NOVEMBER 2017

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# IN THIS EDITION

NOVEMBER 2017

**AgriSuccess**

With pride in agriculture and a positive yet realistic outlook, AgriSuccess is dedicated to helping Canadian producers advance their management practices. Each edition aspires to present content that is:

- engaging
- motivational
- innovative
- actionable

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## FEATURES





## COLUMNS

# Retirement isn't for everyone

If you're involved in projects you like, why would you want to quit?

Many friends and acquaintances my age are retired, considering retirement or have a timetable worked out for when they will retire. Heck, one of my lifelong friends the same age as me retired about 10 years ago.

Some ag college classmates several years my junior have retired from their professional careers, although it's interesting to note that some of them have "retired" to become even more active at farming.

Personally, I don't like the term retirement. As a self-employed agriculture consultant and journalist, my list of contracts has steadily evolved over the years. As time goes by, I may change the mix of work I undertake and I'll probably choose a lighter workload, but if you're involved in projects you like, why would you want to quit?

The same goes for farming. The mix of crops and cropping practices has become ever more interesting. Our equipment is old by many people's standards, but it has steadily improved over the years, making the work easier. Why quit when it's so much fun?

Some people retire so they can travel or golf or spend more time with kids and grandkids. Many of them make a quick transition to a very different lifestyle. My golf game sucks, we don't have any grandkids yet and in the summertime I'd rather do crop tours than look at mountain scenery.

My retirement – and I hesitate to even use the word – will be more of an evolution, body and mind willing. If I'm fortunate, I'll never be fully retired.

What are your retirement thoughts and plans? A quick transition to retirement, or more of an evolutionary approach?

We always appreciate your feedback and story ideas. Email kevin@hursh.ca or catch me on Twitter @kevinhursh1.

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# Crunch the numbers before you **invest, expand, diversify**

BY LORNE McCLINTON

Expansion, investing in new equipment or services, or diversifying by adding a value-added business can provide a great boost to a farm's bottom line. However, they could also threaten a farm's viability if the farm isn't in top financial health.

People rarely think about adding a value-added venture when things are going well. But that's the best time to launch a good idea, as nearly every new business will take twice as long and cost twice as much as expected to get off the ground.

"A business has to be able to make ongoing investments in machinery and equipment purchases as needed," says Roger Mills, a farm management consultant based in Steinbach, Man. "However, if they're planning a major investment for things like quota purchase, new facilities, land purchases or even a diversification project, then I would advise producers to ask their advisor or consultant to complete a financial projection to see if the proposed idea actually cash flows."

First, this gives you the numbers to determine if you're making a wise investment. Second, your lender will appreciate that you've taken the time to back up your proposal with research before you take on further debt. Mills says producers should never devote more than 30 per cent of gross revenue – and ideally less than 28 per cent – for debt servicing.

One common misconception is that expansion to capture savings through economies of scale will always help your bottom line. While these do exist in agriculture, they are greatly overrated at the levels of expansion most people are considering, says Brent Gloy, a visiting professor at Purdue University in Lafayette, Indiana, and contributor at AgEconomist.com. A 10 per cent increase in acreage won't offer much improvement in your cost structure, and if you don't already have a low cost structure for the size of your operation, expansion will probably make things worse.

Calculating your farm's operating expense ratio (OER) can be a valuable tool for deciding if it's a good time to invest. An OER is a relatively simple number to come up with, if you accurately know your actual costs: divide total expenses by gross revenue.

"Ask (your) advisor or consultant. . . if the proposed idea actually cash flows."

"Really efficient producers' OERs could be as low as 50 per cent," Mills says.

"Operations in this range are quite profitable. However, I'm finding it's becoming more difficult for the average producer to keep their OER at 60 per cent or less. If they keep salaries and personal withdrawals in the 12 per cent range, a 60 per cent OER only leaves 28 per cent for debt repayment." Such an operation is only breaking even, and isn't generating a profit.

**THE VALUE OF GOOD DATA:**
FCC's Steve Tippe explains the benefits of accounting software designed for agriculture. | **fcc.ca/GoodData**

Field workers manage and repair the 3,000 kilometres of collection lines.

AMENDED **BUSINESS PLAN** LEADS TO

# sweet SUCCESS

BY ALLISON FINNAMORE

The drive to optimize technological improvements is also key to growth in a highly unpredictable industry.

