AgriSuccess

SPECIAL EDITION

LET'S TALK TRANSITION

How Canadian farmers are starting the conversation

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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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Solving the **farm transition** Rubik's Cube

You may be tired of hearing about succession planning, so we've made the conscious decision in this special edition to reference transition, rather than succession, in most instances.

Words matter. Most farm businesses are in a steady state of transition. They're growing and/or doing something different, or the people involved are taking different roles. When you hear "succession" it implies the older generation is retiring. When you say "transition," it doesn't necessarily have that connotation.

Whether you call it transition or succession, there are many aspects to consider. I enjoyed a presentation by Jonathan Small of MNP's Red Deer, Alta., office some time ago where he compared the whole process to solving a Rubik's Cube.

The three-dimensional puzzle has six sides and each side has nine coloured stickers. The idea is to manipulate the cube so that each of the six sides ends up one solid colour.

You might be able to solve one side, but solving all the sides simultaneously is quite a trick. It's very much like solving a transition puzzle.

You might need a plan that simultaneously keeps the farm going as a viable entity, provides retirement income for the outgoing generation, minimizes any tax burden and occurs within legal parameters, all while maintaining family harmony.

Financial planning experts, accountants, lawyers and lenders may all have a role in solving their particular area, but a solution on one side of the Rubik's Cube might throw one or more of the other sides out of whack.

In truth, you know when you've solved a Rubik's Cube. A transition plan is always a work in progress and seldom will be perfect.

We hope you enjoy this special edition and find it useful in your own transition planning.

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

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Special thanks to all the producers and expert contributors in this issue who so generously gave us their time and thoughtful advice.

What if the incoming generation CAN'T AFFORD THE FARM?

BY LORNE MCCLINTON

Farmland prices have gone up considerably across Canada in the past decade. In some areas, increases were 400 per cent or more. In many cases, quota prices have also increased. While these numbers look great when calculating a farm's net worth, they make it nearly impossible for this generation to buy out their parents at full market value.

"I don't know if there are any farms out there that can generate the profits needed," says Terry Betker with Backswath Management in Winnipeg, Man. "So some portion of the succession plan is going to have to deal with this."

In the vast majority of transfer plans, the younger generation will have to take on some debt to take over the farm. The question is, how much?

Parents need to decide what's going to be sold to their children and what will be transferred as a gift or part of the estate, Betker says. Before embarking on any transition plan that means the operation has to service a lot of debt, it's important to look at the farm's profitability over the past five years and see if that amount of debt will leave the farm viable.

There are no cookie-cutter solutions when it comes to succession and estate planning, says Lance Stockbrugger, a chartered accountant and farmer from Englefeld, Sask. Important considerations for one family hardly matter at all to another. Individual solutions must be found, so families should start discussing expectations as early as possible.

> "Children (can) start by renting or buying their own land and the odd piece of equipment, and learning how to make their own management decisions. This way, they can buy Mom and Dad out a little bit at a time."

When he's consulting on a farm transition, Stockbrugger often suggests the older generation maintain ownership of the land. First, he says, owning the land provides security for them as they age. It also provides them with protection in case of a child's divorce. Finally, it lets them be fair to non-farming children in the estate.

"I'm a big proponent of having children set up their own operations when they come back to farm with their parents – not joining Mom and Dad's corporation right away," Stockbrugger says. "Instead, they should start by renting or buying their own land and the odd piece of equipment, and learning how to make their own management decisions. This way, they can buy Mom and Dad out a little bit at a time so it's not such a big pill to swallow."

Since this spreads out the cost of all those expensive assets, it's a big help to the next generation, he adds. ■

READ: Are you financially ready for farm transition? Ask yourself these questions to find out. **fcc.ca/AreYouReady**

TOO YOUNG TO RETIRE

BY KEVIN HURSH

For Shaun and Ellen Grueter, their ultimate goals are clear. They want to become full-time farmers, move from the small city of Humboldt, Sask., to the country, and raise a family on the farm. Realizing their dreams isn't easy.

"We'd like to have a plan in place and have some certainty and timelines," Ellen says. However, the path forward for the young couple is a work in progress.

Both currently have full-time jobs – Shaun as a heavy duty mechanic for a farm equipment dealership in Humboldt, and Ellen as communications manager for SaskCanola, a job that requires frequent one-hour commutes into Saskatoon.

With any bit of time he can spare from his job, Shaun has been farming with Ellen's dad George Hinz, and it's been a mutually beneficial relationship. George has an agriculture degree majoring in soil science and enjoys the agronomic and business management side of the business. He's pleased to be working with a son-in-law whose strength is mechanics.

"Shaun is a real go-getter," George notes. "Between his job and the farm, he works a lot of long hours."

George can see Shaun and Ellen taking over (in 10 or 15 years), but that timeline seems like an eternity for the upcoming generation.

Shaun and Ellen Grueter, George and Caroline Hinz.

Farm transfer not imminent

To an outside observer, there would seem to be a logical way for Shaun and Ellen to fulfil their dream: they could just take over the farm from Ellen's dad and mom. However, the timing isn't right.

