Will business perks be provided?
    a. If so, what perks will be provided (ex: phones, utilities, vehicles, fuel, business trips, housing etc.)? NOTE: Be sure to check with your accountant whether there are tax implications to the business perks you are considering.
    b. Will there be limits on perks?
9. Will training be part of the compensation plan?
    a. Will all employees have equal access to training?
    b. Will there be limits to the time and money invested in training? If yes, how much is allowable?
    c. Will training be mandatory?
    d. Will training be included in the calculation of merit increases or bonuses?
10. Will ownership of assets or shares of the company be part of the compensation plan?
    a. When will employees become owners?
    b. How will ownership amounts be decided and awarded?
    c. Will assets be transferred to individuals?
    d. Will the farm make payments on personal assets?
11. Will inheritances or bequests be part of the compensation plan?
    a. If yes, what are the criteria to earn an inheritance or bequest?
12. Create and write down a compensation philosophy according to the sample template included on page 345 of the Appendix.
13. Store the document for future reference.

EXAMPLE:
Here is an example of what a partially complete Compensation Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 345 in the Appendix.

Sample Farms Ltd. Compensation Philosophy

For Owners

- After five years of work on the farm, family employees can take their share of bonuses, wage increases and increases in partnership interest (or common shares of a corporation).
- Family employees with less than five years can accumulate their bonuses and merit pay.
- All owners and their spouses will meet once or twice a year. All persons attending will be reimbursed for reasonable travel expenses and paid a set per diem amount.
- All owners will receive a minimum amount per year.
- Dividends will be paid in the amount of two per cent of earnings.

For Family

- Tuition and student expenses will be paid.
- Loans for houses and vehicles will be available at attractive interest rates, based on management approval.
- Gifts will be given independent of the business.

For Family Employees

- Wages will be objectively determined.
- Wages will be somewhat conservative (ex: 75 per cent of market value) given family ownership and the variability of the farm economy.
- Wages will be determined based on the size of the job, responsibility, relevant training and experience, and working conditions.
- Wage increases and vacations will be based on years of experience, seniority and cost of living.
- Annual merit pay will be awarded. This will be based on jointly agreed-upon goals that will be determined at an annual performance planning meeting.

How does this apply?

Compensation is an area that can cause significant conflict if individuals feel they are not being treated fairly, or if they feel that someone else is taking advantage. Throughout plan development and once complete, a farm business's compensation philosophy should be shared with all planning group members. It should also be clearly communicated to any hired employees in order to maximize understanding and minimize conflict.

It is important to review the compensation policy at least annually:

- to keep it current;
- to address any issues with compensation that family/planning group members have;
- to avoid conflict regarding what individuals are paid.

KEEP IN MIND:

- Consider using an external facilitator if you are concerned about the potential for conflict. Discussions about money easily trigger disagreement and conflict.
- Review the compensation policy annually and make adjustments as necessary.
- Try to be fair and realistic about compensation, both in terms of underpayment and overpayment.

WHAT TO WATCH FOR:

- Both the retiring and the succeeding generations should be careful not to use financial control as a way to exert their power during transition.
- Do not pay someone more than is appropriate for the task they are doing. If there is a reason to reward them above what is appropriate for their job tasks, find other ways (ie: gifts, shares, perks, etc.)

EXERCISE:

- Go to page 345 of the Appendix for a blank copy of the Compensation Exercise form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part E: Roles, Responsibilities and Authority

One of the most difficult parts of transition is the transition of management, which requires the retiring generation to 'let go' of the farm business, passing operational control and management authority to the succeeding generation. This process does not happen overnight; rather, it is best undertaken as a gradual process in which management functions transition over time by way of a structured plan.

Many planning groups expect the transition of management to occur naturally and seamlessly when the succeeding generation simply steps in and begins working alongside the retiring generation. While this method may succeed, its lack of both structure and clear timelines makes it problematic and potentially frustrating for either or both generations. On the one hand, transition attempted via this method may mean transition to the succeeding generation never fully occurs. On the other hand, transition can occur very suddenly it the retiring generation decides to retire, becomes ill or, in a worst-case scenario, dies.

Why is this relevant?

A structured transition plan that, at a minimum, broadly lists when and how the transition will take place helps planning groups move beyond everyone working on every task together. It also helps individuals who find it difficult to let go of control commit to a step-by-step transition process.

How will this help transition planning?

Defining clear roles, responsibilities and authority, and then placing timelines on how those roles, responsibilities and authority will change over time as transition proceeds helps:

- stop responsibilities from 'falling through the cracks' or being missed during transition planning and implementation;
- promote open communication about the farm business's transition of management;
- reduce the potential for conflict; and
- increase the likelihood of a successful transition.

Roles, Responsibilities and Authority Exercise

*** This exercise should be completed by all management team members.*

Instructions:

1. Refer to the job descriptions (created in Topic 20 Part C) and the management activities (listed in Topic 20 Part B).
2. Identify the roles and responsibilities that are currently being individually or jointly managed by the retiring generation.
3. List these tasks in the first column of the table found on page 347 of the Appendix.
4. For each task, write

a. who is currently responsible;
b. who the responsibility will need to be transitioned to;
c. when the transition will start and be completed
d. how the transition will happen from start to finish with the corresponding timeline.

5. Discuss with all members of the retiring and succeeding generations.
6. File these documents for working reference.

EXAMPLE:
Here is an example of what a partial Roles, Responsibility and Authority Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 347 in the Appendix.

Role or Responsibility	Currently Responsible	Transition Authority to:	Timeline	Action
Main Contact with Lenders, Accountants, Etc.	*Faye*	*John*	*one year*	*John and Rebecca to go with Faye and Rob to next meeting with lenders and accountants. Faye to communicate transition plan to advisors. Faye to defer all contact with professionals to John but remain available for support.*
Bookkeeping and Paying Bills	*Faye*	*Rebecca*	*two years*	*Rebecca to start shadowing Faye in these tasks. Rebecca to start paying bills and bookkeeping in six months with Faye's supervision and support. Change address with suppliers to John and Rebecca after one year and move bookkeeping over to their computer.*
Decisions Regarding Buyers, Suppliers, Etc.	*Rob*	*John*	*three years*	*Rob to include John in all decisions and negotiations. John to begin taking over contact with suppliers in six months; complete after 1.5 1.5 years. John to begin to take over contact with buyers after one year; complete after two years. Rob can stay involved but will not have final say after three years.*

How does this apply?

Keep this document on file and refer to it annually or as your situation changes. To help keep the information useful and current, ask:

- Are the transitions happening according to schedule?
- Have family members run into problems maintaining the transition plan timeline?
- Are there further activities that have been identified that need to be addressed?

PLANNING POINTERS:

- Do not skip this activity. This exercise may seem like something that can be put on hold until a later date. However, it is incredibly important to have these agreements in place **before** beginning your transition.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- Giving up control can be very difficult for some individuals. A gradual approach can help individuals overcome concerns they have about letting go. A gradual approach is only effective if clear timelines are laid out up front.

EXERCISE:

- Go to page 347 of the Appendix for a blank copy of the Roles, Responsibilities and Authority Exercise form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part F: Training and Skill Development

Most farming-related training and development occurs on-farm. However, external training and development can be beneficial to individual farm workers and to the business as a whole.

Training and development opportunities exist through many organizations and at many events, including (but certainly not limited to):

- government
- agricultural trade shows
- local fairs and exhibitions
- banks, credit unions or other financial institutions
- insurance agents
- producer groups and associations
- producers publications and media outlets
- university agriculture departments
- agricultural colleges

Several popular agriculture-specific training programs/events for Canadian producers include:

- **The Executive Program for Agricultural Producers (TEPAP)**

  TEPAP teaches advanced agribusiness skills such as international business development, niche market evaluation, analyzing and forecasting financial position, personnel management, and negotiation.

- **Canadian Total Excellence in Agricultural Management (CTEAM)**

  CTEAM brings progressive farmers together to learn from each other, network and access top agricultural experts in Canada.

- **Farm Credit Canada (FCC) Learning**

  FCC learning events feature hands-on workshops and seminars designed to help agricultural producers improve management skills, capture information and insight, and gain a deeper understanding of issues that affect agriculture.

- **Farm Management Canada Agriwebinar®**

  The Agriwebinar® is a web-based conference featuring agricultural leaders who aim to inform and/or inspire. The Agriwebinar® is free and accessible to all.

- **Agritalent.ca – Government of Canada**

  This bilingual database provides concise listings of training and learning programs in agriculture offered across Canada. It was developed for producers, farm managers and other workers in the agriculture sector, as well as those without any farming experience who seek agricultural learning opportunities.

*Note: Contact information for all of these programs is available on page 311.

Why is this relevant?

While external training is beneficial to any business, time and dollars spent on training and skill development are especially important to farm businesses. A farm business's success typically depends on its small number of employees possessing (or acquiring through training) a large number of high level agronomic and management skills.

How will this help transition planning?

External training can:

- introduce new skills and/or hone existing skills;
- ensure operational/financial/management mistakes made by the retiring generation are not passed on to and repeated by the succeeding generation;
- improve the leadership and management abilities of the farm team;
- help the farm develop useful contacts and relationships within the industry; and
- help accomplish management transition plans.

Training and Skill Development Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interest in the farm business should work together to complete this exercise.*

Instructions

1. Refer to the Roles, Responsibilities and Authority chart completed in the previous section (Topic 20 Part E).
2. As you look through the list of job tasks the succeeding generation will take over, determine if anyone would benefit from external training.
3. If yes, research appropriate training resources/programs/events available through:
   a. the list above;
   b. an Alberta Agriculture and Forestry farm business management specialist; and/or
   c. other training opportunities or organizations.
4. Develop a training plan that includes:
   a. an annual budget;

b. who will attend courses or seminars;

c. when they will attend; and

d. if/how they will pass the learnings on to the rest of the farm team.

5. Review the training plan annually and make adjustments as required.
6. File this document for future reference.

EXAMPLE:
Here is an example of what a partial Goal Setting Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 348 in the Appendix.

TRAINING AND SKILL DEVELOPMENT – Sample Farms Ltd.

Activity 1: Attend a workshop on financial management.		
Hosting Organization: Farm Credit Canada		
Location (if applicable): Ruraltown, AB		
Budget: $75.00 for travel costs		
Who Attends	**Dates**	**Follow-up**
Rebecca and John	March 23rd	Report back to the family.
		Determine if there's value in attending the second workshop.

How does this apply?

Keep this document on file and refer back to it annually or as your situation changes. Use the following questions to guide the review:

- Are training plans happening according to schedule?
- Have family members run into problems maintaining the training plan timelines?
- Have further training and skill development areas been identified as necessary that need to be addressed?

WHAT TO WATCH FOR:

- If you have trouble finding a course or seminar with subject material that meets your needs, contact an Alberta Agriculture and Forestry farm business management specialist.

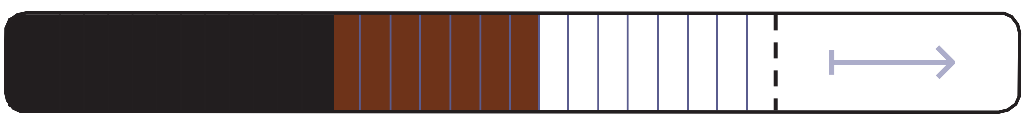
EXERCISE:

Complete the Training and Skill Development Exercise on pages 348 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 21: Agreements

A lot of business in agriculture gets done on the basis of a handshake. While the farming industry has long prided itself on its reputation for honesty and trust, the reality is that farming today is big business. Business deals based on formal agreements minimize disagreement and conflict, reduce stress and uncertainty, and can save both dollars and relationships.

Transition planning requires several agreements to be formalized. In addition, it is good operating practice to get into the habit of formalizing all business deals that involve two or more individuals, especially if money is involved (ie: employment contracts, marketing contracts, purchase contracts, etc.).

The information provided in this topic is intended as a basic overview only and does not replace the advice of a professional. Seek professional support in drawing up all agreements and contracts.

Part A: Unanimous Shareholder Agreement/Partnership Agreement

A unanimous shareholder agreement is an agreement between all shareholders of a corporation that outlines:

- ownership and voting rights;
- control and management rights, obligations and limitations;
- provisions for dispute resolution;
- details regarding how any future capital contributions or financing arrangements are to be made; and
- other provisions as dictated by the shareholders.

A similar agreement in a partnership is called a partnership agreement.

Though not all farm businesses create a shareholder or partnership agreement, it is **strongly** recommended.

This topic is **not** designed to create a legally binding document. Rather, it is designed to help transition planning groups identify the priorities they would like to formalize within an agreement. To be legally binding, shareholder and partnership agreements must be written by a lawyer.

Why is this relevant?

Clarifying expectations and formalizing an operating agreement between all shareholders/partners is important in any business, but particularly necessary when a business undergoes significant change such as transition. This exercise is useful for:

- existing corporations that already have a shareholder agreement in place but will need it to be modified or updated as part of the transition plan;
- existing corporations that do not have a shareholder agreement already in place;
- new corporations that will be formed as part of the transition plan;
- existing partnerships that already have a partnership agreement in place but will

need it to be modified or updated as part of the transition plan;

- existing partnerships that do not have a partnership agreement already in place; and
- new partnerships that will be formed as part of the transition plan.

How will this help transition planning?

Creating a shareholder/partnership agreement:

- promotes communication between partners/shareholders, whether they are on-farm or non-farm;
- clearly outlines financial, operational and management expectations, obligations, rights and responsibilities;
- provides a framework to resolve future conflicts;
- minimizes conflict, stress and misunderstanding; and
- forces transition planning groups to seek help from a professional advisor.

Unanimous Shareholder Agreement/Partnership Agreement Exercise

*** All partners/shareholders in your farm business should work together on this exercise.*

Instructions

1. As a group, review the list of shareholder/partnership agreement considerations on page 349 of the Appendix.

1. If you are modifying an **existing** shareholder or partnership agreement:

- Review your existing agreement.
- Work through each of the considerations listed on pages 295 to 298. Change, modify, or make notes on your existing agreement as applicable.
- Review your newly modified agreement with a lawyer.
- Input the lawyer's recommendations and necessary changes.
- Review again as a group.

2. If you are creating a **new** shareholder or partnership agreement:

- Work through each of the considerations listed on pages 295 to 298;
- Comment and document as applicable;
- Review your group's thoughts with a lawyer. Based on this discussion, your group may choose to:
    - o draft an agreement based on your group's thoughts and your lawyer's recommendations, and then review this draft with your lawyer; or

- o ask your lawyer to draft your thoughts and his/her recommendations into an agreement.
- Review again as a group.

How does this apply?

This exercise is designed to help transition planning groups begin to consider business, management and operating priorities that should be formally defined by a shareholder or partnership agreement.

KEEP IN MIND:

- Do not skip this activity.
- Do not defer this activity.
- This topic is **not** designed to create a legally binding document. To be legally binding, a shareholder/partnership agreement must be written by a lawyer.
- Consider using an external facilitator/lawyer if you are concerned about potential for conflict during the discussion surrounding this exercise.
- It is a huge advantage to put a formal agreement in place **before** you have to deal with issues about business structure. It is virtually impossible to come to agreement on how to resolve an issue once the issue is a reality, especially if there is conflict.

WHAT TO WATCH FOR:

- Your transition planning group may find that not all questions in the list on page 349 of the Appendix are applicable or necessary for your agreement, and/or may determine that additional details not covered in the list of questions may be necessary. In particular, not all questions will be applicable to those drafting a partnership agreement. It is recommended that transition planning groups talk through all of the questions as a group and then seek a lawyer's advice regarding which components to include or not include in a final agreement.

EXERCISE:

Complete the exercise outlined above, referring to page 349 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Part B: Business Agreements

Most farm businesses operate according to a handful or more formal and informal business agreements including supplier and customer contracts, lease arrangements, lending agreements, etc. All of these agreements will need to be reviewed and changed/updated during transition. In addition, outside individuals involved in any agreements will need to be informed that transition is occurring.

Why is this relevant?

Once the transition plan is mostly in place, it is necessary to update and make changes to all farm business agreements. In some cases, the alterations will be limited to changing names on the documents. In other cases, however, agreements may require more in-depth consideration and structural reworking. In addition, the personal relationships that accompany business agreements will need to transition to the succeeding generation.

How will this help transition planning?

Reviewing and reworking a farm business's business agreements:

- allows the succeeding generation to get a hands-on feel for the various agreements governing the business;
- ensures all business agreements are updated for transition and up-to-date, ensuring opportunities are not accidentally lost;
- fosters open communication between transition planning members;
- provides an opportunity for the succeeding generation to connect and build relationships with external partners; and
- is a proactive way to keep the farm business operating smoothly through transition.