Just two years after starting South Ridge Maple Co. Ltd., Zak and Karen Hargrove believe they may be the world's largest producers of the iconic sweet Canadian syrup.

Their company, together with Canadian Organic Maple Co. Ltd., produced 900,000 pounds of maple syrup during the 2017 harvest – equivalent to about 900,000 cans of soda.

The Hargroves live in Florenceville-Bristol, home to the world headquarters of McCain Foods, near the Maine-New Brunswick border. The rural area is in the heart of potato country with thick, undeveloped forests also coursing through the landscape. Forest covers more than 15 million of the province's 18 million acres. Around half of that is Crown land.

## Business plan goes awry

The couple's original business plan was to take over Canadian Organic Maple from Zak's parents, Gus and Sandra. That maple syrup business started in 1999 and grew at a respectable pace. They worked out a purchase agreement and started turning the wheels of succession. Then, just a few weeks later, post-tropical storm Arthur blew into the Maritimes.

In Divide, where the Canadian Organic Maple sugar bush is located, freak winds, mini-tornadoes and heavy rains uprooted the trees in all directions. Canadian Organic Maple lost about 38,000 of their 140,000 taps – damage so significant that both junior and senior Hargroves reassessed their business plans.

After some serious family discussions, the purchase of Canadian Organic was put on hold and the two generations decided to rebuild, knowing it would take all four of them, all of their workers and most of their resources to get it done – from clearing toppled trees, repairing lines and taking care of payroll to managing inventory and dealing with customers.


L Burying the lines prevents damage and helps keep them naturally cooled, discouraging bacterial growth.
R This massive evaporator helps the Hargroves refine up to 8,000 gallons of sap per hour.

Opportunity grew from the experience, though, and Zak and Karen's commitment to the industry solidified. In 2015, they successfully bid to take over a plot of Crown land for maple production and South Ridge Maple was born. The couple took the lessons learned at Canadian Organic Maple and put them to work immediately in their operation.

"We decided to combine what worked and create a high-yield maple syrup business," Zak says.

They also put in their research in other sectors, learning as much as they could about facilities that dealt with liquids.

"Not only food grade, but natural gas pipelines, irrigation systems. . . we looked at how the lines are cleaned, air pressure and tank sizes," Zak explains. "The biggest tank we could get for sap was 25,000 gallons, so we looked for bigger tanks."

That led to dairies where the couple learned about cleaning processes, which they implemented in their operation, as well as vacuum systems, which they use for increased sap extraction during production season. "We were gleaning and scrutinizing," Zak says.

## Producing through innovation

Just as most agricultural crops are planted in neatly organized rows, Zak and Karen applied that same system in the forest. When they ran collection tubes among the trees at Canadian Organic and South Ridge Maple, they put the tubing in rows, making the trees easy to reach.

And, like a natural gas pipeline, main maple collection lines are buried, with several advantages.

With fewer lines in the woods, there's decreased opportunity for damage during a storm. And since a buildup of bacteria brings the maple production season to an end for most producers, the buried lines at South Ridge Maple are naturally cooled, greatly lessening bacteria growth and extending production.

And the innovations kept coming. All 3,000 kilometres of the Hargroves' lines in the woods are GPS mapped, itemized and categorized. As well, computerized monitoring boxes designed by Zak's brother Levi, a biomedical engineer, provide real-time knowledge to a manager back at the processing centre who keeps an eye on vacuum pressure, temperatures and maple collection tank levels. If there's an issue, they send a field worker to do repairs.

Looking ahead, the Hargroves plan to continue to increase production, finalize their purchase of Canadian Organic Maple, tap more trees and develop business relationships with neighbours to purchase sap. Zak says the drive to optimize technological improvements is also key to growth in a highly unpredictable industry.

"There are a couple of absolutes," Zak explains. "You absolutely need Mother Nature for the temperatures. You absolutely need the spigot in the right place. Everything else is the details, from the grade of the lines to the bacteria control, and just holding on. And turn every last drop of the sap that comes out of that tree into maple syrup." ■

Veterinary antibiotics to become

# prescription only

BY KEVIN HURSH

Major changes are coming to antibiotic access for livestock producers across the country. Regulatory changes by Health Canada that are set to take effect in December 2018 will see veterinary antibiotics available by prescription only.