George is only 53, just 20 years older than Shaun. George farmed through many tough years, but most of the last decade has been good in the grain industry. In 2017, the cropping mix included yellow peas, maple peas, malting barley, canola, feed wheat and hard red wheat. Both yields and quality were excellent. George doesn't want to retire any time soon.

The situation is quite different from when George took over the farm from his dad in the late '80s. In that case, the age gap was 40 years, George's dad wanted to retire and none of George's older brothers wanted to farm.

"My brothers grew up doing lots of hard physical labour on the farm and weren't interested in coming back," George says.

Asked to project what the farm situation might look like in 10 or 15 years, George can see Shaun and Ellen taking over, but that timeline seems like an eternity for the upcoming generation.

Building their farming future

Undaunted, Shaun and Ellen continue to work towards their dream. In exchange for the labour he provides, Shaun uses George's equipment to farm a number of rented parcels. Shaun and Ellen have also purchased a few pieces of their own equipment.

"I'd love to have my own heated shop where I could fix our own equipment as well as do some work on the side for other farmers," Shaun says.

However, they don't own any land for a house or shop, and they haven't benefited from the equity bump generated by rising land values. They are still some distance away from generating sufficient farm income to give up their full-time jobs.

Ellen and her dad.

Last year saw a major expansion in rented land with George and Shaun moving up to 2,800 cropped acres, but that isn't large by Saskatchewan standards – particularly when two families are involved.

Plus, George and his wife Caroline have three other daughters to consider. Two have careers, and one is finishing Grade 12 with a strong interest in animal agriculture. As with most families, there will need to be discussions on how to treat all the siblings fairly.

"Farm financial experts point out that each generation can't afford to re-buy the farm," notes Ellen, "but we want everything to be fair for my sisters and the most important thing is family harmony."

Shaun and Ellen are exploring other options to accelerate their progression into full-time farming, but it's going to take determination and dedication, along with ongoing family communication. ■

Photos courtesy of the Hinz and Grueter families.

FORMAL AGREEMENTS **DESIRABLE**

Shaun and Ellen recently sought assistance from the accounting firm PricewaterhouseCoopersLLP (PWC) office in Humboldt. While it's early in this professional relationship, Shelly Carberry of PWC notes that the couple may want to eventually develop a more formal agreement with Ellen's dad and mom.

"We see a lot of cases where family members farm together and they don't keep track of who bought what and when," Carberry says. "Some equipment may have been bought individually and some jointly. It can be a real problem to untangle this when the farming situation changes."

She notes it's always a good idea to develop written agreements to avoid misunderstandings.

Sometimes a formal joint venture agreement can be useful – it can clearly define:

- **what each party brings to the relationship**
- **how costs and returns are shared**

THINK TRANSITION, NOT SUCCESSION

BY KIERAN BRETT

Despite armies of well-meaning accountants, bankers and consultants urging them to do so, many Canadian farm families don't have a plan in place to transfer ownership between generations.

From left: Greg, Nathan, Marian, Rick, Matt and Aimee.

"For us, it's not a one or two-year thing. We've been talking about this and working on it for 10 or 12 years now."

It could be the word succession that's getting in the way. This can imply an abrupt change, when the older generation is booted out to pasture and the younger seizes power.

Instead of succession, then, consider the word transition. It suggests a gradual, orderly transfer of ownership and authority.

Transition, rather than succession, is what's occurring at Stamp Seeds near Enchant, Alta. Through ongoing dialogue parents begin to step back, and the younger generation is stepping up.

"It's hard to pinpoint exactly when we started," says Greg Stamp, a member of the farm's second generation. "For us, it's not a one or two-year thing. We've been talking about this and working on it for 10 or 12 years now."

Parents emphasize farm organization, family teamwork

Richard and Marian Stamp founded Stamp Seeds in 1978. They grew the business by providing high-quality pedigreed seed to customers across southern Alberta. The Stamps also raised four children who, over the past 10 years, have married and assumed key roles in the operation.

The senior Stamps were only in their mid-40s when the idea of transition got going. Rather than push the conversation into the future, they embraced it, and encouraged their kids to carve out their own roles in the business. Now between 26 and 34 years of age, the younger generation took up the challenge.

"My parents were always strong proponents of getting organized and working together, and how to grow and add to the business," Greg says.

Every six months or so, the family would gather for a business meeting. This wasn't transition planning as such. Still, as the family discussed farm operations, new opportunities and individual roles, the Stamp Seeds organizational chart took shape.

Greg handles sales, Nathan has responsibility for field operations and Matthew runs seed processing and seed treating. Greg's wife Sarah, Nathan's wife Christine and Matthew's wife Dynae also play active roles.

Richard and Marian's daughter, Aimee Klatt, farms with her husband Blake and his family near Foremost, Alta.

These transition discussions often take place with the help of advisors who know the family and bring business and tax expertise and the ability to keep the process moving.

Stamp Seeds crop tour.

"They bring impartiality to the table," Greg says. "They don't have baggage, or family politics, and they recognize that fair and equal are not always the same thing. They can help you assess what you're doing, because they have experience from many other farms."