Business Agreement Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work together to complete this exercise.*

Instructions

1. Gather documentation about all business agreements in effect on your farm. These may include:
   - supplier contracts
   - customer contracts
   - lender agreements
   - trade-credit accounts
   - marketing contracts

- landlord contracts
- leasing contracts
- other business agreements

2. Review each business agreement individually.
    - Discuss the history of the agreement.
    - Discuss the existing terms of the agreement.
    - Determine whether the agreement needs to be updated, changed or adjusted.
        - Note any red flags or concerns.
        - Read carefully to ensure details like names and addresses are correct.
    - If changes are required, assign someone responsibility for ensuring the changes occur, and choose a completion date for this task.
3. Assign someone to contact external partners to inform them of the impending transition. Choose a completion date for this task.
4. Store the documents for future reference.

How does this apply?

Transition brings enormous change. Where change is necessary, it is best handled proactively and openly so all players know where they stand and what to expect. Where change is not necessary and existing agreements can roll over from the retiring to the succeeding generation, open discussion is equally important.

KEEP IN MIND:

- A good first step in active transition is for the retiring generation to formally introduce the succeeding generation to business partners, and then to include all parties in subsequent business meetings.
- After an appropriate time, the retiring generation should allow the succeeding generation to independently conduct some of the business with partners.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- Once verbal agreement is reached on how transition will be handled, it can be tempting to put off formalizing agreements. Do not let this topic slip through the cracks.

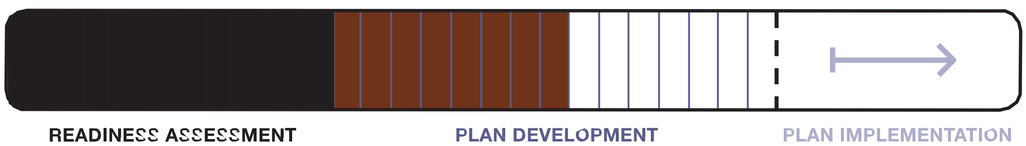
EXERCISE:

Complete the Business Agreement Exercise outlined above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 22: Deal Breaker Issues

Most farmers will have been involved in a transaction or business deal where, at the last minute, something changed and the deal derailed. Despite participants' best intentions and no matter how much planning effort they have invested, a similar derailment can occur during transition planning.

The transition planning process is long and involved, so is typically spread over many months. Frustration and conflict can arise because of the planning process, or the planning process can be a catalyst – the "straw that broke the camel's back" – causing underlying frustration and conflict to boil to the surface.

The purpose of conducting a review of deal breaker issues at this point in the planning process is to proactively determine whether or not issues exist that could derail transition.

The next steps in the transition planning process are to talk through your transition plan with professional advisors (lawyers, accountants, insurance and investment advisors). These discussions will cost money and are the first official steps in implementing your plan. Therefore, it is better to work through this review as a final check and to implement appropriate corrective actions where required before proceeding.

How will this help transition planning?

Discussing issues that may be unresolved or may become problematic in the future:

- is a proactive way to minimize conflict and maximize the potential for a successful transition;
- can save a significant amount of time, money and frustration; and
- will make meetings with advisors more productive.

Deal Breaker Issue Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should complete this exercise.*

Instructions

1. Individually review the Deal Breaker Issues section on page 353 of the Appendix.
    - Think back on the discussions that occurred within each of the question areas during the transition planning process.
    - Jot down notes as necessary.
2. Once all participants have reviewed the questions, discuss them as a group one by one.
    - Together, answer each question with a 'yes' or 'no'.
    - Write down any applicable comments. (If your group answers 'no' to a question, you may have no comments.)
3. If corrective action is required (usually when the answer to the question was yes), decide among participants what action is required. Write the required action down.
4. Decide among participants if all deal breaker issues have been identified and resolved. In

each section, answer whether, with corrective action, the plan can proceed to Agreements and Implementation?

- If the answer is no, stop the process and work to resolve whatever outstanding issues may exist.
- If the answer to the last question is yes, move to the next step in the transition planning process.

5. Store the documents for future reference.

EXAMPLE:
Here is an example of what a partial Deal Breaker Issue Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 353 in the Appendix.

DEAL BREAKER ISSUES

Complexities

Are there transition challenges outstanding that have not been dealt with?

Comments: *Yes, but follow-up plans have been made*.

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Guiding Principles

Are there areas of major disagreement within the farm's guiding principles?

Comments: *No*

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Conflict

Is there unresolved conflict (visible or hidden) between stakeholders? Will this conflict hamper the management team's ability to manage post implementation?

Comments: *No*

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Strategic Direction and Risk Management

Can the risks identified be mitigated satisfactorily so they don't endanger the farm's future? Are all stakeholders committed to managing according to the agreed upon action plans and financial targets?

Comments: *The risk of insufficient management capacity can be handled to deal with farm growth. Yes stakeholders are committed to managing according to the action plans and financial targets*.

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Transition Options

Are all stakeholders satisfied with the proposed business structure and future management structure? Has there been any seriously negative feedback from professionals that cannot be incorporated into the plan?

Comments: *Yes stakeholders are satisfied and all feedback can be incorporated into the plan.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Human Resources

Are all stakeholders satisfied with their roles, responsibility and authority during transition? Is the training/skill set program content and timeline attainable? Are all stakeholders satisfied with the compensation policy and performance review process?

Comments: *John and Rebecca have agreed to the compensation plan but Rob and Faye feel they may not be being realistic about the income they will need as a full-time farm family. They are worried John and Rebecca will come back asking for more money in a few years and that the farm may or may not be able to provide this increase in wages.*

Corrective Action (if any): *Go back to the financial plan and test out whether the farm can support increased wages.*

With corrective action can the plan proceed to the Agreements and Implementation topics? *Yes. If the plan shows the farm cannot support higher income levels, Rebecca has agreed to work off the farm if necessary.*

Estate Plan Elements

Can all stakeholders accept the estate plan? Is there conflict/feeling of resentment associated with the estate plan that needs to be addressed?

Comments: *All stakeholders have agreed to the plan.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to the Agreements and Implementation topics? *(N/A)*

Are we ready to proceed to Implementation? *(YES)*

How does this apply?

This topic is designed to put the transition planning process on hold briefly in order to encourage all participants to review potential trouble spots and deal breaker issues before the plan moves to implementation.

KEEP IN MIND:

- Try to make sure that all participants have input in this discussion.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.

WHAT TO WATCH FOR:

- As you compare and contrast participants' answers, note:
  - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
  - Does this exercise identify any underlying reasons for existing conflict in your operation?
- Store the document for future reference in case someone raises an issue in the future. You can point out that everyone had a clear opportunity to raise any concerns or objections.

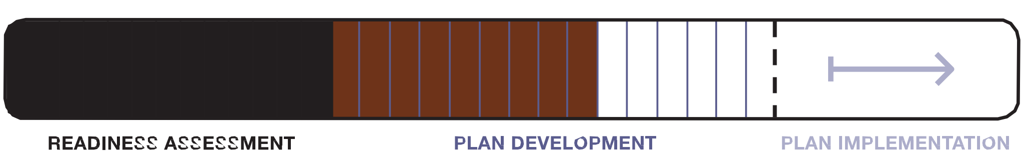
EXERCISE:

Complete the Deal Breaker Issues Exercise outlined above using the forms on page 353 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Chapter 7: Recap Checklist

Complete the following checklist as you work through the Chapter 7 topics. For each topic, mark the ‘Red Flag’ or the ‘Green Light’ checkboxes that best suit your planning group’s status upon completion of the topic’s exercise. Red Flag marks indicate that your group may need to discuss this topic further or seek professional support.

n

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Topic 17 Part A: Successor Assessment	☐ We were unable to complete this topic’s exercise. ☐ We do not have the information we need to complete this exercise. ☐ According to the assessment, the leadership and management skills of our farm business’s successor(s) are less than desired. ☐ Some or all of us were unable to decide/agree upon where our farm’s successor(s) could and should improve their leadership and management skills. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic’s exercise. ☐ According to the assessment, the leadership and management skills of our farm business’s successor(s) are adequate or strong. ☐ We were able to decide/agree upon where our farms’ successor(s) could and should improve their leadership and management skills.		
Topic 17 Part B: Ownership Options	☐ We were unable to complete this topic’s exercise. ☐ We do not have the information we need to complete this exercise. ☐ The retiring generation was unable to outline a preliminary plan for how, when and what assets will transfer to non-farm and on-farm	☐ We completed this topic’s exercise. ☐ The retiring generation was able to outline a preliminary plan for how, when and what assets will transfer to non-farm and on-farm successors.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	successors. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.			
Topic 17 Part C: Business Structure	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ The retiring generation was unable to determine how assets should transfer to successors. ☐ The retiring generation was unable to agree on how assets should transfer to successors. ☐ Some or all of us were unable to understand/determine the best business structure for our farm business. ☐ Some or all of us were unable to get the information we needed from an advisor regarding business structure and asset transfer options. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ The retiring generation was able to determine and agree upon how assets should transfer to successors. ☐ We were able to understand/determine the best business structure for our farm business. ☐ We were able to get the information we needed from an advisor regarding business structure and asset transfer options.		
Topic 17 Part D: Financial Performance: Transition Scenario	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us did not consider multiple transition options. ☐ Some or all of us are unwilling to return to this exercise at a later date when new factors that could	☐ We completed this topic's exercise. ☐ We considered multiple transition options. ☐ We understand that our actual transition may be influenced by factors that we do not yet know, so we may need to return to this		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	influence transition surface. ☐ Some or all of us have conflicting understanding of our farm business's current financial situation and/or conflicting expectations of possible future financial performance. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	exercise and do it again at a later date when these new factors surface. ☐ As a group, we understand our farm business's current financial situation. ☐ Our individual expectations of our farm business's possible future performance, as influenced by various transition options, generally align.		
Topic 18: Preliminary Advisor Review	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We do not yet have advisors in place. ☐ We met with our advisors and they determined that our plan has very significant challenges/gaps/issues. ☐ Some or all of us do not feel that our questions were sufficiently answered by one or more of our advisors. ☐ Some or all of us still have many questions and/or concerns regarding our transition plan or the planning process to date. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We have trusted advisors in place. ☐ We met with our advisors and they determined that our plan does not have significant challenges/gaps/issues. ☐ We feel that our questions were sufficiently answered by our advisors. ☐ We feel comfortable with our transition plan and the planning process to date.		
Topic 19 Part A: Estate	☐ We were unable to complete this topic's exercise.	☐ We completed this topic's exercise.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Distribution	☐ We do not have the information we need to complete this exercise. ☐ The retiring generation was unable to outline a preliminary estate distribution plan. ☐ The retiring generation has conflicting priorities regarding the estate distribution plan. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ The retiring generation was able to agree upon and outline a preliminary estate distribution plan.		
Topic 19 Part B: Wills, Power of Attorney, Executor	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ The retiring generation was unable to outline questions for advisors regarding their wills, power of attorney and executor. ☐ Some or all of the retiring generation has not written a will and/or designated a power of attorney and executor. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ The retiring generation was able to outline questions for advisors regarding their wills, power of attorney and executor. ☐ The retiring generation was able to organize their wills, power of attorney and executor. ☐ The succeeding generation was able to organize their wills, power of attorney and executor.		
Topic 19 Part C: Insurance	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us (particularly members of the retiring generation) do not understand how insurance might be of use during transition.	☐ We completed this topic's exercise. ☐ We (particularly members of the retiring generation) understand how insurance might be of use during transition. ☐ We have considered		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	whether insurance might be a fit with our farm business.		
Topic 20 Part A: Management Structure	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us do not understand why creating a formalized management structure is important for our farm business. ☐ Some or all of us have conflicting understanding of our farm business's management structure. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We understand why creating a formalized management structure is important for our farm business. ☐ Our individual understandings of our farm business's current management structure generally align.		
Topic 20 Part B: Management Activities	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us do not understand why outlining formalized management activities is important for our farm business. ☐ Some or all of us have conflicting understanding of our farm business's management activities. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We understand why outlining formalized management activities is important for our farm business. ☐ Our individual understandings of our farm business's management activities generally align.		
Topic 20 Part C: Job Descriptions	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we	☐ We completed this topic's exercise. ☐ We understand why outlining		

	Red Flag	Green Light	Follow-up Necessary? Yes	No
	need to complete this exercise. ☐ Some or all of us do not understand why outlining formalized job descriptions is important for our farm business. ☐ Some or all of us have conflicting understanding of our farm business's job descriptions. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	formalized job descriptions is important for our farm business. ☐ Our individual understandings of our farm business's job descriptions generally align..		
Topic 20 Part D: Compensation	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We have conflicting expectations regarding compensation ☐ Some or all of us have conflicting expectations regarding key compensation priorities (how fair wage is determined, how shareholders should be paid, how compensation should be tied to performance, etc) ☐ Our compensation philosophy does not align with our farm business's financial reality. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ As a group, we understand our farm business's current financial situation. ☐ Our individual expectations regarding fair compensation and key compensation priorities (ie: how fair wage is determined, how shareholders should be paid, how compensation should be tied to performance, etc) generally align. ☐ We were able to formalize a compensation philosophy. ☐ Our compensation philosophy aligns with our farm business's financial reality.		
Topic 20 Part E: Roles,	☐ We were unable to complete this topic's exercise.	☐ We completed this topic's exercise.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Responsibilities and Authority	☐ We do not have the information we need to complete this exercise. ☐ Some or all of us are unwilling to discuss the transition of roles, responsibilities and authority. ☐ Some or all of us have conflicting expectations regarding the transition of roles, responsibilities and authority. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We are willing to discuss the transition of roles, responsibilities and authority. ☐ Our individual expectations regarding the transition of roles, responsibilities and authority generally align.		
Topic 20 Part F: Training and Skill Development	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We were unable to identify what training might be useful for key members of our transitioning group. ☐ We were unable to find appropriate training opportunities for key members of our transitioning group. ☐ We have conflicting ideas of what training is necessary for key members of our transitioning group. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We were able to identify what training might be useful for key members of our transitioning group. ☐ We were able to find appropriate training opportunities for key members of our transitioning group. ☐ Our individual ideas of what training is necessary for key members of our transitioning group generally align.		
Topic 21 Part A: Unanimous Shareholder Agreement / Partnership Agreement	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us have conflicting understanding and or conflicting	☐ We completed this topic's exercise. ☐ We understand our farm business's existing shareholder/partnership agreement OR we		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	expectations regarding our farm business's existing shareholder/partnership agreement OR the need for a new shareholder/partnership agreement. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	understand why our farm business requires a shareholder/partnership agreement. ☐ Our individual expectations regarding a shareholder/partnership agreement generally align.		
Topic 21 Part B: Business Agreements	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ Some or all of us are unwilling to update business agreements and/or transition agreements to the succeeding generation. ☐ Some or all of us have conflicting understanding of our farm business's current business agreements. ☐ We identified significant red flags in some or all of our existing agreements. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We are willing to update business agreements and transition agreements to the succeeding generation. ☐ Our individual understanding of our existing business agreements generally align. ☐ We did not identify significant red flags in any of our existing agreements.		
Topic 22: Deal Breaker Issues	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We identified one or more deal breaker issue(s). We were unable to identify suitable corrective action	☐ We completed this topic's exercise. ☐ We identified one or more deal breaker issue(s). We were able to identify suitable corrective action to counter the issue(s).		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	to counter the issue(s). ☐ Some or all of us have conflicting understanding of our farm business's deal breaker issues and/or the corrective actions required to counter identified issue(s). ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ Our individual understanding of our farm business's deal breaker issue(s) and any necessary corrective action(s) generally align.		

Chapter 8:
Review

Topic 23: Transition Plan Review

Congratulations! You have now completed the development of your plan. This is an appropriate time to conduct a thorough review of your work to date and a discussion among all of the transition planning participants. Schedule a meeting to share your progress and make any necessary changes to your plan.

How will this help transition planning?

Transition planning requires dedication, communication, and the investment of much time and energy. Periodically pausing in order to review progress:

- supports open communication;
- allows adjustments to planning as necessary; and
- gives an opportunity for participants to celebrate the completion of important milestones.

Transition Plan Review Meeting Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should meet to review your transition plan development to date.*

Instructions

1. Refer to the sample agenda on page 357 of the Appendix.

KEEP IN MIND:

- At the very least, your Transition Plan Review Meeting should include your farm business's management team, the retiring generation, and the succeeding generation. Additional stakeholders with a vested interest in your farm's transition may be included as your group sees fit.
- Consider using an external facilitator if you are concerned about the potential for conflict.