Along with the need for prescriptions from veterinarians, the use of antibiotics for growth promotion will be discontinued. A prescription will also be required for any medicated feed (including chick starter) that contains an antibiotic.

The changes are fuelled by fears of antibiotic overuse and the growing resistance of bacteria to antibiotics within the human population. Humans and animals share many of the same bacteria and some livestock pathogens can infect humans.

> [Regulatory] changes are fuelled by fears of. . . overuse and the growing resistance of bacteria to antibiotics within the human population.

Some of the public fears regarding the use of antibiotics in livestock may be misguided, but it's difficult to counter fear with facts according to Wendy Wilkins, a veterinarian with the livestock branch of the Saskatchewan Ministry of Agriculture.

She points out that additional oversight seems warranted given that antibiotic use within livestock is greater than within the human population. Recent research shows that farm animals on a per pound basis in this country receive roughly 1.6 times more antibiotics than the human population.

Efforts to reduce antibiotic use have been underway for some time within the livestock industry. For example, Chicken Farmers of Canada has a strategy to eliminate the preventative use of antimicrobials that have human importance.

Wilkins says it's important to note that when an animal is sick, getting a prescription from a veterinarian is not a rubber stamp. A valid veterinarian-client-patient relationship (VCPR) must be in place before prescriptions are written. This has always been a requirement.

A legitimate VCPR is considered to exist only if medical records of the practice contain sufficient evidence of relevant and timely interaction between the veterinarian, animal owner and animal patients.

Bringing an animal to the vet clinic at some point in the past may not constitute client interaction. The vet should have some familiarity with your operation. In other words, he or she should have been out to your place recently.

Wilkins advises livestock producers be ready for the changes taking place at the end of next year, and that means establishing a relationship with a veterinarian in advance if a relationship doesn't already exist.

"Learn what will be required in your specific situation," Wilkins advises. "Remember it's not the veterinarian who is changing the rules, but they do need to follow them." ■

Follow Kevin: **@kevinhursh1**

# Relocating the farm produces new opportunities

BY LORNE McCLINTON

## Alberta to Atlantic

Just eight years after moving to Canning, N.S., Godfrey and Beverley Poyser – along with their youngest son Thomas, their daughter Leonie and son-in-law Chris de Waal – have turned Getaway Farms into one of the most successful direct-to-market beef operations in the country. In addition to being an anchor tenant in Halifax's Seaport Farmers Market, the farm also supplies and operates two thriving full-time butcher shops that employ 20 people.

Godfrey Poyser had struggled to background cattle in Alberta post-BSE. He unwillingly left the industry to start a small used car lot in 2007.

"My daughter Leonie saw how unhappy I was and suggested I give farming another go," Poyser says. "She put a farm-wanted ad for us on Kijiji, and we got a response from a beef producer from Canning."

"We flew out to take a look at the property, but didn't get a good first impression," Poyser says. The fog was so thick he couldn't see his hand in front of his face, and the house needed upgrading. However, they decided to take one last look before ending their 10-day tour of the province. This time the weather co-operated, showing them the farm's amazing views of the Annapolis Valley and the Bay of Fundy.

While the scenery was stunning, the cow-calf operation running 40 pairs wasn't particularly enticing. When the previous owner sweetened the deal with shares in the Halifax Seaport Farmers Market, Poyser decided to give it a go.

> "Vertically integrating and having direct-to-market sales opens up new possibilities."

"In reality, a farm this size by itself doesn't pay," de Waal says. "But vertically integrating and having direct-to-market sales opens up new possibilities."

The move was a big change, but it paled in comparison to learning a new approach to marketing. In Alberta, they sold their cattle to feedlots. In Nova Scotia, they market beef directly to consumers.

"People laugh when I tell them that I didn't know the difference between an eye of round and a ribeye when I started," de Waal explains. "But I did a lot of reading and cooking until I knew how to prepare an entire animal and relate what I learned to the customers."

## Large land base in northern Ontario

While the Poysers went east to pursue opportunities, Chris and Kyla Riach moved north from the family's multi-generation dairy farm in Oxford County near Woodstock, Ont. Close friends had started farming in northern Ontario 13 years before, and had been trying to persuade the couple to join them. So when the four adult Riach children expressed an interest in agriculture, the couple decided to give the north a serious look. What they saw inspired them.