The transition journey

What does it mean for the older generation to step back, and what happens when they do? Marian Stamp managed the financial side of the business. After nearly 40 years in this key role, she was looking to ease back.

Family business discussions led to a decision to hire a full-time chief financial officer. The family has also begun to sell assets between the parents and the kids – not overnight, but incrementally. This has allowed the parents to transition into safer asset classes as the younger generation has gained experience and assumed authority. Today, the Stamp family grows certified seed on 5,500 acres, mostly irrigated, with facilities for seed cleaning and treating. These sizeable farm assets are, arguably, less important to the business than the working relationships between generations and among siblings and spouses.

With a successful seed operation, strong demand from commercial farmers and a generational transition well underway, the Stamp family sees a bright future.

"Agriculture in general is positive right now," Greg says. "We definitely see an upward trend in our seed retailing and cleaning business. The better our customers do, the better it is for us too. So, we're pretty optimistic." ■

Photos courtesy of the Stamp family.

PACE OF TRANSITION LESS IMPORTANT THAN **CLEAR DIRECTION**

The Stamp family has been gradually working its way through a farm transition process over the past decade or more. Merle Good, a well-known family farm succession expert, has worked with the family over these years.

> **"My role is to facilitate discussion, ask the hard questions, but just as importantly develop a business framework that provides a roadmap to actually implement action," Good says. "This has allowed not only the actual transfer of assets, but also opportunities. Without business clarity there are only assumptions."**

Good notes this transition is unique in that Richard and Marian invited their family to be involved very early in the process. With numerous children involved, roles and responsibilities are extremely important and thus early input and patience for evolving responsibilities is vital.

There will no doubt be bumps along the way, but the family is committed to the success of their business and each other.

"I always say to my clients that time provides opportunity," Good says. "As long as there is a clear direction, rushing in is not a viable strategy in family farm succession."

Download: Transferring skills and knowledge is a key part of the transition process. Use our **Growth Plan for Farm Transition** to get the conversation started. **fcc.ca/LetsTalkTransition**

Rising asset values change the discussion

BY KEVIN HURSH

Land, equipment and in many cases quota values have appreciated dramatically over the past decade, altering the dynamics for transferring a farm to the next generation.

Even relatively modest family farm operations have seen their net worth increase by millions of dollars. While having more wealth certainly shouldn't be viewed as a problem, high asset values don't necessarily translate into a high level of annual income.

"There can be difficult discussions as Mom and Dad attempt to be fair with both their farming kids and non-farming kids," says farm planning specialist Kerry Riglin. "Non-farming kids see the high asset values and may expect an equal share."

"A farming son or daughter may view their years of work in the operation as sweat equity. Their non-farming siblings may view it as an opportunity they never had," Riglin notes.

Most farms are not viable if the incoming generation has to pay full value for all the assets. That makes the transfer no different than starting a farm from scratch.

Based in Wainwright, Alta., Riglin sees many operations where there just isn't a lot of capital to equalize benefits among the kids. A great deal of the net worth vests in the farmland. As a result, non-farming kids often end up with title to some of the land.

This can be a workable solution, but it can also create big problems. Unless there are provisions guaranteeing affordable access to the land for the farming child, the viability of the farm can be threatened.

There's no magic solution, but many tools exist for planners once a family knows what it wants to accomplish. If an ongoing viable farm operation is the primary goal, non-farming kids may have to settle for less – or at the very least they may have to wait longer to get their share.

"Also part of the equation," Riglin notes, "is what do Mom and Dad need for resources in order to retire? Sometimes they don't realize how much they'll require for living expenses." Unexpected challenges can also arise, including health concerns.

Along with rising asset values come tax considerations.

The million-dollar lifetime capital gains exemption can be exceeded more quickly than many producers expect. And non-farming land owners eventually lose their ability to roll land to the next generation without triggering capital gains.

More farm wealth than ever before is passing from one generation to the next, and more than ever professional help is needed to avoid potential pitfalls and institute viable solutions. ■

Most farms are not viable if the incoming generation has to pay full value for all the assets. That makes the transfer no different than starting a farm from scratch.

Q What can young people do to start a farm transition discussion?

JOHN FAST
The Family Business Doctor
Waterloo, Ont.

Since any successful inter-generational transition has to become a business transaction, I have found that young people who begin with a business approach will tend to be taken more seriously. What might this look like?

It means young people need to act like adults. It helps to have the start of a researched and credible financial proposal on the table, demonstrate you're prepared to talk about getting some skin in the game and have a non-entitlement attitude.

You want to be taken seriously, and being able to converse more intelligently about finances makes you a more serious and interesting conversation partner to your parents. And it makes it harder for them to dismiss their next generation offspring as children, whether they're 21 or 51 years of age.

Another catalyst for a meaningful conversation on transition occurs when the next generation independently develops its own life plan. At your own initiative, perhaps with the assistance of a mentor or coach, commit to writing a five to 10-year career trajectory.