WHAT TO WATCH FOR:

- It is not unusual in many transition planning groups for one or more participants to be strongest/loudest. In a review meeting such as this one, it is very important that all participants are given the opportunity to share their perspective. It is the meeting chair's responsibility to ensure that all participants are given a fair chance to speak.
- As you compare and contrast participants' answers, note:
    - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
    - Does this meeting identify any underlying reasons for existing conflict in your operation?

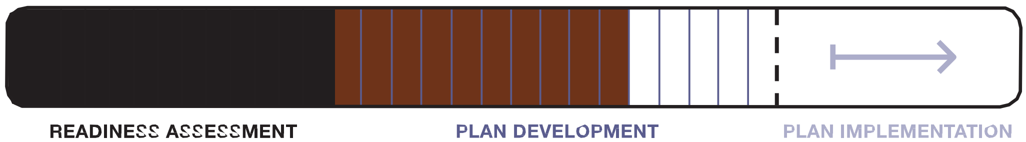
EXERCISE:

Complete the Transition Plan Review Exercise according to the sample agenda included on page 357 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new ‘To Do’ items, don’t forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 24: Accountant Review

The purpose of the accountant review is to present what you have accomplished to date in your transition planning to your accountant for review, and to begin discussions about the plan's implementation.

How will this help transition planning?

Discussing your plan with an accountant at this stage of plan development:

- opens the doors of communication between your planning group and your accountant;
- allows your accountant an opportunity to review your plan and identify any potential pitfalls or areas that require further consideration;
- can save significant time and money in the future;
- builds a more workable plan, ensuring necessary structures and supports are in place;
- helps keep all participants on track and moving the transition plan forward; and
- builds group confidence in and commitment towards the plan.

Accountant Review Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work through this exercise together.*

Instructions

1. As a group:
   - Decide who will go to the meeting with an accountant.
   - Assign one person to take notes during the meeting with the accountant.
   - Discuss and decide what information should be shared with an accountant.
   - Review your planning to date and formulate a list of questions to ask an accountant.
2. Make an appointment with an accountant. Inform him/her in advance what you want to talk about. Send an agenda, a list of discussion points and/or a list of questions in advance if you wish.
3. Prepare for the meeting by organizing information and questions.
4. After the meeting, distribute notes to all planning participants and meet with the entire planning group to discuss the accountant's feedback and recommendations.
5. Prepare to incorporate the accountant's feedback in the Final Plan Adjustment (Topic 26).
6. If the accountant suggests that any corrective actions are required, put the transition planning process on hold until the issues are resolved.

KEEP IN MIND:

- The more prepared you are for the meeting, the more you will get out of the discussions.
- The more prepared your accountant is for the meeting, the more you will get out of the discussion. As such, plan to send him/her information in advance.
- If you require a new advisor, refer to the *How to Choose and Work with an Advisor* document found in the Appendix section on page 358.

WHAT TO WATCH FOR:

- If a professional advisor brings up any major changes to your plan, asks significant questions your group is unable to answer, or surprises you with important information you did not know, do not leap forward to implementation. Take time to consider whether you need more group discussion, more time to prepare and plan, or more time with your advisors before implementation begins. Implementation can be costly and challenging. Proceeding with it without a solid foundation and fully-considered plan may be disastrous.

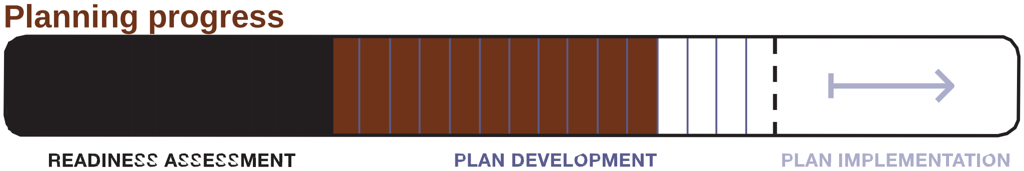
EXERCISE:

Complete the Accountant Review Exercise according to the instructions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 25: Lawyer Review

The purpose of the lawyer review is to present what you have accomplished to date in your transition planning to your lawyer for review, and to begin discussions about the plan's implementation.

How will this help transition planning?

Discussing your plan with a lawyer at this stage of plan development:

- opens the doors of communication between your planning group and your lawyer;
- allows your lawyer an opportunity to review your plan and identify any potential pitfalls or areas that require further consideration;
- can save significant time and money in the future;
- builds a more workable plan, ensuring necessary structures and supports are in place;
- helps keep all participants on track and moving the transition plan forward; and
- builds group confidence in and commitment towards the plan.

Lawyer Review Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work through this exercise together.*

Instructions

1. As a group:
    - Decide who will go to the meeting with a lawyer.
        - Assign one person to take notes during the meeting with the lawyer.
    - Discuss and decide what information should be shared with a lawyer.
    - Review your planning to date and formulate a list of questions to ask a lawyer.
2. Make an appointment with a lawyer. Inform him/her in advance what you want to talk about. Send an agenda, a list of discussion points and/or a list of questions in advance if you wish.
3. Prepare for the meeting by organizing information and questions.
4. After the meeting, distribute notes to all planning participants and meet with the entire planning group to discuss the lawyer's feedback and recommendations.
5. Prepare to incorporate the lawyer's feedback in the Final Plan Adjustment (Topic 26).
6. If the lawyer suggests that any corrective actions are required, put the transition planning process on hold until the issues are resolved.

KEEP IN MIND:

- The more prepared you are for the meeting, the more you will get out of the discussions.
- The more prepared your lawyer is for the meeting, the more you will get out of the discussion. As such, plan to send him/her information in advance.
- If you require a new advisor, refer to the *How to Choose and Work with an Advisor* document found in the appendix section on page 358.

WHAT TO WATCH FOR:

- If a professional advisor brings up any major changes to your plan, asks significant questions your group is unable to answer, or surprises you with important information you did not know, do not leap forward to implementation. Take time to consider whether you need more group discussion, more time to prepare and plan, or more time with your advisors before implementation begins. Implementation can be costly and challenging. Proceeding with it without a solid foundation and fully-considered plan may be disastrous.

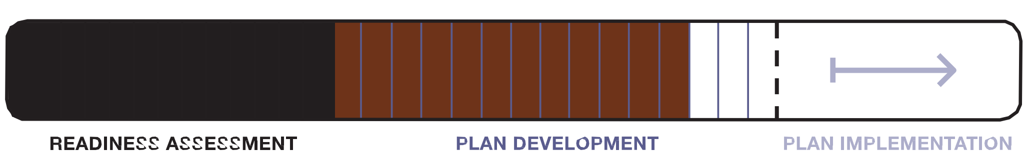
EXERCISE:

Complete the Lawyer Review Exercise according to the instructions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 26: Final Plan Adjustments

In the previous two topics, your transition planning group met with a lawyer and an accountant. It is very likely that these advisors suggested changes or provided feedback on some or many elements of your draft plan. The purpose of the Final Plan Adjustments Topic is to ensure your group takes the time to discuss and/or incorporate the feedback and information generated from the meetings with professional advisors prior to proceeding with plan implementation.

Do not proceed with plan implementation until all advisors' recommendations and questions have been thoroughly considered. It can be costly (and sometimes very difficult) to undo transition actions once implementation begins. For this reason, it makes sense to adjust your plan based on professionals' advice prior to proceeding to implementation.

How will this help transition planning?

Discussing and incorporating advice and recommendations from professional advisors into your plan at this stage in the planning process:

- will foster open communication between planning group members;
- can save significant time and money in the future;
- builds a more workable plan, minimizing future pitfalls and ensuring necessary structures and supports are in place;
- helps keep all participants on track and moving the transition plan forward; and
- builds group confidence in and commitment towards the plan.

Final Plan Adjustments Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work together to complete this exercise.*

Instructions

1. As a group, review the notes from the meetings with the accountant and lawyer.
2. Openly discuss each advisor's comments. Specifically consider:
    - Is your group comfortable with each recommended change?
        - If so, proceed with making the change.
        - If not, discuss further. A subsequent meeting with the advisor may be necessary.
    - Does your group need additional information to answer any of the advisors' questions?
    - Did either/both advisors bring up any surprises that the group should discuss prior to proceeding?
    - Did either/both advisors bring up any serious concerns that need to be dealt with prior to

proceeding with implementation?

3. Revisit the Critical Issue Action Plan Topic (Topic 15 Part E). Make any necessary adjustments to existing action plans or create new ones.
4. Distribute the changes to any stakeholders who were not part of working through this Topic if you wish.

KEEP IN MIND:

- The more detail you use in making adjustments to the Critical Issue Action Plans, the better information you will have as a base from which to proceed with implementation.
- Paying careful attention to advisors' recommendations and comments and then incorporating them where appropriate will significantly increase the likelihood of a successful transition.

WHAT TO WATCH FOR:

- As you compare and contrast participants' answers, note:
  - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
  - Does this exercise identify any underlying reasons for existing conflict in your operation?

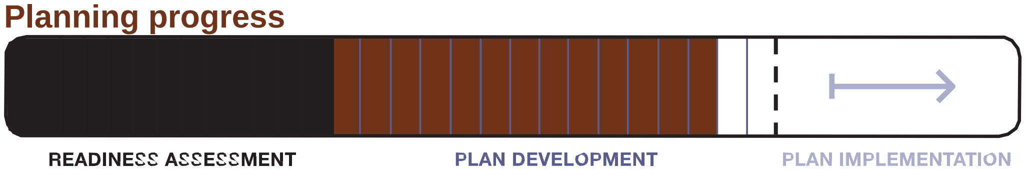
EXERCISE:

Complete the Final Plan Adjustments exercise according to the instructions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 27: Accountant / Lawyer Sign–off

You group is almost there! In the previous topic, your group discussed and incorporated your professional advisors' recommendations into your draft plan. Now, your advisors need to take another look at your draft to ensure the adjustments your group completed answer all of their questions and fulfill all of their recommendations. Your group should receive an unqualified sign-off from both your lawyer and your accountant before proceeding with implementation.

How will this aid in transition planning?

Discussing your plan a final time with trusted advisors and gaining their sign-off on the plan:

- allows your lawyer and accountant another opportunity to review your plan and identify any potential pitfalls or areas that require further consideration;
- fosters open communication between your planning group and your advisors;
- can save significant time and money in the future;
- builds a more workable plan, ensuring necessary structures and supports are in place;
- helps keep all participants on track and moving the transition plan forward; and
- builds group confidence in and commitment towards the plan.

Accountant/Lawyer Sign-off Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should work through this exercise together.*

Instructions

1. As a group:
   - Decide who will go to the meeting with a lawyer.
     - Assign one person to take notes during the meeting with the advisors.
   - Discuss and decide what information should be shared with the advisors.
   - Review your planning to date and formulate a list of last questions to ask the advisors.
2. Make appointments with the advisors. Inform them in advance what you want to talk about. Send an agenda, a list of discussion points and/or a list of questions in advance if you wish.
3. Prepare for the meeting by organizing information and questions.
4. After the meeting, distribute notes to all planning participants and meet with the entire planning group to discuss the advisors' feedback and recommendations.
5. If you learn, even at this last step, that any corrective actions are required, put the transition planning process on hold until the issues are resolved.

KEEP IN MIND:

- The more prepared you are for the meeting, the more you will get out of the discussions.
- The more prepared your advisors are for the meetings, the more you will get out of the discussions. As such, plan to send your advisors information/questions in advance.

WHAT TO WATCH FOR:

- If a professional advisor brings up any major changes to your plan, asks significant questions your group is unable to answer, or surprises you with important information you did not know, do not proceed with implementation. Take time to consider whether you need more group discussion, more time to prepare and plan, or more time with your advisors before implementation begins. Implementation can be costly and challenging. Proceeding with it without a solid foundation and fully-considered plan may be disastrous.

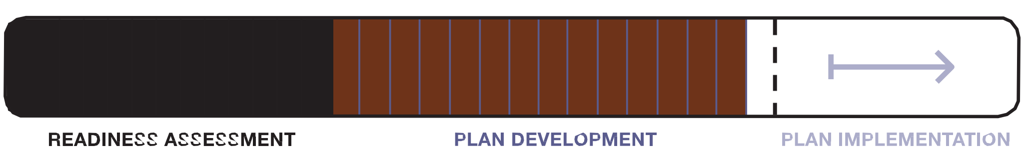
EXERCISE:

Complete the Accountant/Lawyer Sign-off Exercise according to the instructions above.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 28: Final Meeting

CONGRATULATIONS!

Your transition planning process is complete! This is an appropriate time to hold a final meeting to share your plan and discuss plan implementation.

How will this help transition planning?

Transition planning requires dedication, communication, and the investment of much time and energy. Periodically pausing in order to review progress:

- supports open communication;
- allows adjustments to planning as necessary; and
- gives an opportunity for participants to celebrate the completion of important milestones.

Final Meeting Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interested in the farm business should meet for a final review of your transition plan.*

Instructions

1. Refer to the sample agenda on page 361 of the Appendix.

KEEP IN MIND:

- At the very least, your Transition Plan Final Meeting should include your farm business's management team, the retiring generation, and the succeeding generation.
- Your planning group may wish to invite additional stakeholders or attendees such as relatives, friends or others.
- Your planning group has invested significant time and energy in transition planning. You deserve to congratulate yourselves and celebrate. You have achieved a major milestone.

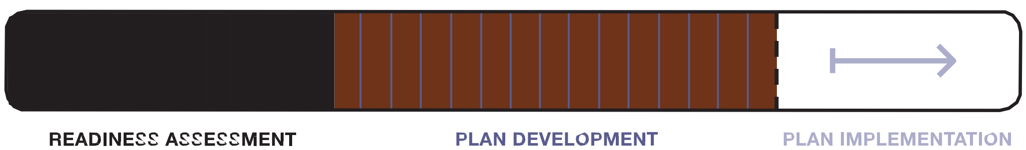
WHAT TO WATCH FOR:

- At this point, your planning group is likely to be on a similar page regarding your transition's roll-out. However, if you choose to invite additional stakeholders to this meeting and you anticipate conflict, you may want to hire an external facilitator to chair the meeting.

EXERCISE:

Complete the Final Review Exercise according to the sample agenda included on page 361 of the Appendix.

Planning progress



Chapter 8: Recap Checklist

Complete the following checklist as you work through the Chapter 8 topics. For each topic, mark the 'Red Flag' or the 'Green Light' checkboxes that best suit your planning group's status upon completion of the topic's exercise. Red Flag marks indicate that your group may need to discuss this topic further or seek professional support.

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Topic 23: Transition Plan Review	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ One or more of us believes there is a reason we should not proceed to the next topic. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We all agree we are ready to proceed to the next topic.		
Topic 24: Accountant Review	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We do not have an accountant in place for our farm business. ☐ Our accountant brought up significant concerns regarding our transition plan and/or transition planning process to date.	☐ We completed this topic's exercise. ☐ We have a trusted accountant in place for our farm business. ☐ Our accountant was comfortable with our transition plan and transition planning process to date and did not bring up significant concerns. ☐ Our accountant answered all of our key questions.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	☐ Our accountant did not answer some or all of our key questions. ☐ Our accountant believes our plan is unlikely to succeed. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ Our accountant believes our plan has good potential for success.		
Topic 25: Lawyer Review	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We do not have a lawyer in place for our farm business. ☐ Our lawyer brought up significant concerns regarding our transition plan and/or transition planning process to date. ☐ Our lawyer did not answer some or all of our key questions. ☐ Our lawyer believes our plan is unlikely to succeed. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ We have a trusted lawyer in place for our farm business. ☐ Our lawyer was comfortable with our transition plan and transition planning process to date and did not bring up significant concerns. ☐ Our lawyer answered all of our key questions. ☐ Our lawyer believes our plan has good potential for success.		
Topic 26: Final Plan Adjustments	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this	☐ We completed this topic's exercise. ☐ We were able to carry out our accountant and our lawyer's		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	exercise. ☐ We were unable to carry out our accountant and/or our lawyer's recommended adjustments to our plan. ☐ Some or all of us were unable to decide/agree upon how our transition plan should be adjusted. ☐ Some or all of us are uncomfortable with components of our final plan and/or are willing to proceed to implementation. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	recommended adjustments to our plan. ☐ We were able to decide and agree upon how our transition plan should be adjusted. ☐ All members of our planning group are comfortable with our final plan and ready to proceed to implementation.		
Topic 27: Accountant / Lawyer Sign-off	☐ We were unable to complete this topic's exercise. ☐ We do not have the information we need to complete this exercise. ☐ We do not have a lawyer and/or accountant in place for our farm business. ☐ Our lawyer and/or accountant brought up significant concerns regarding our transition plan and/or transition planning process to date. ☐ Our lawyer and/or accountant believes our plan is unlikely to succeed.	☐ We completed this topic's exercise. ☐ We have a trusted lawyer and accountant in place for our farm business. ☐ Our lawyer and accountant were comfortable with our transition plan and transition planning process to date and did not bring up significant concerns. ☐ Our lawyer and accountant answered all of our final questions. ☐ Our lawyer and accountant believe our plan has good		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	potential for success.		
Topic 28: Final Review Meeting	☐ We were unable to complete this topic's exercise. ☐ Some or all of us are uncomfortable with components of our final plan. ☐ Some or all of us are unwilling to proceed to implementation. ☐ This topic resulted in significant unresolved conflict/disagreement within our planning group.	☐ We completed this topic's exercise. ☐ All members of our planning group are comfortable with our final plan. ☐ We are ready to proceed to implementation.		