"Not only is land more affordable, there's a much larger available land base," Kyla says. "The area is filled with farm properties that have people living on them but haven't been farmed in years."

They bought a 450-acre farm at Matheson, Ont., 800 kilometres north of Woodstock. Thousands of cattle were raised in the region until BSE hit.

"Lots of neighbours are in their 70s," Chris says. "They stop in and say, 'By the way, my farm might be for sale,' or 'Could you come cut the hay on my land? You can have the hay.' So while we own 450 acres, we have another 650 I can cut hay on."

The couple plans to bring their first cattle to the farm as soon as they finish fixing fences, growing to 200 cow-calf pairs in the next five years.

## Saskatchewan's agriculture culture

Terry and Bonnie Ludwig had great success milking 260 Holsteins on Vancouver Island and were named B.C.'s Outstanding Young Farmers in 1997. While the Ludwigs loved the dairy lifestyle, their children and their spouses didn't. So after much family discussion, the couple sold their cows, quota and some of their land in 2010 to help the next generation set up a horticulture venture, an award-winning fruit winery, a custom woodworking shop and an apiary.

The younger generation's ventures were thriving by 2012, but the elder Ludwigs were in a quandary. Since they weren't ready to retire, the couple decided to go back to what they loved best, operating a dairy. They purchased a 100-cow dairy in Delisle, Sask.

"In a nutshell, we came to Saskatchewan for the opportunity," Bonnie says. "Terry's and my passion has always been cows, but we couldn't have gone anywhere in B.C. or Alberta and bought a dairy just using our cash flow like we could here. The whole philosophy about agriculture is different in Saskatchewan, too. It's nice to be in a province where agriculture is what everybody is involved in and understands. The only disadvantage is all of our children and grandchildren are back on Vancouver Island."

Since buying the farm, the couple has built a new milking parlour and have expanded. They're now milking 150 cows with no plans for retirement in sight. ■

# Know your **equipment costs**

BY KEVIN HURSH

*There is one fundamental rule that must be followed to justify the ownership of any machine.* ***Use it.***

That advice comes in a factsheet from OMAFRA, the Ontario Ministry of Agriculture, Food and Rural Affairs – a factsheet prepared by John Molenhuis, a business analyst and cost of production specialist with the ministry.

## Upgrade: need or want?

The numbers in the factsheet are in the process of being updated, but the advice and analysis remain valid. Depreciation costs, the cost of money and the cost of insurance stay roughly the same whether you use the machine a little or a lot. Therefore, the cost per hour or per acre is much higher on a machine that sees limited use, and you would probably be better off renting a machine for short periods of time or hiring someone to do the work.

"You always wish more producers would crunch numbers," Molenhuis says. "They should calculate whether they can justify the purchase rather than just calculating whether they can afford it." He points out that buying bigger equipment than you need may be a reasonable strategy to reduce weather risk for time-sensitive operations, but it comes with a price tag.

One of the tables in the factsheet is Trade-In Values as a Percentage of New Cost. A 10-year-old combine is worth only 25 per cent of

"Cost per acre can actually stay about the same after you do an equipment upgrade."

new value according to the chart, whereas a 10-year-old tractor is worth 32 to 37 per cent, depending on its size. This is one of the charts Molenhuis is working to update.

Another is Accumulated Repair Costs as a Percentage of Purchase Price. This chart shows that on a two-wheel drive tractor, you could expect to pay 6.2 per cent of purchase price in repairs by the time the tractor has 3,000 hours. By 6,000 hours, the accumulated repair bill is estimated at 25 per cent and by 9,000 hours, the repair bill is more than 56 per cent of the purchase price.

There are also formulas for estimating fuel and lubrication costs as well as storage and insurance.

## Try online cost calculators

OMAFRA has an online equipment cost calculator, as does Alberta Agriculture, Food and Rural Development. Ted Nibourg, a business management specialist with Alberta Agriculture, says the three Prairie provinces are exploring ways to work together to keep up with changes in equipment costing.

"For many producers, number-crunching comes down to sitting across from their sales rep and negotiating the purchase price," Nibourg says. "They don't work out what a piece of equipment costs per acre or per hour of use, but this is valuable information to have from a management perspective."

The machinery cost calculators provided by Ontario and Alberta are a good starting point, but they contain a number of generalized costing assumptions that may not be accurate for your farm.