Then invite your parents and other stakeholders over for an intentional meal in order to share your life plan. Watch the conversations flow. The important component of this strategy: young people take the initiative – both in preparing their life plan as well as preparing or paying for the intentional meal.

PIERRETTE DESROSIERS
Psychologist, coach, speaker
St-Herménégilde, Que.

Here are five winning strategies to facilitate discussion:

1 IDENTIFY THE PURPOSE AND EXPRESS IT TO THE OWNERS

You might say something like, "It's important for me to take the time to discuss our mutual expectations, visions and concerns. I hope we'll give ourselves the means to succeed. What do you think?"

2 PLAN A TIME AND PLACE TO DISCUSS

Commit to investing time and energy. Agree on an agenda.

3 IDENTIFY AND GET BEHIND COMMON VALUES

Everyone wants to have a profitable and sustainable business, where everyone is happy and can be fulfilled.

4 PROJECTING INTO THE FUTURE

Where do you see each other in one year, five years and 10 years? How do you see your collaboration? What do you need to do to get there?

5 ACCEPT THAT EVERYTHING IS NOT SAID AND SETTLED IN ONE DISCUSSION

A successful transition does not happen by chance. We must choose to succeed in our collaboration.

You need to understand what drives everyone – the common values, mission, vision – and then find a way to get there.

Too many people feel anxious about these delicate but important discussions, and therefore avoid them. As these moments are often emotional, it may be important to take a trusted advisor along in this process.

MERLE GOOD
GRS Consulting
Cremona, Alta.

Succession should be defined as the continuation, not transfer, of a family farm business. This continuation requires a process over time of joint active roles and participation by both generations.

Words are important – do you want to be an agricultural entrepreneur and become an owner or manager of an agricultural business?

Do you have the personality, skills, and most importantly the passion to become one? Do you understand that agriculture is an equity game and not an income game?

Talk to other young farmers, discuss these challenges and then make your decision. Remember, don't ask what the business can do for you, but rather what you can do for the business.

The senior partners must – and I mean must – propose the opportunity with distinct expectations and results. The junior generation has to then mold those guidelines of the proposal into a plan. If you simply are involved in your parent's plan, you will remain an employee.

How about long-term clarity and security? Whatever equity remains in the business won't form part of personal wealth on the parents' death. Agricultural businesses can't afford to buy a tractor twice.

Why is family farm succession sometimes so difficult? Because it's so important! ■

Download: Transition can be awkward to talk about – but it doesn't have to be. Use our **Transition Conversation Starters** to help you. **fcc.ca/LetsTalkTransition**

QUEBEC FARM TRANSITIONS THROUGH **11 GENERATIONS**

BY ANDRÉ PIETTE

Photo courtesy of christianblais.com

> "Our family has been working this land for 350 years and it has … always been handed down for free."

The road that runs along the St. Lawrence River's north shore from Montreal to Quebec City is known as the Chemin du Roy (King's Road). Built during the French regime, it was the colony's very first road.

In 1667, shortly before marrying a fille du roy (king's daughter) named Élizabeth Crêtel, Nicolas Langlois acquired land in Neuville – along Chemin du Roy – that he and Élizabeth eventually willed to their 10 children.

The generations have followed one another and today, passing through Neuville, you can see the farm still exists. It now belongs to the 11th generation of Langlois, brothers Daniel and Médé.

The farm now covers 300 acres and is dedicated to market gardens and field crops. There's a 40-cow dairy barn, a multipurpose building and a line of stalls displaying fresh vegetables. A storefront offers prepared products from the industrial kitchen in back. Here and there, panels recount the farm's remarkable history and explain how the vegetables are grown and processed.

Daniel and Médé's transition story happened gradually, starting in 1989 when Daniel came home to work on the farm – degree in hand. His parents, Fernand and Murielle, gave him 20 per cent of their shares. Médé came home in 1994, and within a few years their parents had split all their shares equally between the brothers. "One morning," Médé says, "our father told us, 'Boys, you get along well. We're going to give you our shares so you're equal partners.'"

Farm is gifted, not sold

In keeping with tradition, the Langlois farm was given, not sold, to the next generation. This isn't a new idea in agriculture, but generally the parties agree on a price that meets the parents' financial needs for retirement and allows the next generation to pay off loans and cover their cost of living.

Fernand and Murielle with their daughter Nathalie and sons Médé (seated) and Daniel. Photos here and opposite courtesy of André Piette.

Fernand and Murielle were able to make the gift because they have their pension incomes and continue to work on the farm (although without a fixed salary). "If we needed a thousand bucks tomorrow, the farm would give it to us, of course," Fernand says.

They had never considered transferring the farm in any other way, as a matter of principle. "Our family has been working this land for 350 years and it has never been sold from one generation to the next; it has always been handed down for free," Fernand says.

The Langlois family's long history has become part of its stock in trade. After repeatedly telling their story to customers, Médé had the idea of developing an "ecomuseum," a business that showcases the know-how of its artisans. Hence the panels, photos and tools on display.

The family ecomuseum is dedicated to the farm's history, as well as its canning and corn production – and Neuville corn is reputed to be the best in Quebec. It even bears a protected geographical indication, meaning the area it's grown in is considered responsible for the corn's quality and characteristics.