Phase 4 – Plan Implementation

Chapter 9: Turning Your Plan into Reality

Chapter 9:
Turning Your Plan into Reality

Congratulations! You've successfully worked your way through the transition planning process. Now, it is time to translate your plan into action.

Plan implementation is unique to each farm business, depending on its particular circumstances and the needs, priorities and wishes of its retiring and succeeding generations. As such, the timeline for transition's completion varies from farm to farm. Transition planning groups should develop specific implementation plans to meet both the farm business and each individual's needs.

Be aware that life does not always work out exactly how we plan. Challenges and opportunities will come along that may require your group to make changes to your plan. Open communication within your planning group is key to taking change in stride

Why is this relevant?

Implementation should seamlessly grow out of the planning process completed to date. As such, implementation plans build on the exercises and topics your planning group has already worked through.

How will this aid in transition?

After investing significant time and effort into transition planning, implementation is both the reward and the next step in the transition process. Rolling implementation out according to the same careful, step-by-step manner with which you built your plan will:

- keep the process moving forward;
- foster strong communication between the planning participants;
- keep all participants informed and involved;
- minimize conflict; and
- significantly increase the likelihood of a successful transition.

Implementation Instructions

*** Each person involved in your farm's transition planning should work together throughout transition's implementation. Additional stakeholders who have a vested interested in the farm business can be included where the planning group sees necessary.*

Your group started the transition planning process by working through Phase 1: Background and Getting Started, and Phase 2: Readiness Assessment. Then (depending on your group's chosen approach) you completed some or all of Topics 14 to 28 in Phase 3: Plan Development, making notes of any outstanding issues in your chosen approach's Summary document (pages 274 to 283 of the Appendix).

1. Now, return to this Summary document.
2. Step one in implementing your plan is to begin to work through any outstanding issues in your chosen approach's Summary.
    a. Determine who is going to be responsible for monitoring each task to make sure it is completed.
    b. Review the task list to make sure that people are okay with their responsibilities. Reassign responsibilities where needed.
    c. IMPORTANT: If any of these tasks require more detail than is provided in the specific plan approach template, use the Critical Issue Action Plan form.
    d. Agree on how information is going to be communicated. Options include:
        i. Information distributed as it arrives.
        ii. Information distributed on a set schedule. For example, once a month.
        iii. Information distributed at meetings (see point #5 below).
3. While completing the action plan tasks, review and begin to roll-out your stated plans regarding operational, management and financial transition, as described in the plan.
    a. As a group, review your plan (Topics 14 to 28). Turn any stated timelines into a transition calendar so you can ensure transition remains on track.
    b. Set a schedule for regular meetings with your planning group as you move through transition. At these meetings:
        i. Review Topics 14 to 28 of your planning process.
        ii. Review progress to date. Review assigned tasks and their completion due dates to ensure no tasks fall through the cracks.
        iii. Make note of any new/currently outstanding tasks and assign them to individuals for completion. Determine a date for completion.
    c. Discuss challenges, concerns, opportunities and successes.
        i. Discuss whether any of these challenges, concerns, opportunities and successes require that your transition plan be adjusted.

ii. If the adjustments are significant, work through Topics 23 through 28 (the Review topics) again to ensure your plan is still sound.

iii. If the adjustments are significant, your group may need to work through additional planning topics again.

4. Keep advisors informed with changes, as required.
5. Store documents for future reference.

KEEP IN MIND:

- Consider changing who is responsible for keeping the process moving forward. It helps to keep the process fresh and can help to avoid frustration and conflict.
- Schedule regular (annual) meetings with advisors even if your plans haven't changed. There may be tax or legal changes that can impact your plan and situation.
- Completion dates are a form of accountability. Try to avoid unnecessarily criticizing someone who doesn't get something done when it was due. Try setting another date and getting a commitment that it will get done this time.
- Try to have only one person responsible for each task.

WHAT TO WATCH FOR:

- Watch for drift. Things not getting done when they were supposed to be done reduced transition's momentum, delays the entire process, and can cause frustration, conflict and/or discouragement among transition participants.
- If one individual does not follow through on their commitments, consider assigning the task to another transition participant and/or hiring external support.

Notes:

APPENDIX

Appendix

This section contains the blank forms, exercises and information mentioned throughout the Guide.

Phase 1: Background and Getting Started

From Chapter 2:

Comprehensive Approach to Transition Planning Form 274
Condensed Approach to Transition Planning Form 278
Estate Planning Approach to Transition Planning Form 280
Ownership and Tax Strategy Approach to Transition Planning Form 281
User-Defined Approach to Transition Planning Form 283

Phase 2: Readiness Assessment

From Chapter 4:

Topic 1: Goals Form 284
Topic 2: Individual Values Form 287
Topic 3: Family Values Form 289
Topic 4: Family First/Business First Form 290
Topic 5: Retiring Generation Questions 291
Topic 6: Succeeding Generation Questions 293
Topic 7: Financial Performance Ratios Explanations 295

From Chapter 5:

Topic 9: Personalities Form 307
Topic 10: Historical Business Development Form 308
Topic 11: Readiness Assessment Review Meeting Agenda Form 310
Topic 12: Decision Time Form 311
Topic 13: Statement of Intent to Proceed Form 315
Topic 13: Statement of Intent to Defer Form 316

Phase 3: Plan Development

From Chapter 6:

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Topic 14: Guiding Principles Form 318
Topic 14: Conflict Management Information 321
Topic 14: Resource Team Identification 324
Topic 14: Advisor Information Report Form 325
Topic 15: Vision Form 327
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Topic 15: Critical Issues Form 332
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Topic 17: Ownership Options Questions 340
Topic 20: Management Structure 342
Topic 20: Management Activities 343
Topic 20: Job Description Form 344
Topic 20: Compensation Form 345
Topic 20: Roles, Responsibilities and Authority From 347
Topic 20: Training and Skill Set Development Form 348
Topic 21: Unanimous Shareholder Agreements Information 349
Topic 22: Deal Breaker Issues Form 353

From Chapter 8:
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Topic 24 and 25: How to Choose and Work with an Advisor 358
Topic 28: Transition Plan Final Meeting Agenda Form 361

From: Chapter 2, Phase 1: Background and Getting Started

Transition Plan - Comprehensive Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Goals				
	Outstanding Tasks:				
	Individual Values				
	Outstanding Tasks:				
	Family Values				
	Outstanding Tasks:				
	Family First / Business First				
	Outstanding Tasks:				
	Retiring Generation				
	Outstanding Tasks:				
	Succeeding Generation				
	Outstanding Tasks:				
	Financial Performance				
	Outstanding Tasks:				
	Management Assessment				
	Outstanding Tasks:				
	Personalities				
	Outstanding Tasks:				
	Historical Business [illegible]				
	Outstanding Tasks:				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Readiness Assessment Review Meeting				
	Outstanding Tasks:				
	Decision Time				
	Outstanding Tasks:				
	Statement of Intent				
	Outstanding Tasks:				
Plan Development					
	Foundation				
		Challenges in Transition Planning			
		Guiding Principles			
		Conflict Management			
		Resource Team Identification			
		Advisor Information Report			
	Outstanding Tasks:				
	Strategic Direction				
		Vision			
		Situational Analysis			
		Risk Assessment			
		Critical Issues			
		Critical Issue Action Plans			
		Financial Targets			
	Outstanding Tasks:				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Strategic Direction Review Meeting				
	Transition Options				
		Successor Assessment			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
	Outstanding Tasks:				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	Outstanding Tasks:				
	Human Resources				
		Management Structure			
		Management Activities			
		Job Descriptions			
		Compensation			
		Training and Skill Set Development			
		Roles, Responsibilities and Authority			

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Outstanding Tasks:				
	Agreements				
		Unanimous Shareholder Agreement			
		Business Agreements			
	Outstanding Tasks:				
	Deal Breaker Issues				
	Outstanding Tasks:				
	Transition Plan Review Meeting				
	Accountant Review				
	Lawyer Review				
	Outstanding Tasks:				
	Final Plan Adjustments				
	Accountant / Lawyer Sign-off				
	Outstanding tasks:				
	Final Review Meeting				
Plan Implementation					

From: **Chapter 2,** Phase 1: Background and Getting Started

Transition Plan - Condensed Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Goals				
	Outstanding Tasks:				
	Retiring Generation				
	Outstanding Tasks:				
	Succeeding Generation				
	Outstanding Tasks:				
	Financial Performance				
	Outstanding Tasks:				
	Management Assessment				
	Outstanding Tasks:				
	Statement of Intent				
	Outstanding Tasks:				
Plan Development					
	Foundation				
		Guiding Principles			
		Resource Team Identification			
	Outstanding Tasks:				
	Strategic Direction				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
		Situational Analysis			
		Critical Issues			
		Financial Targets			
	Outstanding Tasks				
	Transition Options				
		Successor Assessment			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
	Outstanding Tasks:				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	Outstanding Tasks:				
	Accountant Review				
	Lawyer Review				
	Outstanding Tasks:				
	Final Plan Adjustments				
	Accountant / Lawyer Sign-off				
	Outstanding Tasks:				
Plan Implementation					

From: Chapter 2, Phase 1: Background and Getting Started

Transition Plan - Estate Planning Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Retiring Generation				
	Outstanding Tasks:				
Plan Development					
	Transition Options				
		Succeeding Generation			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
	Outstanding Tasks:				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	Outstanding Tasks:				
	Accountant Review				
	Lawyer Review				
	Outstanding Tasks:				
	Final Plan Adjustments				
	Accountant / Lawyer Sign-off				
	Outstanding Tasks:				
Plan Implementation					

From: Chapter 2, Phase 1: Background and Getting Started

Transition Plan - Ownership and Tax Strategy Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Retiring Generation				
	Outstanding Tasks				
	Financial Performance				
	Outstanding Tasks				
Plan Development					
	Transition Options				
		Ownership Options			
		Business Structure			
	Outstanding Tasks				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	Outstanding Tasks				
	Agreements				
		Unanimous Shareholder Agreement			
		Business Agreements			
	Outstanding Tasks				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Accountant Review				
	Lawyer Review				
	Outstanding Tasks				
	Final Plan Adjustments				
	Accountant/Lawyer Sign off				
	Outstanding Tasks				
Plan Implementation					

From: Chapter 2 (Phase 1: Background and Getting Started)

Transition Plan - User-Defined Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
Outstanding Tasks					
Outstanding Tasks					
Outstanding Tasks					
Outstanding Tasks					
Outstanding Tasks					
Outstanding Tasks					
Outstanding Tasks					
Outstanding Tasks					
Outstanding Tasks					
Outstanding Tasks					

From **Topic 1, Chapter 4 (**Phase 2: Readiness Assessment)

Goals

Name: Date:

Personal:

Short Term (one year) *SMART

Intermediate Term (five years) *SMART

Long Term (10 years) *SMART

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

Name: Date:

Family/Group:

Short Term (one year) *

SMART

Intermediate Term (five years) *

SMART

Long Term (10 years) *

SMART

*Review your goals to see if they meet the SMART guidelines.

Make changes if necessary.

Name: Date:

Farm Business:

Short Term (one year) *SMART

Intermediate Term (five years) *SMART

Long Term (10 years) *SMART

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

From **Topic 2, Chapter 4 (**Phase 2: Readiness Assessment)

Individual Values

1. From this list of values circle the ten that are most important to you.

accomplishment, success
accountability
accuracy
adventure
all for one and one for all
appearance
beauty
belonging
best use of time and
calm, quietude, peace
challenge
change
cleanliness, orderliness
collaboration
commitment
communication
community
competence
competition
concern for others
connection
content over form
continuous improvement
co-operation
co-ordination
creativity
customer satisfaction
decisiveness
delight of being, joy
democracy
discipline
discovery
diversity
ease of use
efficiency
equality
excellence
fairness
faith
faithfulness
family
family feeling
flair
freedom
friendship
fun
global view
goodwill
goodness
gratitude
hard work
harmony
health
helping
honesty
honour
improvement
independence
individuality
inner peace, calm, quietude
innovation
integrity
intensity
intimacy
justice
knowledge
leadership
love, romance
loyalty
meaning
merit
money
openness
patriotism
peace, non-violence
perfection
personal growth
pleasure
power
practicality
preservation
privacy
progress
prosperity, wealth
punctuality
quality of work
recognition
regularity
reliability
resourcefulness
respect for others
responsiveness
results-oriented
rule of law
safety
satisfying others
security
self-acceptance
self-control
self-giving
self-reliance
self-thinking
service (to others,
simplicity
skill
solving problems
speed
spiritual growth
stability
standardization
status
strength
success,
systemization
teamwork
timeliness
tolerance
tradition
tranquility
trust
truth
unity
variety
will to succeed
wisdom

2. Once you have circled the ten values that are most important to you, analyze your selections and narrow your list down to the five that are most important. List them here.

a. ______________________________

b. ______________________________

c. ______________________________

d. ______________________________

e. ______________________________

3. Now imagine that you may only keep three key values. Which two would you give up? List the remaining three here.

a. ______________________________

b. ______________________________

c. ______________________________

4. Now eliminate two values to reduce your list to just a single key value. What is the one value on your list that you care most about?

a. ______________________________

5. Now return to the list you created in question #3 and prioritize those five top values, from most important to least important.

a. ______________________________

b. ______________________________

c. ______________________________

d. ______________________________

e. ______________________________

From **Topic 3, Chapter 4 (**Phase 2: Readiness Assessment)

Family Values

For each value statement pair, think of your extended family/planning group, and circle on the scale which one of the statement pairs is more descriptive of your family/group's values and beliefs (the overall family/group culture)?

Freedom is defined by rules.	4	3	2	1	0	1	2	3	4	Freedom is defined by personal choice.
An overall leader is essential.	4	3	2	1	0	1	2	3	4	Groups can provide their own leadership.
Use great caution when trusting others.	4	3	2	1	0	1	2	3	4	Trust others until they prove unworthy.
Security more valued than adventure.	4	3	2	1	0	1	2	3	4	Adventure is more important than security.
Experience is more important than creativity.	4	3	2	1	0	1	2	3	4	Creativity is more important than experience.
Hard work is the key to success.	4	3	2	1	0	1	2	3	4	Planning is the key to success.

From **Topic 4**, **Chapter 4 (**Phase 2: Readiness Assessment)

Family First / Business First

For each category, mark an 'X' in the column to the left of the statement that you feel is a higher priority to your farm business.

Category	X	Family First	X	Business First
Membership		There is a place for each and every family member.		If you're qualified to do the job, you can join and belong.
Income (Compensation)		Family members are paid more (or less) than the going rate for the job, sometimes based on their or the business's needs.		Pay is determined by responsibilities and performance.
Leadership or Promotion		Leadership is bestowed. Title / office is bestowed by birthright.		Leadership is earned. Company officers control day-to-day operations.
Basis of Operation		Business resources are used for the family's enjoyment and benefit.		Business resources are used to grow and enhance the business.
Training		Outside experience may be less valuable than years of service in the family business.		Outside experience is more important than years of service in the family business.

From **Topic 5, Chapter 4 (**Phase 2: Readiness Assessment)

Retiring Generation

Personal and Lifestyle:

1. What do you envision yourselves doing in retirement?
2. How much income will you need to live this way?
3. Do you have (or plan to have) retirement income sources other than the farm? If so, what percentage of your retirement income will come from the farm?
4. Have you thought about inflation pressures on costs of living and how this might impact your retirement needs?
5. Are you planning to purchase any costly items in the foreseeable future (first five years after retirement), such as a house, cottage, extensive travel, etc.
6. Do you wish to create a legacy as part of your transition?
7. Have you thought about yourself first?