## Detailed records pay off

The best numbers are your own. Rod Edgar of R2D2 Farm Ltd. at Wolseley, Sask., is especially diligent with his costing information, keeping track of repair costs for each piece of equipment.

A maintenance record accompanies a piece of equipment when it's sold and Edgar believes that increases the salvage value.

When equipment is actually sold, Edgar updates his salvage value number, which adjusts the overall cost per acre. Over time, he has become pretty accurate with his estimates.

"My current combine has a fixed cost of $10 an acre with the straight cut header and $8.50 an acre if I'm using the pick-up header," Edgar says. This includes the cost of money, but not fuel or labour, which he allocates into overhead costs.

"There's sticker shock with the rising price of new equipment or even good used equipment, but the cost per acre can actually stay about the same after you do an equipment upgrade," Edgar says.

He admits his strength is farm management rather than mechanics, so he runs a relatively new line of equipment. Running older equipment may or may not reduce fixed costs. Depreciation is reduced, but this may be offset by increased repair bills.

You can't manage what you don't measure, and farm equipment costs are a prime example where measurement is a valuable tool. ■

**VIDEO:** Buy or Lease Farm Equipment: Which Option is Right For You? Lance Stockbrugger explains why flexible options are important. | **fcc.ca/Flexibility**

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**Researching #CDNag article:** When thinking about managing cash on hand for your farm, how are you most likely to spend it? #ontag #WestCdnAg


CENSUS 2016

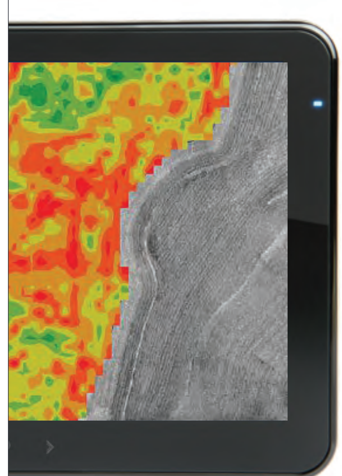
## THE FUTURE IS **BRIGHT**

For the first time since 1991, the number of younger farmers – those under 35 – is on the rise.

## THE **CHANGING FACE** OF CANADA'S FARMS

More women are farming in Canada than ever before. Almost 30 per cent of Canadian farmers are female.

Source: Statistics Canada 2016 Agriculture Census



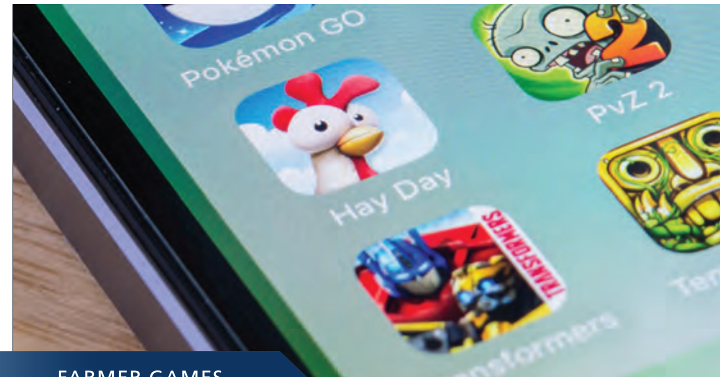
## GPS AND YIELD MONITORS **MOST POPULAR**

According to a 2017 survey of farmers in Alberta, Manitoba and Saskatchewan, 98% use GPS technology and 84% have combine yield monitor systems. The biggest barriers to uptake of more advanced tools? Price and lack of Internet infrastructure.

Source: RealAgriculture.com


**The Yukon government** offers up to 160 acres, free, to anyone willing to farm the north. They've given away nearly 8,000 acres in the past decade.

Source: Alaska Dispatch News




FARMER GAMES

## FEEDING THE WORLD, **VIRTUALLY**

Farmers 2050 is a realistic farm game that lets players have real farming experiences – complete with droughts, mortgage deadlines, agronomists and bankers, and farm chores.

Source: RealAgriculture.com

Did you know?

**Ontario** has the highest number of farms in Canada (more than **50,000**) – and **Saskatchewan's are the largest**

Source: Statistics Canada 2016 Agriculture Census

## Farm gaming is a **BIG DEAL**

Stylized farming app "Hay Day" is the number one farming game in 122 countries!