The 60 acres of sweet corn and other vegetables reserved for selling on-site add another dimension to

Nathalie arranges the preserves sold in the storefront.

the farm. All produce remaining in the stalls at day's end is processed into products – like sauces and canned vegetables – by Murielle and her team. The farm has a loyal clientele bolstered by the many tourists who drive the Chemin du Roy, making proximity to Quebec City another valuable asset.

In recent years, the Langlois family farm has increased cropland and engaged in more development projects. "Our priority now is to be more efficient in the field," Médé says. Smiling, he adds, "We also want to reduce the pressure in terms of debt."

HUMAN CAPITAL IS WHAT COUNTS

Céline Lafortune works as a business transfer advisor at Lanaudière Économique development agency. In her 13 years in the business, she has helped owners of all types and sizes of operations.

> **"It's natural to worry about taxes," she says. "There are tools you can use so the transfer is advantageous to both parties. Because of the legislation and structures in place, producers transferring the farm in whole or in part really have to speak to a tax specialist, but also an accountant, a notary and a credit advisor."**

What people tend to forget is the human aspect – preparing yourself to transfer the business. "From the outset," Lafortune says, "you should decide when you want to make the transfer, what you want to do afterward and how much money you need to live on."

The scenario often hinges on a gradual transfer of the business and thus on co-management, so you should pay particular attention to how responsibility is transferred. Lafortune believes it's an aspect worth planning and can help the next generation develop business skills.

Another critical factor is a shared vision of where the business is going. "Often, young people arrive with their heads full of ideas, when the (older generation) don't necessarily want big projects and to invest millions of dollars," she says.

From left: Dylan, Jaidin, Jack, Peter, John, Nathan and Chris. Below: Dylan with Chris's son Logan.

TRANSITION STRENGTHENS FAMILY PRODUCE BUSINESS

BY LILIAN SCHAER

> "We've seen real change in our junior partners. In year one, there was a lot of asking what we wanted them to do. Now, in year five, they sarcastically ask us what we're doing."

It began with five brothers and a 100-acre farm in southern Ontario.

Martin, Peter, John, Albert and Jack Streef became partners in June 1977; today, Streef Produce Ltd. is a 2,400-acre family-run vegetable-growing and wholesaling business with a farm near Princeton, Ont., and wholesale space at the Ontario Food Terminal in Toronto.

"Mom and Dad were partners with us in the beginning because three of the five of us were still under age. But they got out after a few years, because we were going in a different growth direction than they had planned, and (they) just let us go," Jack says.

Streef Produce now has three senior and four junior partners: Martin's son Chris and Peter's son Jaidin work in Toronto focused on sales, distribution and quality control. Jack's two sons Nathan and Dylan head up on-farm production and food safety.

Their crops are potatoes, green beans, sweet potatoes and asparagus, with corn and soybeans grown for rotation. Produce is packed fresh-to-order at their full-scale on-farm packing facility. They supply a wide range of buyers with product sourced from around the world via their distribution hub at the Ontario Food Terminal.

Change began a decade ago when Martin passed away. Five years later, Albert wanted to exit the business and retire, and at the same time, a next generation was ready to come on board. The transition started with a conversation with their accounting firm, BDO.

"We didn't know how to handle bringing in junior partners with a senior partner exiting at the same time," Jack says. "BDO guided us through the hard questions and opened our eyes and minds to what we needed to do. They had transition experts, but we also worked with our usual people who knew our history and the obstacles the business needed to overcome."

The biggest concern was making the transition as seamless as possible and knowing who was responsible for what. Having that in place made it business as usual for the company during the process.

Success through communication

A big part of their transition success was communication. Everyone spoke openly about their personal goals and what they wanted to see in the partnership's future; having mediators at the table helped keep everyone focused and in check.

"It opened up a whole new conversation, where compromise came into play. Goals could be met, the business could stay sustainable, and everybody was satisfied with the final outcome," Jack says.

They also made sure they considered everyone's interests and skills so the junior partners – who had grown up working in the business in jobs ranging from sweeping floors to management – could have positions suitable for them. That approach was used by the Streef brothers when they first started the company, and Jack believes it's helped contribute to their success over the last four decades.

> **"The worst thing in a transition is to bring a junior partner into a position they're not interested in. They'll feel like they're chained and won't put 110 per cent into it," he adds. "Once our junior partners became owners, though, it became much more than just doing a job for them."**

Determining how to extract net worth from the company without choking the next generation's ability to grow was a challenge, but for the senior partners, the biggest hurdle was being more hands-off in the day-to-day operations of the business and accepting there is more than one way to reach a company goal.

"They will make mistakes, but we did as well 20 years ago and we still do today. We learn from those incidents – the key is embracing change instead of being scared of it," Jack says. "During the last five years, we've seen real change in our junior partners. In year one, there was a lot of asking what we wanted them to do. Now, in year five, they sarcastically ask us what we're doing."

Transition early

If they could do it all again, they'd start the process earlier – a more gradual transition would have given the next generation the opportunity to ease in to their roles sooner and made the senior partners more comfortable with stepping back.

