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AgriSuccess

A SHINING EXAMPLE OF
COLLABORATIVE LEADERSHIP
IN A **FAMILY BUSINESS**





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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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OFF-FARM INVESTING: A LONG-TERM STRATEGY

BY LEEANN MINOGUE

There are hundreds of ways to spend money on the farm, from investing in new technology to painting the shop. Farms are long-term businesses, and reinvesting profits keeps them productive. But off-farm investments are also important.

“Taking money out of a farm corporation and investing off-farm is a perfect strategy for building your farm transition plan,” says Lance Stockbrugger, CPA CA and a Saskatchewan farmer. Stockbrugger recommends taking a disciplined, long-term approach to off-farm investments.

Long-term, off-farm investment strategies can turn your plans into reality.

Investing in good times

Farm income can vary more than the weather. There may not be excess cash for off-farm investments every year, but Stockbrugger says, “There are years when you can make up some ground.” In those years, farm owners can take cash out of the farm by paying themselves higher-than-usual dividends or salaries.

The best use of this cash is paying down loans for non-farm assets like houses or vacation properties, especially when higher interest rates make them more expensive. Stockbrugger advises paying down this non-tax-deductible debt before putting any money in the stock market or an investment portfolio.

The next step is to maximize contributions to a tax-free savings account or TFSA. Cash invested in the stock market, guaranteed investment certificates (GICs), or other financial products through tax-free savings accounts will grow, tax-free, for later use. RRSPs may be right for you but check with an advisor to be sure. Many farmers are better off paying income tax now than using RRSPs to defer taxes until retirement, when they could be in a higher tax bracket.

An investment advisor can find specific investments that work for you, but Stockbrugger suggests adding diversification away from agriculture. “If agriculture is having a tough time, companies profiting from agriculture will likely also be having a tough time,” he says.

Tax planning in hard times

The difficult part of a disciplined, long-term approach is sticking with it when profits are down. “Some years, the cash just isn’t available,” Stockbrugger says. But even then, you can still build up a tax-paid account within the farm business.

When there’s limited cash available in the corporation, this is where owners can pay themselves dividends or salaries above what they need for personal spending without taking the excess cash out of the farm operation. “The hard pill to swallow is paying high personal taxes in those years when you don’t have the cash flow,” Stockbrugger says. This tax-paid cash can be kept in the farm corporation, building up the shareholders’ loan. In later years, this cash can be withdrawn with no further tax consequences.

Building the future

Every farm has a unique transition plan, but almost all of these plans include exit strategies for aging farmers or financial gifts to non-farming children. Long-term, off-farm investment strategies can turn these plans into reality. ■

A SHINING EXAMPLE OF COLLABORATIVE LEADERSHIP IN A FAMILY BUSINESS

BY MÉLANIE LAGACÉ

Led by brothers Fabien, Donald and Alexandre Fontaine, Préal AG is a shining example of forward-thinking, collaborative leadership. The company has become one of North America's leading veal producers and the second-largest lamb processor. Located in Saint-Hyacinthe in Montérégie, Quebec, the family business oversees 42 subsidiaries encompassing all operations in the production chain, from calf, beef and lamb to transportation and processing. It also produces field crops and vegetables and processes grains.

The group, which is behind the Famille Fontaine brand in Canada and Catelli Brothers in the United States, employs 1,600 people and has consolidated sales of \$750 million.





From farm to fork

The eldest, Fabien, decided to start raising calves in 1989 by starting Délimax, and Donald joined him shortly after. In the late 90s, seeing that the vertical integration of their activities would give them a competitive strategic advantage, the two brothers combined the niches of breeding, food and processing. Vertical integration is a strategy in which one company takes control of multiple stages of the production process and supply chain rather than relying on external contractors or suppliers. In 2004, Alexandre, the youngest, who until then had been working as an engineer in the United States, joined as well.

Over the years, the trio has consistently grown the family business through alliances and strategic acquisitions, including that of Montpak International, which enabled them to create Délimax-Montpak in 2015. In 2021, they consolidated the activities of the various companies they manage into a parent company, Préval AG.

“With the founding of Préval AG, we are strengthening our leading position in the food industry. In this way, it is easier for our customers to find their way around and for our employees from different divisions to recognize themselves in the network. We continue to be guided by the vision we have aspired to since the beginning, which is to achieve a fully vertically integrated business from farm to fork,” Fabien says.