Sources: Apple iTunes; Agriculture More Than Ever

## CHEERS TO **CANADIAN WINES**

**We drink more than a billion glasses of Canadian wine each year.**

Canada's main wine regions are in Ontario, British Columbia, Quebec and Nova Scotia, where more than 670 grape wineries create jobs for over 37,000 people.

Sources: Wines of Canada; Wines of Nova Scotia

COMPILED BY LILIAN SCHAER | Find Lilian @foodandfarming

# IT ALL HAPPENED SO FAST –

## **PART 2:** BUILDING A NEW PLAN

The following is Part 2 of a fictional case study created by BDO Canada, illustrating how the absence of a succession plan can throw a farm family into turmoil. Part 1 appeared in AgriSuccess September 2017.

**Recap:** *Steve returned to the family grain farm after a number of years in the oil patch. He hoped to take over the farm from his parents Tom and Elaine, but no succession plan was in place when Tom passed away suddenly at age 60. Steve faced the emotional stress of losing his father, helping his mother adjust, and trying to get a handle on his dad's personal and farm financials. He also had to deal with his brother Bill, who had no interest in farming but expected a big payout.*

Tom's will was 15 years old and woefully out of date. It dictated everything go to Elaine, so that's what happened. Because Elaine didn't want to live at the farm by herself, especially in winter, Steve and his wife Karen found a rental house for her near their home in the city.

The discovery that Tom had taken out a personal line of credit to cover losses from off-farm investments was a shock to everyone. The balance was over $100,000. There was an outstanding mortgage for the most recent land purchase of $800,000 and Tom was still making monthly payments on some big equipment. There was money in RRSPs, but certainly not enough to support Elaine going forward.

Bill wasted little time saying he expected to be compensated if Steve were to take over the farm. Steve learned Tom's loans to Bill totalled close to $150,000 over the years – and there was no record any of it had been repaid.

It took numerous meetings with their accountant and lawyer, and a lot of intense discussions between Steve, Karen and Elaine, but a plan started to take shape.

Tom. . . worked hard to make the farm a viable option for his son. But the biggest gift he could have given his family was a plan.

## The farm corporation

The farm was incorporated, but no land was held by the company. The primary assets were equipment and vehicles. The plan would see Steve acquire the shares of the company from Elaine immediately, allowing Steve to control the decisions about day-to-day operations and freeing Elaine from these duties. Elaine knew Bill was not able to pay back his loans, so to make sure Steve was treated fairly, she insisted he get shares with a value equal to the "gift" to Bill.

## The land

The farmland was appraised and put in Elaine's name. The $800,000 mortgage on the most recent land purchase would be taken over by Steve. Steve and Karen would purchase the home farm from Elaine at the appraised value, taking over that mortgage as well, allowing Elaine to pay down Tom's line of credit. Although it was a difficult decision, Steve and Karen put their home in town up for sale. The proceeds would be used to pay down some of their newly acquired farm debt.

In the short term, Elaine would own the rest of the land and rent it to the company. This would give her ongoing cash flow to meet her living costs.

## New wills and brother Bill

The plan lets Steve and Karen acquire additional land from Elaine over time. They agreed that future purchases from Elaine would be based on land values at Tom's death and that Elaine hold any new mortgages, providing fair repayment terms. The fallout from Tom's sudden passing compelled Elaine, Steve and Karen to update their wills.

Elaine's new will specified that when she dies, Bill will get a monetary inheritance and the remaining farm assets go to Steve. At that time, it will be up to Steve to decide how best to fund the payment to Bill.

## The people issues

Just 60, the future for Elaine is uncertain and stressful. Like many farmers, Elaine is asset-rich but cash-poor. Selling out was an option, but she was committed to Tom's dream for Steve to be able to carry on the family farm.

Steve and Karen have struggled at times through the process. Karen had always known that Steve wanted to run the farm someday, but Tom's death had forced the issue and turned their world upside down. There were huge implications for her relating to her career, living arrangements, financial security and future family plans.

Bill was the wildcard, and Steve knew in his gut that there would be challenges. He'd hoped they could talk it out, but Bill was communicating solely through his lawyer. Not a good sign.