But overall, it's been a positive move for both business and family. Since the transition, Streef Produce has taken advantage of changing market opportunities and their new team's talents to expand, adding asparagus and sweet potato production. And a vegetable equipment division that focuses on supplying growers with cutting-edge technology never before available in Canada, from computerized transplanters and automated weeding machines to optical graders for all kinds of vegetable crops.

"The benefit has been two-fold: it has strengthened my relationship with my kids and my family, and it has taught us to stay focused on what's really important and not sweat the small things," Jack says. "We've been opening door after door and we've never looked back since we've done it." ■

Photos courtesy of the Streef family.

Peter (seated), John and Martin – the little boys are Jack (with the bottle) and Albert (1965).

FAMILY FIRST AND BUSINESS PARTNERS SECOND

After 25 years as the Streefs' accountant, BDO's Coralee Foster knew both the business and the family well. When it came time to talk transition, she brought in BDO business transition specialist Brent VanParys to facilitate discussions among family members and help everyone participate in creating a vision for their common future.

"A fresh set of eyes without preconceived notions of what they should do is valuable in this kind of situation," she says.

According to VanParys, involving the next generation directly in the decision-making was a key strength of the Streef transition. And even when opinions differed, they were respectful of each other's needs and opinions – remaining family first and business partners second.

"You can't transition ownership or management without considering the impact on the family. These three systems overlap," VanParys says. "But if you do a good job of family, you can generally do a good job at the other two as well."

VIDEO: Manjit Minhas: Brewing family business success. Get advice for working with family from this entrepreneur, beer baroness and CBC Dragon. **fcc.ca/Minhas**

IN YOUR WORDS

What is working well and what's driving our Twitter audience nuts when it comes to farm transition:

- Working well: coffee meetings for strategy and priorities depending on the season. Difficult: Multiple family managers and differing approaches

- Have family discussions with siblings and a mediator to get everything on the table before you talk money.

- Discuss intentions and estate planning early on. Get the difficult stuff over with.

- Start with the end in mind.

Has farm transition become easier or harder with increasing asset values? Why?

- Harder for sure. More tension, more difficult to balance cash and non-cash assets without selling.

- Harder to balance the feasibility of farming for next generation while recognizing value retiring generation has built up in the farm.

Source: Twitter; comments edited for clarity

THE GREAT **OWNERSHIP CHANGE**

According to the latest Census, three out of every four Canadian farms will change hands in the next decade – that's about $50 billion in farm assets. But is Canadian ag ready? Consider this:

- **Fewer than 10% of Canada's farmers have a written plan for transferring their farming business to a new generation**
- **48% of farms have no identified successor**
- **Full farm transition takes an average of eight years**
- **Farms without a solid transition plan have a 66% chance of failure**

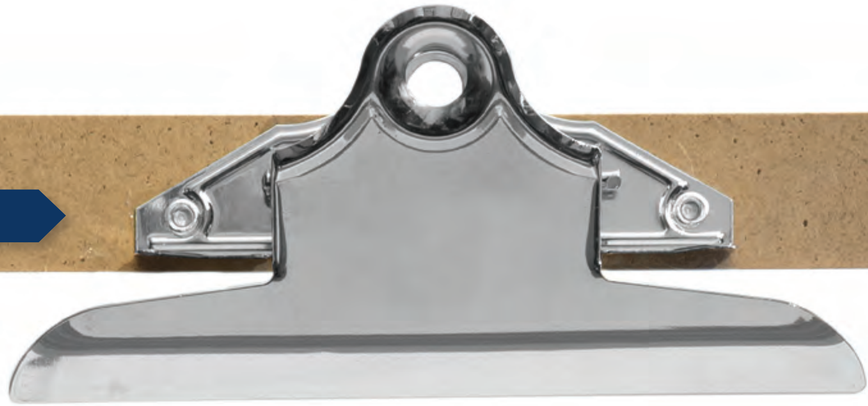
Source: Farm Management Canada; 2016 Census for Agriculture; Purdue University

WHY **PLANNING** MATTERS

“**Business planning** is the key to building a solid foundation for the future growth of your business. A formal, written plan is the most effective tool for uniting people around a vision as a guiding light to keep the farm healthy for generations to come.”

HEATHER WATSON
Farm Management Canada

Download: A good business plan can set up your transition for business success. Let **10 Steps to a Solid Business Plan** help you discover what it takes to create a great one. **fcc.ca/BusinessPlan**



KEY TIPS

5 THINGS TO AVOID WHEN PLANNING YOUR FARM TRANSITION

1 Don't think planning isn't for you. Planning helps young farmers get started, established farmers minimize risks, and retiring farmers transition the farm to the next generation.

2 Don't make assumptions or keep your plans a secret. Communicate with your family to make your wishes clear and minimize misunderstandings.

3 Don't go it alone. Work with professionals who can help you with business and legal aspects of transition, and make sure your family members are part of the discussions.