Successor:

1. Who is taking over the family business?
2. Will he/she/they need additional training to do so and if so, what type(s)?

Communication:

1. Have you spoken with the successor(s) regarding the transfer of the farm?
   a. If yes, what specifically has been discussed?
   b. If yes, have the discussions been formal (ie: with notes recorded)?
2. Have you spoken to any advisors regarding the transfer of the farm?
   a. If yes, what specifically has been discussed?
3. Do you have regular business or family meetings about business in general?
   a. Specifically about transition?
4. Have you spoken to your non-farming successors regarding the transfer of the farm?
   a. Is it important to you that all successors be given the opportunity to talk about their own expectations, goals and objectives, both personal and for the farm?
5. Are you worried about the potential for conflict?

Estate:

1. What does your current will say?
2. Does it accurately reflect your thoughts on transition?
3. Have you appointed a Power of Attorney?
4. Are you considering using (or do you have in place) life insurance as a vehicle to assist with transition?
5. Are you considering passing some of your estate to grandchildren?
6. Are you concerned about being fair and equitable to all successors?

Ownership, Labour and Management:

1. Who will own the farm assets post transition?
2. Who will be working on the farm?
   a. Specifically, what role(s) will you have?
3. Who will be the manager of the farm?
4. What are the expectations for involvement from other successors?
5. Will the farm require management or ownership by anyone other than your successors?

Farm Financial:

1. Does the farm have a current business plan?
2. Do you know if the farm can financially support everyone's needs / priorities including the successors' living costs?
3. How will the transition be financed?
4. Do you know what tax implications are related to your transition?

Timeline:

1. When will you retire?
2. When do you want your transition plan to be completed?
3. When will the actual farm transition begin (implementation of your transition plan)?
4. Will the transition be gradual or all at once?

From **Topic 6, Chapter 4 (**Phase 2: Readiness Assessment)

Succeeding Generation

Personal and Lifestyle:

1. What do you envision yourself doing during your working years?
2. How much income will you need to live this way?

a. If your future is farming, will your income decrease or stay the same?

3. Are you planning to purchase any costly items as part of or soon after farm transition, such as a house, cottage, other family recreation items, etc.?
4. Are you worried about the retiring generation not adequately looking after their interests?

Communication:

1. Have you spoken with the retiring generation regarding the transfer of the farm?
   a. If yes, what specifically has been discussed?
   b. If yes, have the discussions been formal (ie: with notes recorded)?
   c. Have you been identified as the successor to the farm business?
2. Have you spoken to any advisors regarding the transfer of the farm?
   a. If yes, what specifically has been discussed?
3. Have you spoken with your future business partner (spouse, brother etc.) regarding the transfer of the farm?
4. Do you have regular business or family/group meetings?
   a. About business in general?
   b. Specifically about transition?
5. Have you spoken to any non-farming siblings/successors regarding the transfer of the farm?
6. Do you think it is important that all successors be given the opportunity to talk about their own expectations, goals and objectives, both personal and for the farm?
   a. Have you been given this opportunity?
7. Are you worried about the potential for conflict?

Education/Training:

1. Have you taken any management development training?
   a. If so, describe it.
2. Have you taken/attended any other courses/workshops (university degree, college diploma, seminar etc.)?

Estate:

1. Do you have a current will?
   a. If yes, what does it say?

Ownership, Labour and Management:

1. Who will own the farm assets post transition?
2. Who will be working on the farm?
   a. Specifically, what role(s) will you have if you are actively involved?
3. Who will be the manager of the farm?
4. What are the expectations for involvement from other successors?
5. Will the farm require management or ownership by anyone other than the successors?

Financial:

1. Does the farm have a current business plan?
2. Do you know if the farm can financially support everyone's needs / priorities including the successors' living costs?
3. How will the transition be financed?
4. Do you know what tax implications are related to your transition?

Timeline:

5. When will the farm transition begin (implementation of the transition plan)?
6. When will it be completed?
7. When will the retiring generation retire?
8. Will the transition be gradual or all at once?

From **Topic 7, Chapter 5 (**Phase 2: Readiness Assessment)

Financial Performance Ratios Explanation

Current Ratio

Definition:

The current ratio is calculated by dividing the current assets by the current liabilities and is a measure of liquidity.

The current ratio provides an indication of the liquid assets available to meet the next twelve months of financial commitments (the current liabilities). Working capital and the current ratio reveal strengths and weaknesses in liquidity (the ability of a farm to generate cash flow to meet obligations).

A higher number indicates better performance.

Financial Performance Thresholds:

>2.0:1	The optimum current ratio is a ratio of 2:1 or better, which indicates that the farm would have two dollars of current assets for every one dollar of current liabilities. Results in this threshold indicate strong liquidity. If results in this ratio approach or exceed 4.0:1, performance may be compromised as the business may have idle cash.
>1.5:1	A current ratio of 1.5:1 and greater is considered to be strong. A current ratio of 1.2:1 – 1.5:1 is considered to be marginal. Current ratios can change significantly with each production year. Liquidity can erode quickly on a farm, but results in this threshold indicate adequate or manageable liquidity.
<1.1:1	A weak or negative current ratio generally results in cash flow problems, presenting as inability to pay bills as they come due or make scheduled debt payments. Poor liquidity adversely impacts management decision making. Results in this threshold should be reviewed to see if restructuring the debt would be an appropriate option.

Working Capital

Definition:

Working capital is calculated by subtracting the current liabilities from the current assets. The result is the surplus or deficiency of current assets available to meet the current liability obligations of the business over the upcoming year.

When analyzing liquidity, it is important to calculate and analyze the amount of available working capital. The current ratio may indicate a ratio of 1.5:1, yet working capital may not be adequate because the quantified values of current assets and current liabilities may be relatively small. In other words, a farm with a 1.5:1 current ratio may have actual working capital of $20,000 or $200,000.

Working capital provides an indication of liquidity in terms of dollars, not just a ratio. This is a valuable measure but further analysis is required. Working capital expressed as a percentage of expenses quantifies the indicator as it relates to the size of the operation (ex: a larger operation requires more working capital).

Working capital as a percentage of expenses is calculated by dividing the available working capital by the year's cash expenses (not including amortization or depreciation). A higher percentage indicates better performance.

Financial Performance Thresholds:

>50%	A 50 per cent result means that the farm has half of the funds required to operate the farm for the next year. Any value less than 100 per cent means that the farmer will have to source additional working capital. Results in this threshold generally indicate that the working capital requirements for the next year will not be a problem. Typical sources of additional working capital in this threshold include operating loans and inventory advances.
25%	As results near this threshold or fall below it, there will be increasing challenges in securing the working capital required to manage cash flow for the farm. Typical sources of working capital in this threshold still include operating loans and inventory advances but will also require pre-selling more of next year's inventory. There will likely be a need to increase operating loan limits. Where this is not an option, managing accounts payable becomes necessary
<10%	Results in this threshold indicate inadequate working capital, increasing cash flow challenges and related stress. Management decisions are negatively affected, meaning farmers will be forced to do things they wouldn't ordinarily want to do. Operating loans and inventory advances generally do not offer sufficient funds, resulting in overdue accounts payable, credit card balances, deferred principal payments (or payments not made) and pre-selling of next year's inventory.

Debt Structure Ratio

Definition:

The debt structure ratio is a liquidity measure and is calculated by dividing the current debt (liabilities) by the total liabilities. The purpose of this ratio is to determine what percentage of the farm's total debt is current (due) in the next 12 months.

Shareholder loans (for incorporated farms), related party transactions and future tax may be factored out of the calculation to get a better picture of the real debt structure position. Sometimes (imminent transition for example) these items have a defined repayment structure and, therefore, should be left in the calculation.

A lower percentage generally indicates better performance.

Financial Performance Thresholds:

<20%	An optimally structured balance sheet (given a farm that has an appropriate level of total debt) would reveal a debt structure ratio of 20 per cent or less, meaning that the farm is committed to repaying 20 per cent of its total debt in the next 12 months. Liquidity will generally not be adversely affected due to current liability commitments.
25%	Results in this threshold are often acceptable, so long as liabilities are not too large. If cash flow (liquidity) is a challenge, management should determine if the debt structure can be adjusted to reduce the current commitment to repaying liabilities, thereby improving cash flow available for operations.
>30%	Farms with a high debt structure ratio often experience cash flow problems unless they have little or no long term debt. Liquidity challenges can be a function of insufficient current assets (see working capital and current ratio) or current liabilities that are too large, often associated with an aggressive debt repayment commitment.

Equity Ratio

Definition:

The equity ratio is calculated by dividing market value equity by total assets.

Equity represents the total assets actually owned (by shareholders in the case of a corporate farm). Typically, a statement reporting assets valued at estimated market values more accurately represents the owners' or shareholders' net worth, where asset values would be valued considerably higher than at cost.

In corporate farms, productive assets (usually land and quota) can be held outside the company and therefore are not included in the financial statement equity. An adjustment to include such assets can be made to the analysis of the statements so as to provide a more complete understanding of financial performance.

A higher percentage indicates better performance.

Financial Performance Thresholds:

>70%	A farm with an equity position, as presented in a consolidated statement of net worth, of 70 per cent and greater is considered to have a strong equity position. Farms in this threshold typically (but not always) have manageable liability commitments. They have financial strength to draw upon if they encounter a production crisis that requires a working capital infusion or if they encounter an opportunity that requires financing and additional security.
50-70%	Farms with results in this threshold generally can be categorized as being in a comfortable equity position. As results trend toward the lower spectrum (50 per cent), farms become more sensitive to liquidity (cash flow) challenges resulting from production shortfalls or management decisions causing additional debt commitments.

<50%	Threshold results below 50 per cent indicate a farm's equity position is marginal. As equity in a farming operation decreases, risk increases. Low equity usually correlates to challenges in liquidity. Management decisions will be negatively affected as there is, in practical reality, no available security to offer for any restructuring or to secure financing for new investments. The margin for financial error for farms with results in this threshold is very narrow.

Debt to Equity Ratio

Definition:

The leverage ratio is calculated by dividing total liabilities by the equity in the business.

This ratio indicates the relationship between the use of debt and equity to finance the farm business, and is a measure of longer term risk. Because payments to the debt holders (lenders) are normally more fixed than payments to the equity holders (the farmer), a higher leverage ratio indicates a higher fixed commitment (less flexibility), and therefore, higher risk. The leverage ratio can be calculated reporting assets at original cost (less applicable depreciation) or at market value (values derived from a statement of net worth). For purposes of this analysis, market value (net worth) of assets is assumed.

As the leverage ratio increases, risk increases. A lower percentage indicates better performance.

Financial Performance Thresholds:

< 0.4:1	A leverage ratio of 0.4:1 (four hundred dollars of debt for every thousand dollars of equity) or less, derived from a net worth statement, is considered to be a strong leverage ratio. Less debt as a percentage of equity correlates to less risk.
0.65:1	As results approach this threshold, there is an increasing amount of debt compared to equity. Leverage is increasing but the farm will generally not yet be affected adversely by the amount of debt it is carrying. However, as results deteriorate past this threshold, the effect of carrying the additional debt will start to become an issue. In any situation where an investment is going to include a significant increase in financing (leverage), farmers should calculate before and after leverage ratios; which quantifies financial risk in the transaction. There is very little room for financial error.
>1:1	Results in this threshold indicate a highly leveraged farm and indicate that creditors and lenders have more at stake in the business than the farmer. Greater financial risk results in increased costs of capital (higher interest rates and administration fees), increased scrutiny on the file, financial statement preparation requirements and difficulty (or impossibility) in securing additional financing.

Debt Servicing Ratio

Definition:

The debt servicing ratio is calculated by dividing debt servicing capacity by annual principal and interest payment commitments.

The debt servicing ratio indicates the earned ability of the operation to service (repay) its debt by making scheduled principal and interest payments.

The length of the term (years of payments) of the loan is important. The longer the term of the loan, the greater the chance for fluctuations in farm earnings over the term and, therefore, the greater the risk as the debt servicing ratio weakens.

Debt servicing capacity is calculated by adding amortization (non-cash cost) and long term interest expense to net income. For unincorporated farms where management salaries are not a deductible expense, living costs should be subtracted from the total, as should any known income tax payment amounts.

All farms should calculate before and after scenarios for debt servicing ratios for new loans. The exercise helps to quantify longer term risk in the transaction.

Financial Performance Thresholds:

>2.0:1	A result in this threshold indicates that for every dollar of debt (principal and interest) payment, the farm expects to have two dollars available. Results in this threshold indicate very strong performance.
1.5 : 1	For grain or livestock operations, a 1.5:1 ratio and better is generally adequate. The ideal ratio may vary depending on the type of operation. For example, a 1.25:1 ratio might be comfortable for a dairy farm, given its relatively strong price and cash flow certainty. Caution should be exercised where financing a purchase results in debt servicing ratios that begin to approach 1.2:1. In this situation, the length of the term of the loan should be very carefully considered (see comments above). Note that the debt servicing ratio is very sensitive and directly tied to earnings. Decreasing net income decreases the debt servicing ratio. Past trend line performance is important.
<1.1:1	Farms with results in this threshold will have difficulty generating the earned income required to make principal and interest payments. Farms may not be able to make payments as scheduled or, if they do, may be forced to do so by weakening liquidity indicators (increasing operating loans or selling additional inventory). Transactions that require additional financing and that cause the ratio to fall into this threshold will be very difficult to finance and should be pursued very carefully — **especially** if the equity ratio is weak.

Return on Assets Ratio

Definition:

Return on assets is calculated by dividing net income plus long term interest expense by total assets.

There are two options for the calculation: calculating based on assets valued at original cost (less accumulated amortization where applicable), and calculating based on assets valued at fair market value. The latter values are generally greater.

Incorporated farms will have financial statements with assets valued at cost. These farms typically own assets (land) personally. An adjustment should be made to include personally-held assets (farm business related) such as land.

For purposes of this analysis, financial performance thresholds are based on net worth (market value of land and quota assets, with equipment values not included in the adjustment).

An adjustment should also be made to account for unpaid or extraordinarily high family wages or management salaries.

This ratio is a measure of the return on investment made in the business and includes a return to capital appreciation. Year-over-year changes in this indicator tend to be smaller due to the large investment in assets required to operate a farm.

A larger number indicates better performance.

Financial Performance Thresholds:

>6%	Results in this threshold over a longer-term period generally represent good performance. A six per cent return on assets means that a farmer who has $1 million in assets will have a net income of $60,000. Farmers who are considering expanding their operation should determine if this performance is acceptable and, if not, determine what can be done to improve performance or search for different investment opportunities.
2%	All farmers should determine what portion of the return comes from operations and what portion comes from capital appreciation. This calculation is particularly important for farmers whose return on assets is in or near the two per cent threshold. If the portion of the return due to land and quota is two per cent or greater, no return came from earnings attributed to business operations. In this situation, a farmer must determine what can be done to generate a positive return from operations. Businesses that cannot generate a longer term positive return from operations will fail.
<0%	Farmers with longer term results in this threshold will be challenged financially and the likelihood of longer term survivability in the farm's existing form will be very poor. Farms with results in this threshold will, in almost all situations, be reporting net losses. Financial efficiency ratios (gross margin/contribution margin/net operating profit margin) should be analyzed to determine what can be done to improve earnings. It is important to note the number of years in the trend line. Farms with good debt to equity performance can usually manage through periods of low or negative return on assets. This becomes more difficult as debt to equity performance deteriorates.

Return on Equity Ratio

Definition:

Return on equity is calculated by dividing net income by equity (or retained earnings).

There are two options for the calculation: calculating based on valuing assets at original cost (less accumulated amortization where applicable) and calculating based on valuing assets at fair market value. The latter values are generally greater.

Incorporated farms will have financial statements with assets valued at cost. These farms will very likely own assets (land) personally. An adjustment should be made to include personally-held farm business assets such as land.

For purposes of this analysis, financial performance thresholds are based on net worth (market value of land and quota assets with equipment values not included in the adjustment).

An adjustment should also be made to account for unpaid or extraordinarily high family wages or management salaries.

Return on equity (ROE) provides information on how efficiently the farm is using debt in its capital structure. Return on equity should exceed return on assets (ROA) for farms that borrow money. If return on assets is greater, it indicates that the farm is not earning enough to pay its interest cost on borrowed money. ROE equals ROA when there is no debt.