Tom was a good man and worked hard to make the farm a viable option for his son. But the biggest gift he could have given his family was a plan. The emotional and financial toll of not having worked through the realities with his wife and sons would take years to address. In many ways, their story represents how NOT to handle a succession plan. ■

BDO Canada LLP is a national accounting and advisory firm serving producers from offices across Canada.

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# Views differ on **farm incorporation**

**Q** In the 2016 Census of Agriculture, the number of incorporated farms increased from 20 per cent to 25 per cent. Based on your experience, should more farms consider incorporation?

**KIM GERENCSER**
Certified Financial Planner
Growing Farm Profits Inc.
Regina, Sask.

Yes! Incorporating your business should be far more than just a tax planning decision. It should bring with it a mindset toward elevated management practices and an expectation of profit.

Farming has sometimes been slower than other industries to adopt professional management practices. Producers often concentrate on operations rather than management.

Consider any "large" company: the executives and senior managers will implement the execution of the company's vision, monitor progress and performance of employees and the corporation alike, and make adjustments when required.

None of this is done as an exercise in keeping people busy; there is an expectation of growth and profit. As the President or CEO of your farm corporation, you have the very same responsibilities and obligations: growth and profit.

If farms were managed with more of a corporate mindset, there would be a heavier reliance on timely and accurate financial information, more authority granted to key people, and more time spent in the office chair rather than the tractor seat.

**MAURICE DOYON**
Economist
Laval University, Que.

My dad incorporated his dairy farm in the early '80s, and it was one of the biggest management mistakes he made. For some reason, farm corporations were being promoted in Quebec at that time, but it didn't make sense for many of the producers.

A farm corporation is good if you reach a reasonable size and can leave a certain amount of money in the corporation. However, if you're taking most or all the returns out as drawings or as dividends, the tax saving is pretty much eliminated. Meanwhile, every year your tax return is more expensive to prepare.

Another factor to consider is the lifetime capital gains exemption when the farm is sold.

It's not as easy to access in a corporate structure.

As farm size and complexity increase, there can be good reasons to incorporate. Certainly, different classes of shares can offer a lot of flexibility when transferring a farm to the next generation, but incorporation can take place closer to the time of transfer if that's a desirable vehicle.

**TERRY BETKER**
Management Consultant
Backswath Management
Winnipeg, Man.

Deciding whether to incorporate should be a business-driven decision. There are pros and cons to incorporating. My experience is that the pros significantly outweigh the cons in three situations:

- where ownership will be passed on to the next generation
- where the business is or will be increasing in size and complexity
- where there is increased risk to third party liability associated with business activity

Certainly, the income tax savings in a corporate business structure can be substantial. Paying less tax is high on the priority list for most farm families. There is more "after tax" money to invest in the business to acquire assets and pay down debt.

One of the benefits of incorporating is the management discipline associated with having to submit income statements and balance sheets to Canada Revenue Agency. Incorporated farm businesses must file these statements at the same year-end date each year. The annual information filed becomes base information that can be analyzed and used to support investment and financing decisions.

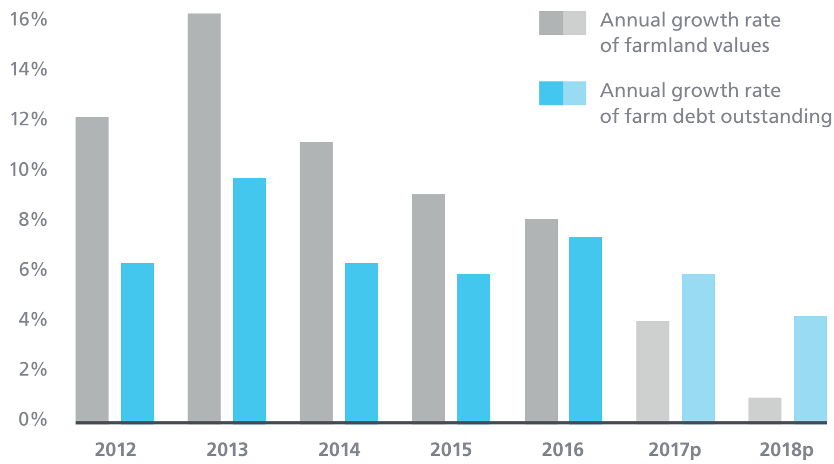
For the reasons above, I think farms should consider incorporation. ■

Good management is discussing options with your partner/specialist/accountant based on your current business operation and environment.