Growth and diversification

Each brother’s work complements the work of his siblings in the company, and each leads the sector that highlights his strengths. Fabien chairs the entire group and manages animal production, field crops and herd feed. Donald oversees transportation and vegetable production while wearing the hat of “opportunity detector.” As for Alexandre, he is responsible for meat processing and marketing meat products.

The leadership of each division is distinct, but the Fontaine brothers collaborate and confide in each other, seeing themselves as part of the same unit. Despite being in different locations, they make sure to exchange information and ideas on an almost daily basis. “Although each sector has its own realities, being a family business makes it possible to find and adapt the best operating methods for each link in the value chain,” Alexandre says.

As President and CEO, Fabien sits on the board of directors of all divisions, and each board is made up of an executive committee that holds ad hoc meetings. In addition, the three brothers work closely with the managers of each division, whose mandate includes fostering synergy between the various teams.

Innovation and sustainable development

“If Préval AG is able to ensure sustainability and maintain its competitive advantage on the North American scene, it is because we



Donald Fontaine



Alexandre Fontaine



Fabien Fontaine

have always been able to innovate and reinvest profits wisely in the company while maintaining a long-term vision,” Fabien says. “And obviously, our success is due to our passion and hard work, values that are deeply rooted in the Fontaine family,” adds Alexandre.

Each year, Préval AG has a budget of more than \$2 million for its research and development team to support actions that promote animal welfare and meet the principles of sustainable development while preserving profitability. With this in mind, several innovations have been implemented in agricultural and food production, such as the use of whey from local cheese factories for feeding calves, the establishment of a grain processing plant for better digestibility of animal feed and a second plant that recycles nutrient-rich straw for calves. The company also regulates the daily use of propane and has installed solar walls and windows on farm buildings.

In terms of slaughter and meat processing, considerable sustainability efforts are also being made, including the use of packaging with a lower environmental impact, the recovery of residual materials, systematic recycling and the reduction of energy consumption.

Family spirit

Recognized in 2021 as one of Canada’s Best Managed Companies for its organizational purpose and commitment to the health and well-being of its people, Préval AG has always valued the family aspect of its business. It cultivates a sense of belonging and ownership for

those who participate in its management. “They are more invested in the company’s performance and feel empowered to do their best,” Alexandre says. What’s more, five of the Fontaine brothers’ children are already employees of the group.

Among other forward-thinking management practices, the Fontaine brothers designed a system that offers high-performing executives the opportunity to become partners by making them shareholders in the company. These executives have access to financial indicators, participate in strategic decision-making and play an active role in the company’s growth.

“The associated executives form a close relationship with us, feel a greater sense of belonging and definitely feel more invested,” Fabien says. In addition, the regular presence of Fabien, Donald and Alexandre on the floor in the company allows employees to have direct access to the CEOs.

Vision for the future

The Fontaine brothers’ key to achieving vertical integration has been the ongoing optimization of their business strategy, within and across various stages of production and distribution, throughout the entire value chain. With its business model that effectively meets the ever-increasing demands of the market, Préval AG continues to think big for its future. ■

START A FARM FROM SCRATCH: ADVICE FROM FIRST-GENERATION FARMERS

BY TREVOR BACQUE

If you've thought about starting a farm from scratch but wish you could hear from someone who's done it, look no further. The CEOs of YR Ranch and Lockwood Farms have enjoyed plenty of success starting their own unique farm businesses, and offer some confidence-boosting advice.

YR Ranch

When Rod and Yvonne Mills bought land in central Alberta 18 years ago, all they were after was wide open space, not a completely different career path.

"I could barely spell farm," Rod says. They both had off-farm jobs. However, the seller was a bison farmer, and the Mills decided to buy eight animals that the previous owner would manage. Over time, the Mills took over farm duties, grew their herd and eventually became full-time livestock producers. Today, they run 77 breeding females on 350 acres of land. "Now, we do everything," he says.

Each year they learned something new, sometimes the easy way, other times the hard way. One year early on, their hired worker could not cut their hay due to a health issue while the Mills were on holiday. The crop was ruined, and they had to buy every last mouthful of feed for the bison.

"You can't repeat that process very many times and be profitable," Rod says.

At auction, they bought a non-automated baler, rake and cutter but later learned they had to upgrade their existing tractor to handle the baler. It helps to know how to use the machinery as well.

"I was watching from the kitchen window, and his first bale was a foot in diameter," Yvonne says with a laugh. "And then his next bale was a foot in diameter."

They called a rancher neighbour who came over and taught them how to use their new implement. It's all part of the adventure, they say proudly.