Year-over-year changes in this indicator tend to be smaller due to the large investment in assets required to operate a farm.

A larger number indicates better performance.

Financial Performance Thresholds:

>10% Results in this threshold over a longer-term period generally represent good performance. A 10 per cent return on equity means that a farmer who has $1 million in market value equity will have a net income of $100,000.. Farmers who are considering investing in or expanding their operations should determine if this performance is acceptable and, if not, determine what can be done to improve performance or search for different investment opportunities.

6% All farmers should determine what portion of the return comes from operations and what portion comes from capital appreciation. This calculation is particularly important for farmers whose return on equity is at or near the six per cent threshold. If the portion of the return due to land or quota appreciation is three per cent or greater, then three per cent came from earnings attributed to business operations.

For many farmers, this level of performance (especially over a longer term trend line) is acceptable.

<2% If the return on equity increase due to land or quota appreciation is two per cent or greater, **no** return came from earnings attributed to business operations. If this is the situation, then the farmer should determine what can be done to generate a positive return from operations.

Farms with results in this threshold will, in almost all situations, be reporting net operating losses (unless land or quota values decrease). Farmers with longer term results in this threshold will be challenged financially, starting with liquidity management. The likelihood of longer term survivability in the farm's existing form will be very poor. Financial efficiency ratios (gross margin/contribution margin/net operating profit margin) should be analyzed to determine what can be done to improve earnings.

Asset Turnover Ratio

Definition:

Asset turnover is calculated by dividing gross revenue by total assets.

This ratio indicates the extent to which a business uses its assets to generate revenue. The higher the ratio, the better the assets are being used. The ratio can vary with business type and geographic location (ex: inflated land values).

For purposes of this analysis, assets are based on net worth (market value assets, but only land and supply managed quota as equipment has not been adjusted for market value).

Note that profitability ratios (return on equity and return on assets) indicate performance as a function of net income. Asset turnover uses gross revenue as the function of profitability. Neither is better or worse; they each provide a different context regarding financial performance.

A higher percentage indicates better performance.

Financial Performance Thresholds:

>40%	Results in this threshold indicate that for every $1,000 in assets, there should be $400 generated in gross income. Farms achieving this level of performance are very efficient in how they use their assets to generate gross revenue.
20%	Farms with results in this range will report very typical performance. A larger investment in assets, especially land and newer equipment, generally makes it more difficult to achieve optimal performance in this ratio. Poorer performance in this ratio can be attributed to excess investment in capital, new or overcapitalization in equipment or less than optimum gross revenue generation. Lower gross revenue, coupled with increased interest costs due to financed asset purchases or additional amortization on new equipment, can reduce net income.
<10%	Results in this threshold indicate that a farm is not efficiently generating a return (as expressed by gross revenue) on its assets. The business needs to consider increasing gross revenue (yield or price) or decreasing investment in assets. The decrease in assets can be accomplished in the shorter-term by disposing of assets (lease options) or in the longer-term by not replacing equipment as frequently (lower value).

If asset turnover performance falls into poorer performance thresholds, first determine the root cause. If the issue is that land in the area is overvalued, less emphasis should be placed on this indicator.

Gross Margin Ratio

Definition:

Gross margin is calculated by subtracting seed and seed treatment, chemicals (herbicides, fungicides, pesticides), fertilizer, production insurance (for grain operations) and veterinary, medicines, feed and market animals (for livestock operations) from gross revenue, and then dividing that number by gross revenue.

This ratio measures the financial efficiency of a farm in terms of how it uses its production inputs.

Gross margin trend lines provide an excellent efficiency indicator that is worth monitoring as a farm grows in size or complexity.

A higher percentage indicates better performance.

Financial Performance Thresholds:

>65% — Results in this threshold indicate that the farm is very efficient at utilizing its production inputs. Gross margin ratio is one of the most important indicators to calculate and analyze. Farmers with longer-term trend lines at this level of performance can confidently proceed with expansion plans.

55% — Farms reporting results in this threshold should determine why performance is less than desired and what can be done to improve it. The reasons for poor performance fall into the production (yield and inputs) and marketing (price) management areas but may be outside of a farmer's control (ex: weather). Because uncontrollable negative events such as severe weather do not usually occur regularly, performance trends should be analyzed.

Deteriorating gross margin performance often accompanies expansion and transition. Many farmers have trouble managing their operation as carefully as it grows, so production can suffer as a result.

Farms with these results should proceed with any expansion plans very carefully.

<50% — It is critically important that farms reporting results in this threshold determine why performance is less than desired. Farms that are not able to generate gross margin performance will not achieve acceptable levels of net operating performance. Further, they will almost always report net losses.

Contribution Margin Ratio

Definition:

Contribution margin is calculated by subtracting operating expenses (fuel, repairs, custom work, direct labour, supplies, etc.) from the gross margin. The ratio is calculated by then dividing the margin by gross revenue.

This ratio measures the financial efficiency of a farm in terms of how it uses its operating cost inputs.

After efficiency over production expenses has been calculated (gross margin), a farmer can determine how efficient he is at using the other variable costs. The contribution margin ratio provides this determination.

Adjustments should be made to account for unpaid or extraordinarily high wages.

A higher percentage indicates better performance.

Financial Performance Thresholds:

>50%	Results in this threshold indicate that the farm is very efficient at using its variable operating inputs.
45%	Poor results in gross margin performance will usually translate into poor contribution margin performance. A farm that reports results in this threshold but has acceptable gross margin performance should determine why performance is less than desired and what can be done to improve it. Unlike gross margin performance, the reasons for poor contribution margin performance **do not** fall into the production (yield and inputs) and marketing (price) management areas, and are within a farmer's management control.
<40%	Assuming acceptable gross margin performance, results in this threshold require management attention. Poor performance usually translates into less than desired net operating profit margins.

Net Operating Profit Margin Ratio

Definition:

Net operating profit margin is calculated by subtracting overhead and administrative costs (fixed) from the contribution margin. The ratio is calculated by then dividing the margin by gross revenue.

This indicator examines how efficient a farmer is at using his investment in fixed costs.

Adjustments should be made to account for unpaid or extraordinarily high wages or management salaries.

Amortization (depreciation) rates can have significant impact on performance. They should be calculated based on management rates (not tax rates) and applied on a straight line basis.

This indicator compares very well to non-farm businesses. A higher percentage indicates better performance.

Financial Performance Thresholds:

>20%	Results in this threshold indicate a very efficient farm in terms of generating net profit from its core operations.
10%	Farmers with results in this threshold have room for improvement. Remember that the denominator is gross revenue. This means that if a farm's net operating profit margin is $100,000 and its gross revenue is $1 million, its net operating profit margin ratio is 10 per cent. Performance should ideally be 20 per cent ($200,000) or better, which means that a farm with a net operating profit margin ratio of 10 per cent is leaving $100,000 - money could be used for investment and growth, to repay debt or for personal needs – on the table. Because farms with better performance have access to this money, those farms have a significant competitive advantage.
<5%	Farmers with results in this threshold should determine what can be done to improve performance. A performance trend in this threshold will translate into

liquidity and solvency issues and will negatively affect management decisions.

Note: when gross margin and contribution margin performance meet acceptable thresholds but the net operating profit margin is low, a farmer might consider expanding the productive asset base, effectively spreading fixed costs over more productive units. This will improve net operating profit margin performance, providing that the expanded production base does not result in poorer gross margin performance or require additional fixed costs such as interest on term debt or amortization.

Interest Expense Ratio

Definition:

The interest expense ratio is calculated by dividing interest expense by gross revenue. Farms with more debt will have higher interest expense ratios.

The ratio is a good indicator of potential problems related to leverage (debt).

A lower number may indicate better performance. However, if a farm can effectively manage the risk associated with leverage (debt), including interest, then it is more important to analyze the return that is generated by using borrowed capital and managing its repayment.

Financial Performance Thresholds:

<10%	Farms with results in this threshold are generally not adversely affected by interest costs. Calculating before and after scenarios where additional loans are planned helps to quantify how interest will affect financial performance.
15%	As in most ratios, farms with results in this threshold should monitor for deteriorating performance on performance trends. As this ratio weakens, more and more of the revenue generated (gross revenue) will go to pay interest, diverting it from other uses.
>20%	Results in this threshold warrant management attention. If the ratio is 20 per cent, $200 of every $1,000 of gross revenue will be required just to pay interest. There will very likely be increased sensitivity to interest rate increases.

Amortization Expense Ratio

Definition:

The amortization expense ratio is calculated by dividing amortization expense by gross revenue.

The ratio measures the amount of amortization (depreciation) relative to the level of sales (gross revenue).

A farm with newer equipment assets will have a higher amortization expense ratio. This indicates management priorities and investment guidelines.

The amortization expense ratio performance trend is important to monitor. A downward trend may indicate that capital replacement is lagging, while an upward trend might indicate an aggressive capital replacement policy. There is direct correlation between the amortization expense ratio and return on assets and return on equity, as greater amortization expense (higher amortization expense ratio) will result in lower net income.

A lower number may indicate better performance.

Financial Performance Thresholds:

<10%	Farms with results in this threshold are generally not adversely affected by amortization costs. However, it may reveal other issues. A lower number can reveal aging equipment that usually results in increased operating costs (repairs and maintenance). Aging equipment can result in production delays, which may have negative impacts on yield, gross revenue and, ultimately, net income
15%	Farms with results in this threshold should monitor for deteriorating performance trends relating to this ratio. As this ratio weakens, more and more of the revenue generated (gross revenue) will have to pay amortization costs. Net operating profit will be reduced. However, amortization is not a cash cost. Therefore, while net operating profit (profitability) may be reduced, cash flow (liquidity) may not be significantly affected.
>20%	Farms with results in this threshold should look for poor performance linkages in return on assets and equity ratios, debt to equity ratio, net operating profit margin ratio and asset turnover ratio to help determine the extent of the impact of amortization costs on financial performance.

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From **Topic 9, Chapter 5 (**Phase 2: Readiness Assessment)

Personalities

Personality Style	PERSONALITIES - check which best reflects your Style below
'D' - Dominant	
'i' – Influence	
'S' – Steady	
'C' - Conscientious	

From **Topic 10, Chapter 5 (**Phase 2: Readiness Assessment)

Historical Business Development

In the chart below, fill in as many important, pivotal or farm business-changing events as possible according to the following categories:

1. Year: enter the year that the significant event occurred.
2. Situation: briefly describe relevant details surrounding the significant event.
3. Outcome: describe what decisions were made and the shorter term result of these decisions.
4. Significance: describe how this particular event shaped the future of the farm and why its occurrence helped shape what the farm is today.

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

From **Topic 11, Chapter 5 (**Phase 2: Readiness Assessment)

Readiness Assessment Review Meeting

Date:

Time:

In Attendance:

1. **Administration:**
   a. Select one individual to act as the Chair of the meeting. Review their function and responsibilities (for help, review the job functions outlined in Chapter 3).
   b. Select one individual to act as the Notes Recorder of this meeting.
   c. Review decorum (optional)

2. **Review previous meeting notes.**

3. **Outline the purpose of the meeting.**
   a. to review the farm's readiness for transition planning;
   b. to make a decision whether or not to proceed with transition planning; and
   c. to address other concerns as needed.

4. **Review the current situation:**
   a. for each participant individually;
   b. for the group/family; and
   c. for the farm.
   d. General discussion and questions.

5. **Discuss transition planning specifics:**
   a. Discuss whether to proceed with the transition planning process (a formal decision will occur in the next Topic).
   b. Decide whether the management team will use an advisor/consultant during the decision making process.
      i. If so, who?
   c. Decide how communication processes will be structured throughout the transition planning process.
   d. General discussion and questions.

6. **Discuss concerns and issues:**
   a. General discussion and questions.

7. **Create timelines:**
   a. Assign responsibilities with due dates.
   b. Set a date and time for the next meeting.

8. **Adjourn**

From **Topic 12, Chapter 5 (**Phase 2: Readiness Assessment)

Decision Time

Goals

Do we have similar goals for the future of the farm? Do our personal and group goals align with this future? Are our goals in line with transition planning?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Values

Do we have similar values about how a family business should be operated? Do our personal values complement each other’s? Will opposing values create long term conflict (or conflict in the longer term) between those managing the farm?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Retiring and Succeeding Generation Initial Thoughts

Are there core issues within our initial thoughts that need to be addressed before a transition plan can be developed? Do we need to conduct further research into one or more areas?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Financial Performance

Are we satisfied that the farm's financial performance will sustain a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Management

Will management skills as identified through the Management Assessment Exercise enhance or hinder our ability to develop a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Personalities/Behaviour Audit

Can the different personalities involved work together effectively to develop and implement a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Historical Business Development

Are there events in our farm's history that need to be clarified? Are there lingering effects from historical events/decisions that need to be addressed?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

From **Topic 13, Chapter 5 (**Phase 2: Readiness Assessment)

Statement of Intent to Proceed

STATEMENT OF INTENT TO PROCEED

____ of ______________________ intend to proceed with developing a transition plan for the purpose of transferring farm management and ownership to ____.

____ intend to have the plan completed and ready for implementation by ____.

Name	Signature	Date:

Statement of Intent to Defer

STATEMENT OF INTENT TO DEFER

Because ____, the members of ____ are unable to proceed with developing a transition plan for the purpose of transferring farm management and ownership to ____. ____________________________ intend(s) to re-address this issue on ____.

Name	**Signature**	**Date:**

From **Topic 14 Part A, Chapter 6** (Phase 3: Plan Development)

Challenges in Transition Planning

Challenges	Applicable/Not Applicable	Reviewed?	Resolved?	Follow-up Required?	Follow-up by Whom? When?
1. Lack of Awareness					
2. Difficulty Getting Started					
3. Planning Drift (Procrastination)					
4. Avoidance/Denial					
5. Not Wanting/Not Willing to Commit					
6. Lack of Accountability					
7. Selfishness vs. Selflessness					
8. Estate Plan Gaps					
9. Conflicting Goals, Priorities and Values					
10. Fears					
11. Fair is Not the Same as Equal					
12. On-Farm Versus Non-Farm Successors					
13. Entitlement					
14. Successor Training and Skill Development Requirements					
15. The Challenge of Compensation					
16. Communication Gaps/Problems					
17 Management Conflict					
18. Tax Planning Challenges					
19. Risk					
20. Process Facilitation					

From **Topic 14 Part B, Chapter 6** (Phase 3: Plan Development)

Guiding Principles

Major Concerns

Name: Date:		Very Concerned			Somewhat Concerned			Not at all Concerned			
		10	9	8	7	6	5	4	3	2	1
1	Disagreement about how to run the business among group members working in the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Long term survival of the farm business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Disagreement among owners and partners about the real purpose (priorities) of the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Fair treatment of successors in ownership transfer	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
5	Insufficient financial reinvestment in the operation	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
6	Lack of a future for family farm businesses	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
7	Unwillingness of current owner-manager(s) to retire	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
8	Inability of current owner-manager(s) to retire	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
9	Negative influence of in-laws on family harmony and business decision-making	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
10	Inability to pay estate taxes in the future	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
11	Lack of competence of successors	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
12	Lack of commitments of successors	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
13	Poor communication within transition planning group	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
14	Negative influence of off-farm owners	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
15	Negative effects of day-to-day stress caused by the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

From **Topic 14 Part B, Chapter 6** (Phase 3: Plan Development) - CONTINUED

Planning Objectives

Name: Date:		Very Concerned			Somewhat Concerned			Not at all Concerned			
		10	9	8	7	6	5	4	3	2	1
1	Improve the effectiveness of our management team	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Improve communication between transition planning group members	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Use current advisors better	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Minimize estate taxes	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
5	Transfer ownership fairly to the next generation	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
6	Develop a specific retirement plan for the retiring generation	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
7	Develop a way of funding the retirement of current owners	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
8	Develop an agreement among all owners on investment, risk, and return standards	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
9	Define clear operating responsibilities for each manager	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
10	Define a fair method of compensating family members employed in the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
11	Increase personal cash flow to owners	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
12	Grow the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
13	Diversify the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
14	Define or revise an effective buy/sell agreement	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
15	Define how the next generation will enter the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Strategic Objectives

Name: Date:										
	← Important			Undecided			Important →			
	4	3	2	1	0	1	2	3	4	
Own operation assets when possible	☐	☐	☐	☐	☐	☐	☐	☐	☐	Lease/rent operating assets when possible
Focus on current crop/ livestock mix	☐	☐	☐	☐	☐	☐	☐	☐	☐	Diversify beyond current crop/livestock mix
Maintain marketing independence	☐	☐	☐	☐	☐	☐	☐	☐	☐	Produce under contract
Focus on agriculture	☐	☐	☐	☐	☐	☐	☐	☐	☐	Diversify outside of agriculture
Position for long-term family ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	Position business for sale to outsiders
All owners share in all ventures equally	☐	☐	☐	☐	☐	☐	☐	☐	☐	Different owners own ventures differently
Employ owned land for farming purposes only	☐	☐	☐	☐	☐	☐	☐	☐	☐	Employ owned land for highest and best use

From **Topic 14 Part C, Chapter 6** (Phase 3: Plan Development)

Conflict Management

Sources of Conflict

Authority, Control, Power:

The struggle for power can affect every situation and decision related to the farm operation. Farmers generally prize the value of independence and freedom to operate their own enterprise. However, authority, control and power between retiring and succeeding generations are complicated in farm businesses, especially if the transition occurs between parents and their adult children.