# Canadian farm debt on the rise – is that cause for worry?

Canadian producers have recently taken on more debt. This is, in part, due to farmland values and the overall intensive capitalization of agriculture. Both increased recently. Historically low interest rates have also pushed up debt levels. That may sound worrying but, at least for the moment, there's no cause for alarm.

The sector has been financially stable for years and, thanks to rising net cash income, that should continue into 2018. We expect increases in overall debt and their accompanying interest payments, but the sector is well-positioned to handle those. For one thing, while both debt and payments are likely to become higher over the next year, their growth will be gradual enough to allow producers to absorb the extra costs.




Sources: Statistics Canada (Balance Sheet of Agriculture) and FCC calculations

## Farm debt highly correlated with farmland values

Farm debt has risen in recent years, and it's largely the result of farmers buying more farm land.

The low-interest environment of the past 15 years, along with the strong farm cash receipts that boosted income, pushed farmers to buy more land. All that activity drove up the value of farmland to the point it totalled roughly 70% of all farm assets in 2016.

Since land as a share of farm assets has been rising, so has farm debt. Total liabilities in Canadian agriculture reached $90.8 billion in 2016. (NOTE: This is about $5 billion less than the value Statistics Canada calculated earlier this year, which included the additional household portion of farm debt).

Since 2012, the annual growth rate of farmland values has been increasing faster than the annual growth rate of farm debt outstanding – 2017 may be the year farm debt growth takes the lead. If so, it'll be because of softening farm cash receipts and the addition of higher borrowing costs.

The recent Bank of Canada interest rate hikes will drive up the value of farm debt outstanding. But net cash income will have a larger impact – one that's good news for debt repayment.

## Rising net cash income matters more than interest rates

Canadian agriculture has been booming over the past 10 years, thanks to a $19 billion increase in farm cash receipts. We expect net cash income to remain healthy over the outlook period, meaning producers will be able to repay debt they incur.

Canadian ag is in a good position to weather the current interest rate climate. ■

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For more on Canadian farm debt and assets, see our *Outlook for Farm Assets and Debt 2017-18* report. | **fcc.ca/FarmAssetsReport**

# Virtual reality brings field scouting to your recliner

BY PETER GREDIG

The promise and hype surrounding virtual reality (VR) is based on the ability to experience an activity or location without actually being there.

Cameras that capture high-definition video and 360-degree views enable VR access. The easiest way to participate is to purchase an entry-level viewer, load a VR app or video to your smartphone, put your smartphone into the viewer – and watch. You can link a controller to your phone and navigate through whatever environment you're in.

I swam with whales, rode a rollercoaster and took part in a WWII fighter plane dogfight – all from my recliner. It's a compelling experience, even with a $40 viewer and free apps. The sensation of "being there" ranges from hokey to very realistic, but you quickly get used to being able to look around you in all directions in a 3D environment. It's cool.

No surprise, gamers looking for more lifelike experiences are dominant drivers of the technology.

No surprise, gamers looking for more lifelike experiences are dominant drivers of the technology. But there are real world opportunities for education and training. A medical student can get a much better understanding of an intricate surgery via VR video, and fifth-graders in a Canadian classroom can experience what it's like to be on Mount Everest. Textbook, shmextbook.

So what's the play for VR in agriculture? Drones with 360-degree cameras flying close to the crop canopy can capture video while scouting fields. If a problem area is detected, the agronomist or farmer can potentially use VR to go to the exact location and see if they can diagnose the problem. In fact, drone-generated 360-video would allow you to virtually walk every acre the drone covered, from any location at any time.

I expect we'll soon see VR as part of sales pitches, operator manuals and maintenance routines for more sophisticated farm equipment. A virtual walk around a new combine or seeder would help prospective buyers see and understand features. It could also help with operator training and equipment maintenance. In the U.K., John Deere created a six-screen, fully immersive combine simulator to give first-time operators an idea of what's involved before they head to the field.

There's another huge opportunity for VR in agriculture: it lets city folk experience what it's like to be on a farm. Farm and Food Care Canada has a number of virtual farm tours for various farm types and food processors posted on a special website (www.farmfood360.ca) that also provides help on how to best access and view the virtual tours.

It's a great place to start if you're new to VR. ■


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