Once livestock amateurs, the Mills are now synonymous with bison farming in Alberta. They've used many third parties to assist them in becoming better producers. Yvonne is heavily involved with grower associations, which the couple believes was likely the biggest key to their success.

"The industry conventions are invaluable with the things you learn from other producers," Rod says. "It was amazing."

As a way of giving back, they encourage new farmers to join producer groups to fast-track their knowledge. "We might have learned something the hard way, and maybe they don't have to," Yvonne says.

Above all, every newbie must practice patience and study the marketplace. "Whatever product or livestock you want to produce, know your market," Yvonne says. "You have to know you have a market, what it pays and whether or not you can get into that market. What are you going to do with your product once it's ready to go?"

Similarly, be honest about your finances, explains Yvonne, who credits their off-farm income as a huge help to make key purchases over the years. You can learn to farm, but you can't operate without cash flow.

"People can be unrealistic about what they need to get in. You need to have a good income, and you can't expect that you're going to be farming and get rid of your job for quite a while," she says.



Lockwood Farms

Farming was something that Cammy and James Lockwood wanted to get into, but it was tricky on Vancouver Island, where available land is scarce. Faced with the prospect of moving off the island to advance their careers – which they didn't want to do – they made a big choice to take their backyard gardening hobby to new heights.

After acquiring a five-acre parcel of land, the couple officially began farming in 2012. They grew a few dependable crops and became regulars at the Duncan Farmers' Market. Often in a direct-to-consumer role, Lockwood says it's crucial to understand and embrace your community, which is also your marketplace.

"We provide so much to the community. People love and appreciate the direct face-to-face meeting of the people who produce their food," she says. "We see the value so much in what we do."

After grinding it out for three years, they successfully applied to the B.C. Egg New Producer Program and became supply-managed chicken farmers in 2015 with 3,000 birds. Today, the operation has doubled – and they also sell a small number of chickens for meat. For Lockwood, it really did change everything.

"It was such a joyful moment," she says. "We could farm without having to live on the edge."

The process of securing financing for their operation proved to be a larger challenge, as they are less familiar with supply management in that area of the country. "Being in an area not as active agriculturally, without the same expertise in quota, was difficult," she explains. Lockwood says they had meetings with multiple banks and even had to explain how the quota system worked. "In the end, we went with a financial institution that presented a plan to us," she says.

The relationship is so valuable that Lockwood says if their banking representative ever switched institutions, they'd move their accounts to wherever he went.

The early days of "just making enough money to continue" were behind them, and the workload didn't change drastically since they

were accustomed to working long hours and running a market garden, which they still do.

Wishing she had more time to spend with her children early on, Lockwood now realizes the power of stepping away and delegating tasks. All new farmers should work toward this, she believes. "We know we're more productive if we're not doing the regular tasks," she says. "It's really important to know how to do everything but be able to step back and leave. To take ourselves out as much as possible is really what drives us forward."

"It helps you to see the bigger picture and your piece in it," she says. "That's what I find really life-giving. You come back with new ideas, a fresh set of eyes and a different perspective to make the changes necessary to be more successful."

Lessons from first-time farm operators:

- Create a business plan straight away, and revise when opportunities arise.
- Get to know your local marketplace via your community and supporters.
- Ask other farm operators to share their expertise with you.
- Do your research before making purchases.
- Join grower associations.
- Delegate tasks.
- Leverage third-party advisors to help with planning.
- Review and manage a risk management plan regularly – don't bet the farm.
- Schedule weekly business meetings.
- Step off the farm to give and to learn – whether ag advocacy, trade shows or peer groups – it's a win-win.
- Take a break from business duties and make time for yourself and family – even if it means building this into your business plan. ■



*For tips and resources on starting your own new farm, visit **fcc.ca/NextGen***

KNOW COMMODITY MARKETS **TO INFORM** **BUSINESS DECISIONS**

BY MATT MCINTOSH



Knowing how much a commodity is worth before selling is a necessary and obvious requirement for successful marketing. Having a good idea of medium- and longer-term market trends, however, can help farm operators develop more profitable marketing and production strategies before it comes time to sell.

Commodity tracking helps inform your strategy against lower farm gate returns. For commodity market veterans J.P. Gervais, vice-president and chief economist for FCC, and Philip Shaw, grain farmer and author of Grain Farmers of Ontario's Market Trend Reports, it's important to know what commodity tracking can mean, what to watch and pitfalls to avoid.