Division of Income:

The question of when the younger generation gets a greater share of the farm income is a chronic point of disagreement.

Obligations and Indebtedness:

Who bears the brunt of risks in the business? Does someone feel taken advantage of? Is there someone who is not carrying their weight, yet getting paid as if they are (or vice versa)?

In-law relations and conflict of loyalties:

Many times in-laws are never quite included in the family circle. Family loyalties get tangled when conflict occurs.

Differences in risk taking:

Each person has their own set of values and goals that affect how and when they spend money and how they make decisions. If differences are not tolerated, conflict can arise.

Decision making:

The need for crucial and frequent decisions to be made, often with little time to gather all the facts, contributes to conflicts. Who makes most of the decisions? Who is blamed if decisions turn out to be poor ones?

Legal transfer of the property:

The transfer of property from one generation to the next can create tension and conflict. Some planning group members may believe that legal agreements are all that is needed to solve this problem. Other members may feel that more communication, mutual understanding and tolerance are needed to fully deal with the issues.

Conflict Management Styles

The ability to cope successfully with conflict is an important skill for all family members to develop. There is no perfect way to handle all conflicts, but several methods or styles can work well. Which one is appropriate or successful will depend on the situation and the people involved.

The Thomas-Kilmann Conflict Mode Instrument describes the five most common ways that people handle conflict, as follows:

Avoidance:

You do not pursue your own concerns or anyone else's concerns. This usually results in a lose-lose situation.

Accommodation:

You have a high concern for others' needs and neglect your own concerns in order to satisfy their needs. Here you lose; the other person wins. This is a lose-win solution.

Competition:

You are concerned only with your own interests and pursue them at the expense of others. Here you win but the other person loses. This is a win-lose situation.

Compromise:

You are equally concerned with your needs and others' needs. Compromise never fully takes care of anyone's needs. This is a no win-no lose solution.

Collaboration:

You have high concern for both your needs and others' needs. Using this style, you work with the other person or people to find a solution which is acceptable to all. This is a win-win solution.

No single style is necessarily better than the others given particular circumstances. However, collaboration and, to a lesser extent, compromise are considered to be the most constructive methods of conflict resolution.

Strategies to Find Win-Win Solutions

Specific strategies can be used to help arrive at win-win solutions to conflicts. Try the following:

Establish shared goals:

To create a climate of collaboration, people need to focus on what they share in common. Two brothers arguing over specific production methods could start by agreeing that they both share the goal of increasing productivity.

Separate the people from the problem:

Focus on the problem to be solved, not on the personality traits of the people involved. Telling someone an idea is not good is less damaging than telling them they are not good.

Focus on interests, not positions:

Interests are a person's needs, wants, fears and concerns. Interests generate positions, which are demands made by a negotiator. For example, a dispute may arise between two brothers about which one should work on the weekends. They each take the position that they want the weekend off. The underlying interest of one brother is that he wants the weekend off so he can watch his children play in hockey tournaments. For the other brother, the interest is that he has a new girlfriend who works out of town and the only time he can see her is on the weekend. Discussing interests rather than positions allows room for the other person to understand why you feel strongly about your needs, wants, fears and concerns.

Invent options for mutual gains:

Be as creative as possible. Once everyone understands each other's interests, try brainstorming to come up with as many solutions as possible.

Use objective criteria:

If the people in a dispute can shift their thinking from what they want to what makes the most sense, the merits of each possible solution will be easier to judge.

Define success in terms of gains rather than losses:

If you ask for a 10 per cent raise but get only six per cent, you could look at this as a six per cent increase or a 40 per cent shortfall. Your satisfaction with the outcome of any dispute will be influenced by the standards you use to judge it. The question to ask is whether the settlement constitutes an improvement over the starting point.

Always strive to achieve win-win solutions. Even when a win-win solution doesn't seem to exist, one can usually be found if participants have the determination to do so.

From **Topic 14 Part D, Chapter 6** (Phase 3: Plan Development)

Resource Team Identification

Resource Area	Person / Firm	Contact Information	Comments
Accounting			
Tax			
Legal			
Agronomy			
Marketing			
Investment			
Insurance			
Farm Management			
Human Resources			

From **Topic 14 Part E, Chapter 6** (Phase 3: Plan Development)

Advisor Information Report

Advisors

Area of Expertise / Profession	Name	Firm	Contact Information

Family Members Involved

Name	Relationship	Direct / Indirect Involvement	Contact Information

Transition Plan completion date

Date: ____

Summary of Transition Plan to Date:

Other Relevant Information

From **Topic 15 Part A, Chapter 6** (Phase 3: Plan Development)

Vision

What's important to you?   Where are you going?   What do you do?

From **Topic 15 Part B, Chapter 6** (Phase 3: Plan Development)

Situational Analysis

Strengths	Strengths Prioritized	Weaknesses	Weaknesses Prioritized
Opportunities	**Opportunities Prioritized**	**Threats**	**Threats Prioritized**

From **Topic 15 Part C, Chapter 6** (Phase 3: Plan Development)

Risk Assessment

Operational Business Risk

Risk Category	Description	Probability	Impact	Score
Technology	Ability/cost to adapt, obsolescence, rate of change, role of science and biotechnology			
	Your Farm			
Human	Four Ds (death, divorce, disability, departure), management and ownership capacity, transition, performance and training			
	Your Farm			
Legal / Regulatory	Regulation compliance and changes, third party liability, environmental damage/compliance, licensing and reporting			
	Your Farm			
Production	Weather, pests/disease, theft/fire, operational practices			
	Your Farm			
Relationships	Landlords, lenders, customers, suppliers, contracts			
	Your Farm			
Distribution Systems and Channels	Transportation, cost, dependence on distributors			
	Your Farm			

From **Topic 15 Part C, Chapter 6** (Phase 3: Plan Development) - CONTINUED

Strategic Business Risk

Risk Category	Description	Probability	Impact	Score
Strategic Positioning and Flexibility	Industry consolidation, resource allocation and planning, organizational adaptation			
	Your Farm			
Marketing, Reputation and Image	Company image and brand, product reliability			
	Your Farm			
Competitive Conditions	Market share, pricing wars, commodity based, price-taker, world markets			
	Your Farm			
Governmental Trade and Farm Policy	Provincial government programs, international policies (COOL, US farm bill etc.), supply managed			
	Your Farm			
			TOTAL	

From **Topic 15 Part C, Chapter 6** (Phase 3: Plan Development) - CONTINUED

Financial Risk

Risk Category	Description	Probability	Impact	Score
Financing and Financial Structure	Debt servicing capacity, leverage, liquidity, profitability			
	Your Farm			
Interest rate	Foreign exchange, cash savings, interest rates on debt, investment assets			
	Your Farm			
			TOTAL	

Market Risk

Risk Category	Description	Probability	Impact	Score
Input and output product prices	Price level volatility, input product availability, output premiums/discounts			
	Your Farm			
Contract terms, delivery and payment	Delivery delay, buyer default, supply chain obstacles and change			
	Your Farm			
Market outlets and access	Number of markets, ease of access to markets, qualified supplier status, cost of market entry			
	Your Farm			
			TOTAL	

From **Topic 15 Part D, Chapter 6** (Phase 3: Plan Development)

Critical Issues

Business Structure

Operations

Environmental Responsibility

Human Resources

Marketing

Financial Management

Final Prioritized List

From **Topic 15 Part E, Chapter 6** (Phase 3: Plan Development)

Critical Issues Action Plans

Critical Issue:

Person with Primary Responsibility:

Statement that Defines the Critical Issue (optional):

Action Items	How	Specifics		
		Resources	When	By Whom

From **Topic 15 Part F, Chapter 6** (Phase 3: Plan Development)

Financial Targets

Liquidity - The ability of a business to meet financial obligations as they come due in the ordinary course of business. Liquidity relates to cash flow and short-term risk.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Working Capital Percentage of Total Cash Expenses	(Current assets – Current liabilities) / Cash Operating Expenses	If current liabilities are retired as they come due what current assets will be left? (percentage of annual expense)	> 50%	20 – 30%	< 10 %	

Solvency – The financial ratios that measure the amount of business debt relative to the amount of owner's capital invested in the business. Solvency relates to longer-term risk and how the business is financed.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Leverage Ratio* or Debt to Equity Ratio	Total Liabilities / Total Equity	For every dollar in equity, how many dollars of debt are there?	< 4 : 1	0.65 : 1	> 1 : 1	
Debt Servicing	(Net Income + Amortization + Interest -Family Wages**) / (Annual Principal and Interest Paid)	Can the farm come up with enough income to pay the debt requirements?	> 2 : 1	1.5 : 1	< 1.1: 1	

* Industry standards based on assets at market value.

** If not already included in expenses (ex: non-corporate farms).

Profitability – The extent to which a business is able to generate profit (income) from the use of business assets. Profitability rates investment decisions based on their ability to generate net income.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Return on Assets*	Net Income plus Interest / Total Assets	What return is the farm generating as a percentage of capital assets?	> 4%	2%	< 0%	

* Industry standards based on assets at market value.

Financial Efficiency – The extent to which a business is able to use its resources (inputs) efficiently. Financial efficiency rates the annual operating cost decisions on their ability to generate gross revenue.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Gross Margin	Gross Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 65%	55%	< 50%	
Net Profit Margin	Net Profit Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 20%	10%	<5%	

From **Topic 16, Chapter 6** (Phase 3: Plan Development)

Transition Planning Meeting Agenda

Strategic Direction Review Meeting:

Date:

Time:

In attendance:

1. **Administration:**
   a. Select one individual to act as the Chair of the meeting. Review their function and responsibilities (for help, review the job functions outlined in Chapter 3).
   b. Select one individual to act as the Notes Recorder of this meeting.
   c. Review decorum (optional)

2. **Review previous meeting notes:**

3. **Purpose of the meeting:**
   a. Review overall progress in transition plan since last meeting.
      i. Make a plan to catch up in areas that are lagging behind (if needed).
   b. Review the farm's progress specifically relating to the strategic direction phase of the transition planning process.
   c. Address other concerns as needed.

4. **Review the current situation:**
   a. for each participant individually;
   b. for the group/family; and
   c. for the farm.
   d. General discussion and questions.

5. **Discuss plan development specifics:**
   a. Discuss whether participants are on the same page when it comes to values, strategies, and risk tolerance.
   b. Discuss whether the action plan will get your transition planning group where you want and need to go.
   c. Make a plan to address disagreements (if needed).
   d. Conduct a general discussion and answer questions.

6. **Discuss concerns and issues:**
   a. General discussion and questions

7. **Create timelines:**
   a. Assign responsibilities with due dates.
   b. Set a date and time for the next meeting time.

8. **Adjourn**

From **Topic 17 Part A, Chapter 7** (Phase 3: Plan Development)

Successor Assessment

Leadership	Score
Creates and effectively communicates a clear vision.	
Recruits a team to achieve business and operational goals.	
Treats partners, employees, third party vendors and all other stakeholders as important.	
Recognizes the importance of complementary characteristics and builds a team with diverse strengths, skills and abilities.	
Creates a positive, constructive, results-oriented working environment.	
Recognizes potential areas for conflict and proactively mitigates the negative impact.	
Knows that a leader strives to create other leaders and creates opportunities for others to excel.	
Displays good business customs and sound ethics.	
Delegates with clear responsibility and accountability.	
Accepts criticism and uses failure as a learning opportunity.	
TOTAL	

Management	Score
Selects team members based on their respective skills and abilities.	
Performs all tasks, duties and responsibilities with an owner's determination.	
Is committed to continuing education, additional training and self-study.	
Demonstrates excellent financial management.	
Uses technology to increase efficiency, improve effectiveness and cut expenses.	
Demonstrates clarity, patience and commitment to employee training, operational safety and hazard avoidance.	
Delegates effectively, encouraging others to take on and accept responsibility.	
Effectively prioritizes and demonstrates good time management.	
Understands personal relationships and operational politics using good communication.	
Is a good planner, using thorough analysis, goal setting, budgeting and record keeping.	
TOTAL	

From **Topic 17 Part B, Chapter 7** (Phase 3: Plan Development)

Ownership Options

Ownership

1. Are you looking for an interim arrangement at this stage, or are you considering a full sale transfer?
    a. Are you prepared for a complete change from farmer to creditor or, if a bank / financing company is involved, to a passive investor?
    b. Will one or more successors want to become involved later?
    c. How important is it that you retain ownership of some of the assets?
    d. If there is an interim arrangement, how concerned are you that the farming successor might not be satisfied with how the overall plan will ultimately unfold?
    e. Could you work with your successor on a partnership basis?
        i. Do you communicate well together?
        ii. Could you treat your successor as a business partner?
2. Are you concerned about the stability of your farming successor's marriage?
    a. This can be a significant issue because if there is a marriage breakdown, an estranged in-law could acquire a larger share of your estate than your own non-farm successors.
        i. Does your successor's marriage seem strong?
        ii. Would you prefer not to transfer significant assets at this time?

Control

1. Is it important that you control the management of the farm for a period of time?
    a. Is it important that you have some degree of control while you still have a significant investment in the farm?
    b. Is it sufficient that you have some influence over major decisions such as the future purchase and sale of assets?
    c. Do you want to continue managing the farm?

Security

1. How much importance do you place on financial security?
    a. Is the retiring generation prepared to act as a lender, carrying the successors' loan on a sale of assets or shares? Does the retiring generation expect successors to buy them out in whole or in part? If the retiring generation does act as banker, will they want interest in the first few years of the agreement?
    b. Is the retiring generation prepared to guarantee any bank indebtedness that successors might take on to buy out the retiring generation?
    c. Does the retiring generation want their name to remain on ownership titles until the successor completes all payments for the farm business?

On-Farm Living

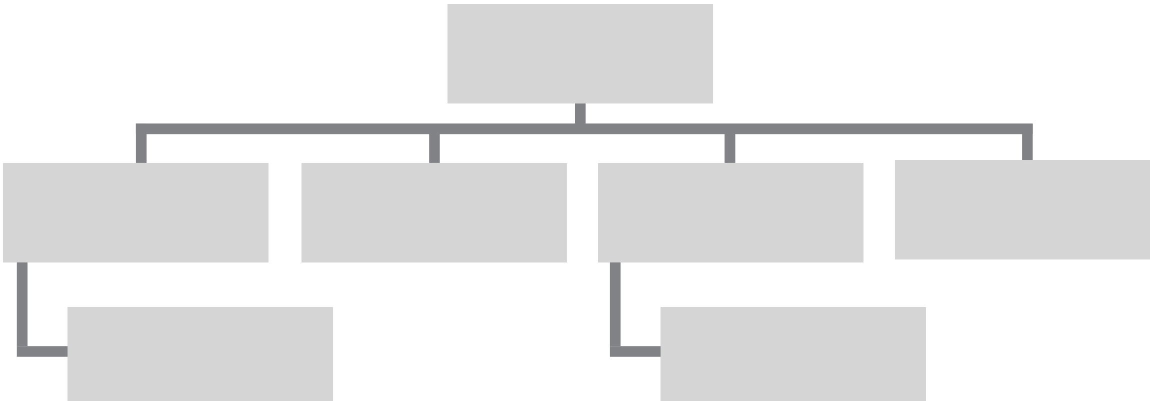
1. Does the retiring generation want to continue living on the farm or move away?
2. Does the succeeding generation want/need to move onto the farm?
3. If an additional home is needed, will the retiring generation or the succeeding generation move into the new house?
4. Can the existing farm house be sub-divided from the farm?
5. What is the cost of housing in town, if necessary?