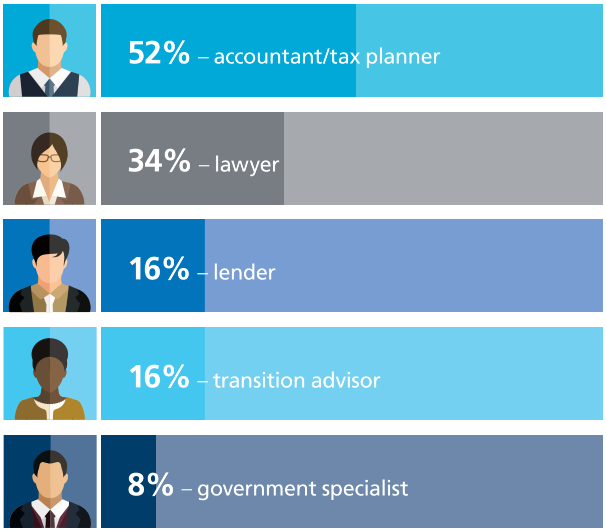
4 Don't confuse equal and fair. Not all children may want to be part of the farm but transition plans have to recognize the needs of non-farming children too – without impacting the ability of the farmer to make a living from the farm.

5 Don't rush, but don't delay either. A farm transition is a journey that isn't completed in a two-hour meeting. Give yourself time to go through the process – but start the process now.

Source: Adapted from Marlene Bradbury, as presented at the American Agri-Women's National Convention in Minneapolis, Minnesota

THE TRANSITION GO-TO FOR FARMERS

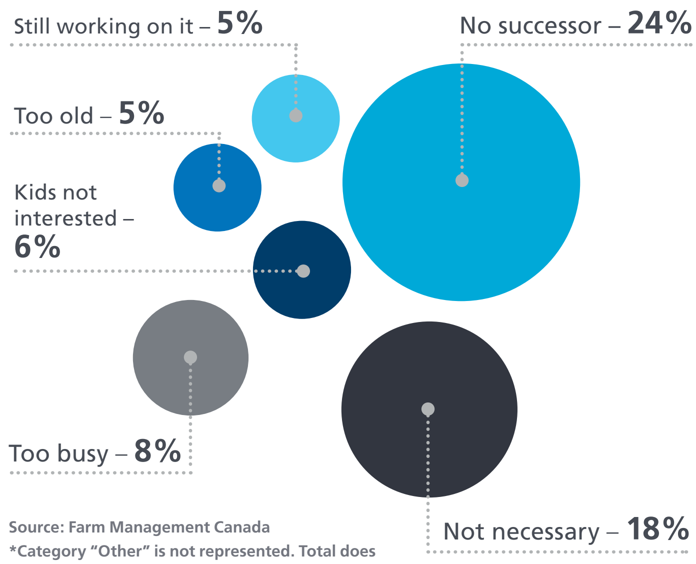
When you're ready to start with transition planning, here's where you're most likely to go for help:



Source: Farm Management Canada

TRANSITION ROAD BLOCKS

With less than one-tenth of Canadian farms prepared for transition, what is keeping farmers from putting their plan on paper? A 2016 study from Ontario has some insights.*



Source: Farm Management Canada
*Category "Other" is not represented. Total does not equal 100% as some respondents selected more than one option.

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Q DOES FAIR ALWAYS MEAN EQUAL IN FAMILY FARM TRANSITION?

Rick Van Beselaere, a partner in the Regina based law firm of Miller Thomson LLP has more than 30 years of experience in banking and finance.

We often hear the adage that fair is not necessarily equal when it comes to a farm succession plan and dealing with allocating assets between farming and non-farming children. Do you subscribe to this view?

Some people assume that to be fair to their children, they have to treat them equally. This often comes up in farm succession planning and estate planning whether the farm is passed to children while the parents are living or after they have passed away.

In my view, a transfer of a million dollars in farm assets can't be viewed the same way as a million dollars in cash. A child getting the farm assets has the ongoing business risk that is farming and the farm assets are not liquid. In addition, the $1 million in cash will return value, but $1 million in farmland needs the hard work of the farming child to generate anything.

Whether the farm child or children have contributed more to the farm business than their siblings may also be a factor. Every family has to come to its own conclusion about what is fair.

Can life insurance policies be used to more closely equalize what all the kids are receiving?

Life insurance can be an appropriate planning tool, but with the increasing value of farm businesses, it may not be the only tool needed.

> "A million dollars in farm assets can't be viewed the same way as a million dollars in cash."

Buying a large enough life insurance policy to set up against farm asset values may be unavailable or simply too expensive.

And even if a policy is available, premiums escalate with the age of the insured. Life insurance can be quite expensive by the time the insured is in their 60s.

What about passing some of the farmland to non-farming children?

Including this as part of a succession plan is common.

There should be consideration to whether a mechanism is needed to give the farming child or children access to land passed to non-farming children. Agreements can include the right of the farming child or children to lease these lands from the non-farming family. Mortgages can be provided in favour of the non-farming child or children to provide for future payments.