Equal vs. Equitable Treatment of Successors

1. What assets does the retiring generation plan to ultimately pass to non-farm successors?
    a. Are there non-farm assets that they might inherit?
    b. Are there any insurance policies that they might inherit?
2. Will the retiring generation be able to build up non-farming assets from the payments that the farming successor makes (that could at some point be passed on to your non-farm successors)?
3. Is it likely that the non-farming successors will inherit a receivable from farming successors or hold an interest in the farm?
    a. If so, how important is it that the farm successor's ability to run the farm not be put at risk?

From **Topic 20 Part A, Chapter 7** (Phase 3: Plan Development)

Management Structure



From **Topic 20 Part B, Chapter 7** (Phase 3: Plan Development)

Management Activities

Management Area	Management Function	Sub-Function	Who manages the work	Who does the work	Who manages the work	Who does the work
			Currently		***In 3 Years***	

From **Topic 20 Part C, Chapter 7** (Phase 3: Plan Development)

Job Description

Position Title:

Reports To:

Date:

Job Purpose/Objectives:

Percentage of Time	Key Tasks
	Activity 1:
	Activity 2:

Education and Training:

Experience and Skill Requirements:

Supervision:

Physical Requirements:

Salary Range:

Work hours:

Overtime:

Benefits:

Comments:

From **Topic 20 Part D, Chapter 7** (Phase 3: Plan Development)

Compensation Philosophy

For Owners

For Family

For Family Employees

For Non-Family Employees

From **Topic 20 Part E, Chapter 7** (Phase 3: Plan Development)

Roles, Responsibilities and Authority

Role or Responsibility	Currently Responsible	Transition Authority to	Timeline	Action

From **Topic 20 Part F, Chapter 7** (Phase 3: Plan Development)

Training and Skill Development

Activity 1:		
Hosting Organization:		
Location (if applicable):		
Budget:		
Who Attends	**Dates**	**Follow-up**

From **Topic 21 Part A, Chapter 7** (Phase 3: Plan Development)

Unanimous Shareholder Agreements

List of Agreement Considerations

Terms of Agreement: Because circumstances change, consideration should be given to the term of the agreement. Consider:

- Should there be a set termination date (ie:10 years)?
- Should the agreement be terminated upon the death of a shareholder or should it be perpetual?

A. Provisions for Control

- How many members will there be on the board of directors?
- Will each shareholder be entitled to a nominee on the board?
- What will constitute quorum for a meeting of the board?
- Who will be the officers of the corporation?
- Will the directors and officers be paid by the corporation? If so, how is their remuneration determined?
- Which officers will be authorized to sign cheques and other banking documents on behalf of the corporation?
- Will two signatures be required for cheques over a certain limit?
- Who can bind the corporation in regard to other legal/financial matters?
- How will auditors, accountants and lawyers be chosen?
- How will meetings be called (ex: mail, other, how many days in advance)?
- Who will be notified of formal and informal meetings?
- Who will vote at the meetings?
- Will votes be decided by simple majority or special majority?
- What circumstances will require a special majority?

B. Operation and Finance of the Corporation

- If funds are required by the corporation, how are those funds to be obtained?
- Will these funds be obtained by the corporation borrowing from a financial institution?
- If the corporation is otherwise unable to obtain these funds, will the shareholders be required to provide guarantees?
- If guarantees are provided, will they be limited guarantees and will guarantor liability be joint and several?
- If the corporation is unable to obtain the required funds with the assistance of shareholder guarantees, will shareholders be required to provide loans to the corporation? Will shareholder loans be secured?
- If shareholder loans are secured, under what conditions can a shareholder enforce his right to payment?
- How will profits be distributed (salaries, bonuses, dividends, repayment of shareholder advances)?
- Will shareholders be allowed to work for the corporation?
- What are the powers of the shareholders regarding terminating another shareholder who is an employee of the corporation (ex: for causes such as failure to perform duties)?

C. Restriction on the Transfer of Shares

- Will there be a restriction on the transfer of shares?
- If so, will this restrict the ability of a shareholder to pledge shares to a bank or transfer shares to a family member or related corporation?
- If the shareholders are corporations, should the shareholders be restricted from transferring shares of the shareholder?

D. Death of a Shareholder

- In the event that a shareholder dies, should the estate be bound to sell the deceased's shares to the other shareholders, to the corporation for cancellation, or permitted to keep the shares?
- If an estate is required to sell and the corporation or remaining shareholders are required to purchase the shares, should there be insurance policies on the lives of the shareholders to ensure that the other shareholders of the corporation can afford to purchase the shares in the event of death?
- If insurance policies are required, should the corporation pay the insurance premiums?
- Upon death, how should the purchase price for the shares be paid (ex: a percentage at the time of the sale and the balance paid in equal consecutive monthly instalments over a period of years with or without interest)?

E. Events Requiring a Mandatory Sale by the Shareholder

- Which events should result in a shareholder being required to sell all of the his or her shares of the corporation:
- The death of the shareholder?
- The disability of a shareholder, which results in the shareholder not being able to devote the time and attention required by the corporation?
- The shareholder reaching a certain age (ex: 65 years)?
- A default by the shareholder under the shareholder agreement or any related agreement?
- The insolvency of a shareholder?

F. Disability of a Shareholder

- If a shareholder is employed by the corporation, should the shareholder be entitled to continue receiving compensation in the event of a disability?
    - If so, for how long?
- How should disability be defined?
- Should a shareholder be required or have the option to sell shares if a disability continues for an extended period of time?

G. Right of First Refusal

- If a shareholder is entitled to sell shares of the corporation to a third party, should that shareholder be required to first offer the shares to the other shareholders on the same terms and conditions as the bona fide third party offer?
- If the other shareholders do not wish to purchase the first shareholder's shares, should they be entitled to require the third party purchase their shares as well (piggy back rights)?
- If the other shareholders do not wish to purchase the first shareholder's shares, should they be forced to sell their shares to the third party if the third party wishes to purchase all of the corporation's outstanding shares (drag along)?

H. Buy/Sell

- This provision allows a shareholder to provide notice to all other shareholders advising them of a set price for purchase of all the other shareholder's shares or for sale of all owned shares to them. Once a shareholder triggers the buy/sell it is then up to the other shareholders to determine if they wish to be buyers or sellers.

I. Call:

- Should a shareholder be entitled to require one or more other shareholders to sell their shares in the corporation upon notice?
- If so, should this right be exercisable immediately or only after some period of delay? How will the price be determined?
- How will the price be paid?

J. Put:

- Should a shareholder be required to purchase another shareholder's shares at the option of that other shareholder?
- Should this right be exercisable immediately or only after some period of delay?
- How will the price be determined?
- How will the price be paid?

K. Pre-emptive Rights

- If the corporation wishes to raise additional funds by issuing and selling new shares from treasury, should the existing shareholders have the first opportunity to purchase the new shares?
- If any shareholders do not wish to purchase these new shares, should the remaining shareholders be entitled to purchase the additional shares, which may result in their holding a disproportionate number of shares?

L. Dispute Resolution

- Should the shareholder agreement contain a clause that requires arbitration in the event that a controversy or claim arises which cannot be settled among the shareholders?
- Should shareholders be required to attend mediation prior to starting an action if a claim cannot be settled otherwise?

M. Non-Competition/Confidentiality/Non-Solicitation

- Will the shareholders be required to promise that while they are shareholders they will:
  - Not compete with the corporation in any manner?
  - Not solicit any of the corporation's clients?
  - Promise to keep all confidential information they receive confidential?
- Should the terms of this clause be extended so that it applies even when the individual is no longer a shareholder?
  - If so, how long should the non-competition/non-solicitation clause continue and what is the geographic scope of the covenant?

N. Valuation of Shares

- Will the shares of the corporation be valued for sale purposes:
  - By a predetermined formula?
  - By the shareholders themselves?
  - By endorsing a schedule to the agreement?
  - By a third-party valuator/auditor?
- How often will the shares be valued?

O. Employment

- If one or more of the shareholders is employed by the corporation, should typical employment provisions be included in the shareholder agreement to protect the shareholder, the corporation, or both?
- Should salary levels be agreed upon for some pre-determined period of time?
- Should notice of termination of employment periods be agreed upon?
- Should employment automatically terminate if a shareholder sells his shares?

From **Topic 22, Chapter 7** (Phase 3: Plan Development)

Deal Breaker Issues

Challenges

Are there transition challenges outstanding that have not been dealt with?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Guiding Principles

Are there areas of major disagreement within the farm's guiding principles?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Conflict

Is there unresolved conflict (visible or hidden) between stakeholders? Will this conflict hamper the management team's ability to manage post implementation?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Strategic Direction and Risk Management

Can the risks identified be mitigated satisfactorily so they don't endanger the farm's future? Are all stakeholders committed to managing according to the agreed upon action plans and financial targets?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Transition Options

Are all stakeholders satisfied with the proposed business structure and future management structure? Has there been any significant negative feedback from professionals that cannot be incorporated into the plan?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Human Resources

Are all stakeholders satisfied with their roles, responsibility and authority during transition? Is the training/skill set program content and timeline attainable? Are all stakeholders satisfied with the compensation policy and performance review process?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Estate Plan Elements

Can all stakeholders accept the estate plan? Is there conflict/feeling of resentment associated with the estate plan that needs to be addressed?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Are we ready to proceed to Implementation? (YES/NO)

From **Topic 23, Chapter 8** (Phase 3: Plan Development)

Transition Plan Review Meeting Agenda

Date:

Time:

In Attendance:

1. **Administration:**
   a. Select one individual to act as the Chair of the meeting. Review their function and responsibilities (for help, review the job functions outlined in Chapter 3).
   b. Select one individual to act as the Notes Recorder of this meeting.
   c. Review decorum (optional)

2. **Review previous meeting notes.**

3. **Discuss purpose of the meeting:**
   a. Review overall progress in the transition plan since last meeting.
      i. Make a plan to catch up in areas that are lagging behind (if needed).
   b. Address other concerns as needed.

4. **Review the current situation:**
   a. for each participant individually;
   b. for the group/family; and
   c. for the farm.
   d. General discussion and questions.

5. **Discuss plan development specifics:**
   a. Are all participants on the same page?
      i. Does everyone acknowledge that plans and documents currently under development will be considered final and signed following the final review (Topic 28)?
      ii. Make a plan to address disagreements (if needed).
   b. Conduct general discussion and answer questions.

6. **Discuss concerns and issues:**
   a. General discussion and questions

7. **Timelines:**
   a. Assign responsibilities with due dates.
   b. Set a date and time for the next meeting.

8. **Adjourn**

From **Topic 24 and 25, Chapter 8** (Phase 3: Plan Development)

How to Choose and Work with Advisors

A very important decision your group will face during the transition planning process is who to select as advisors.

An advisor's role is:

- to be an information resource to the farm management team; and
- to guide the team in their decision making process (not simply to tell them what to do).

The most important questions to consider when selecting an advisor are:

- How do I choose the right advisor?
- How can I get the most out of the advisor-client relationship?
- How should the relationship be structured?

What to Look for when Selecting an Advisor

Qualifications

Consider the career and educational background of a potential advisor.

- Do they have a farm background?
  - o Is it important that they do?
- What education and experience to they bring to the table?
- What kinds of professional development have they undertaken? (A sign of a high quality advisor is that he or she is committed to investing in continuous learning and professional improvement.)
- Do they maintain a professional affiliation with any industry groups?
- Since there is limited regulation on who can act as a consultant or advisor, a good indication of a potential advisor's professionalism and training is whether they have a designation or other credentials from a regulating organization.

Communication and Conflict Resolution Skills

Communication is a critically important part of the transition planning process. An advisor will need to write and respond to emails, prepare documents and meeting agendas, and lead discussions at the meetings. A key factor in your relationship with your advisor will be how well he or she can effectively communicate.

Since there is a potential for conflict throughout transition planning, it is important that an advisor be experienced and skilled in conflict resolution. Such skills may be required to enforce decorum in meetings and bring differences of opinion to middle ground and resolution.

Steps to Follow When Selecting an Advisor

There are many factors to consider when selecting a professional advisor. It is best to make your selection based on their skills, knowledge and experience, and how specific their skillset is to your situation. Try not to be sold simply on experience, intelligence or determination.

1. Develop a detailed description of the objectives and requirements of the project.
2. Identify the scope of the work.
    a. Include key concerns, timelines and budget limitations.
3. Research rosters or databases and take note of advisors that match your needs.
    a. Contact each potential advisor, asking for a CV (professional resume) and list of past client references.
4. Rank each respondent.
5. Shortlist and interview.
    a. Look for advisors who recognize your needs and demonstrate sound knowledge that will add value to your planning process.
    b. Do research on the final candidates, via:
        i. word of mouth / opinions of others;
        ii. CV (resume) consideration;
        iii. reference checks. Specifically determine:
        iv. Whether the work conducted for the reference was similar to the work you want done?
        v. Were the references satisfied with the work? If not, ask why?
            1. Be aware that a negative response may due to the reference having unrealistic expectations of the advisor, or another issue that is not the advisor's fault.
6. Select the advisor:
    a. Develop a written contract.
    b. Ensure both parties sign the contract.
7. Consider errors and omissions insurance
8. Consider third party liability insurance

How to Use an Advisor

The relationship you build with your advisors will go a long way towards determining the success of your farm's transition plan. While each relationship will differ depending on the situation and people involved, there are some universal guidelines and tips that can help make things go smoothly.

1. Formalize the client-advisor relationship.
    - Knowing what is required, what the deliverables are, and what expectations you have of the advisor will improve the relationship.
    - Write an engagement letter, or have your advisor write one, that lays out the expectations from both sides and provides a plan if changes threaten to derail the process. The engagement letter should include:
        - project scope, objectives and understanding;
        - services;
        - delivery schedule;
        - limitations and liability;
        - advisor responsibilities;
        - client responsibilities;
        - project assumptions; and
        - fees, expenses and payment terms.
2. Formalize the fee structure. Before agreeing to anything fee-related, consider:

- How will fees be charged?
    - by the hourly contract
    - contingency based
    - retainer based
    - negotiable
- Note: You should feel comfortable asking your advisor for a breakdown of the time billed to you. Final payment holdback can be used to make sure work is completed as per the engagement letter.

3. Communicate, communicate, communicate

- Disputes are often caused by a breakdown in communication.
- It is important to bring an issue to the table as soon as you detect a problem.
- Refer back to the contract (engagement letter) when conflict occurs.
- Professional conduct and insurance can sometimes play a role in solving disputes.
- There is a mutual responsibility for both parties to ensure information flows to each other.

4. Determine Timelines and Deliverables

- Staying on track is important! An effective way to prevent conflict is for both the transition planning group and the advisor to work hard to meet timelines and agreed upon deliverables.

From **Topic 28, Chapter 8** (Phase 3: Plan Development)

Transition Plan Final Meeting Agenda

Date:

Time:

In attendance:

1. **Administration:**
   a. Select one individual to act as the Chair of the meeting. Review their function and responsibilities (for help, review the job functions outlined in Chapter 3).
   b. Select one individual to act as the Notes Recorder of this meeting.
   c. Review decorum (optional)

2. **Review previous meeting notes.**

3. **Discuss purpose of the meeting:**
   a. Share the finalized transition plan.

4. **Review the current situation:**
   a. For each participant individually;
   b. For the group/family; and
   c. For the farm.
   d. General discussion and questions.

5. **Discuss plan review specifics:**
   a. Review the lessons learned in the transition planning process.
   b. Discuss plan implementation.
   c. Conduct a general discussion and answer questions.

6. **Discuss concerns and issues:**
   a. General discussion and questions

7. **Timelines:**
   a. Assign responsibilities with due dates.
   b. Set a date and time for the next meeting.

8. **Adjourn**

Appendix – Resource References and Contact Information

1. The Executive Program for Agricultural Producers (TEPAP)
   www.tepap.tamu.edu
2. Canadian Total Excellence in Agricultural Training (CTEAM)
   www.agrifoodtraining.com
3. Farm Credit Canada
   www.fcc-fac.ca
4. Farm Management Canada
   www.fmc-gac.com
5. Government of Canada
   www.agritalent.ca
6. Alberta Agriculture and Forestry
   www.agric.gov.ab.ca
7. Manitoba Agriculture
   www.manitoba.ca/agriculture
8. Saskatchewan Ministry of Agriculture
   www.agriculture.gov.sk.ca
9. Online DISC Profile
   www.onlinediscprofile.com
10. Centrec Consulting Group
    www.centrec.com
11. Family Business Management Services llC
    www.familybusinessmgt.com
12. Legacy by Design, llC
    www.legacy-by-design.com
13. Backswath Management Inc.
    www.backswath.com