There are also other ways to involve or provide for non-farming children from the farming assets. However, it's important to consider all the eventualities, and be creative. For instance, there can be a cooling-off period where the land transferred to non-farming children can't be sold for a period of time to allow the farming child to reach a stable point where the assets can be "bought out."

There can also be options to purchase, rights of first refusal and other rights included in these sorts of arrangements.

What are some common challenges in the planning processes?

- The first challenge is to come up with a workable plan and discuss it with the entire family.
- It's important to capture that plan in writing to avoid misunderstandings and prevent disruptions to, or failure of, implementation of the plan.
- There is need to fully analyze what the farm business consists of, what the parents need, what the farm will be able to produce, what the farm can support in terms of debt and other obligations, and what the farm business will look like in the hands of the farming child or children.
- No planning should occur without a thorough review and understanding of these key questions. Then the business owners can pursue the plan that best achieves their goals and objectives.

Are there special considerations for incorporated farms?

If there's going to be a farm corporation, and there are many reasons to utilize a corporation, there should be different classes of shares. Dividends are a good way to allocate income from the corporation. Different classes of shares allow you to pay different dividends. You can't pay different dividends to the same class of shares.

It's best to set up different share classes when the corporation is initially established. While it can also be done at a later date by amending the corporation, that can be more complicated.

Whether or not a farm is incorporated, a detailed business analysis is a very important part of succession planning. If the goal is to maintain a viable farm for the next generation, a thoroughly defined and well considered succession plan will help guide and implement the allocation of assets to farming and non-farming children and preserve the farm business. ■

Assessing business value for farm transition plans

Whether you're looking to assess the fair value of a business for sale or putting your own on the market, here are three common business valuation methods you should know. Note, business owners should consult with a professional before determining a course of action based on these valuation tools.

1 EARNING VALUATIONS

Fair value is assessed according to a business's likelihood of future earnings. Here, we look at a common method known as capitalization of earnings.

EXAMPLE

A maple syrup farm has generated $200,000 in revenue every year for the past five years, and has had annual expenses of $100,000. Its annual earnings are $100,000.

We'll assume there is no growth in average revenue on the horizon. Future earnings must be adjusted for the risk involved in the operation, the buyer's aversion to risk and the opportunity cost of the investment in the business. For the sake of argument, let's assume the capitalization rate is 10%.

That means the farm's "earning value" valuation is $1 million ($100,000/0.10 = $1,000,000).

2 MARKET VALUATIONS

A market value approach compares the sales values of businesses similar in size, industry, comparable location – and when valuing agriculture operations, the land quality. This method works well, but only if comparison data is available.

3 ASSET-BASED VALUATIONS

The liquidation method simply subtracts the value of a business's liabilities from its assets, calculating how much cash the business would net by selling all tangible assets and paying off all liabilities.

Asset-based valuations are seldom used to value healthy operations. While it's often difficult to separate business from personal use of assets (e.g., aircraft used for aerial applications are often dual-purpose use), this valuation method is most often used to assess businesses being liquidated.

Which valuation should you use?

Other valuation methods exist, and most professionals tend to use more than one method. What's most appropriate, however, varies by industry and business outlook. Whether looking to sell or buy a farm, plan for family succession, or trying to find new investors, business owners with a strong understanding of the business's economic value are better situated to negotiate fair terms. ■

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Business owners with a strong understanding of the business's economic value are better situated to negotiate fair terms.

THE **JOURNEY** OF A THOUSAND MILES

The hardest part of any job can be getting started. If ever there was a task that falls into that category, for reasons both business and emotional, it's planning a successful farm transition.

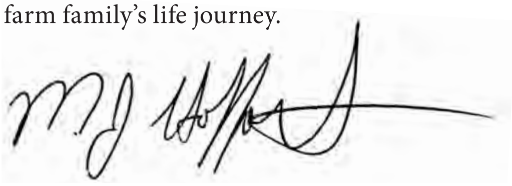
So where to start? An age-old Chinese proverb reminds us that "the journey of a thousand miles begins with a single step." I'd like to share a story of a first step that has inspired me and many others at FCC in the work we do.

Last fall, at the encouragement of a local FCC relationship manager, a young farmer attended one of the many knowledge events we provide to the industry across Canada. This particular event was part of a new series titled Ignite: FCC Young Farmer Summit. Ignite is all about connecting young people in agriculture with people and ideas that will help them succeed. It features outstanding presenters on issues that matter.

As this young man left the event, his biggest takeaway was four words: "Now is the time." Armed with those words, he took the simplest of actions. He turned left instead of right. Instead of driving directly to his home, he detoured to his parents' house to have a conversation that had been put off for far too long. He spoke with his parents, as equals and partners, about transitioning the farm.

No doubt, this family has a long journey ahead. But the courage it took to start down that important path makes me optimistic that they'll come through to the other side closer and more productive than ever.

I believe that FCC has a responsibility and a privilege to inspire and support the next generation of agriculture. That means providing the knowledge, tools and where appropriate, financing options they need to take the next step. In the case of the young man in this story, it also means a gentle nudge to start an overdue conversation. As much as anything FCC achieved that fall day, I'm proud of the small role we played in this farm family's life journey.



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