Develop a pricing strategy

For Gervais, commodity tracking could mean focusing on fundamentals such as supply, demand and reserve stock volumes and more technical, financial aspects like futures markets and what movements in those markets indicate. Generally, he encourages farm operators to understand what events are spurring changes in commodity prices longer-term.

"You must have a pricing strategy and some basic rules of thumb. Tracking prices is kind of required, but understanding commodities goes deeper than that. A next step would be to consider what types of events should make me revise my strategy," Gervais says.

Events that can dramatically affect commodity prices are not in short supply – the outbreak of war on a large scale, pandemics, energy price spikes and dips, significant changes to import policies enacted by foreign governments are examples – and the sheer volume of information available to those trying to form reliable predictions can seem overwhelming. Gervais says it's critical to "cut through the noise" by identifying which type of event should spur action.

"For example, are futures markets indicating there is less feed demand from livestock in the United States due to a smaller herd? If this is the case, will it actually be significant enough to warrant changing my market strategy? You might want to ask whether you need to be more patient," Gervais says.

"Don't change strategy unless something fundamentally changes."

Know your geography

There is a comparative cornucopia of information available for tracking futures trends, according to Shaw. Futures markets, however, need to be balanced with Canadian basis values. Focusing too much on one over the other can paint an incorrect picture of where commodities are trending.

"Sometimes movements of basis values can be greater than the volatility in futures prices, sometimes over a short-term period," Shaw says. If the Canadian dollar flutters around a rate favourable to Canadian grain prices but rises by 10 cents, for example, the cash basis would drop regardless of futures prices.

Focusing on the cash basis for a given commodity can be challenging, however, as there is often limited available information on which to base one's marketing strategy. Shaw says this is a result of competition in grain merchandising, with merchandisers being somewhat secretive about their information as well as the regional nature of basis values.

"It's difficult to know how much grain is being shipped, but that information is vital. Sometimes Quebec receives Ontario grain, which helps the basis values in Eastern Ontario. But sometimes Quebec imports American corn despite bidding on Eastern Ontario corn, maybe Brazilian corn too. It's the value which determines when grain is moved, bought or sold. If the price gets too high, they will import from somewhere else," Shaw says.

"You can keep track of futures because it's relatively easy to do. It's much more difficult to know the cash movement of grain. The realities for the cash marketplace in Chatham, Ontario, are so different than they are in Toronto or close to the Quebec border. You need to try to know what that is. Wherever you are, you can try to have an appreciation for trends in the cash market – but it's very difficult to know."

Be a lifelong learner

Getting proficient at commodity tracking requires experience, and both Gervais and Shaw say there are resources that can help individuals cut through the proverbial noise. Gervais says the USDA's crop, livestock and dairy reports are a great example of reliable, trusted resources directly relevant to Canadian farm operators.

"Identify trusted sources, learn and don't overreact. Markets move," Gervais says.

"Have humility. Change your outlook or projections if the markets prove you wrong." ■

Learn more about setting your operation up for success by reading
Farm Economics: The Basics



bit.ly/FCCEconGuide

TWO SIBLINGS REDISCOVER THE MERITS OF FISH FARMING

AS TOLD TO MYRNA STARK LEADER

When siblings Arlen and RJ left their family's fish farm two hours northwest of Toronto, they had no plans to return (they'd had enough of loading fish into trucks at 4 a.m. before school!).

Arlen worked overseas in post-conflict emerging economies and international development, while her younger brother pursued science and engineering advocacy and communication. A decade later, they realized they could make fish farming a progressive, environmentally conscious career. Today, they've grown their parents' original operation to six sustainable farms (spawning 10 million eggs annually compared to two million), opened new Canadian markets for live fish, grown the team from three to 25, added new species and a new processing plant, and currently deliver fresh fish to over 1,800 homes monthly from SpringHills Fish.

Coming home

Arlen: One day, Dad called me. He was asked to fill big orders and saw an opportunity, but at 70, he didn't know if he could. I was also questioning my work overseas, now less idealistic than when I was younger. Two experienced farm managers working with Dad encouraged me, "Your dad won't sell, and there's no future here unless you take it on." So, I returned, focused on the farm's greatest strength: raising fingerlings (juvenile fish the size of a finger, ready for stocking), and we opened parts of acquired farms that hadn't operated for 10 years.

Sibling succession realities

Arlen: After five years of building the business, we discussed formalizing Dad stepping back. I was surprised to learn that RJ, who was still away, would inherit half the company he hadn't yet expressed interest in joining. Once my anger subsided, I thought, "How can I encourage RJ to join?"

RJ: Mostly, my work at that time was supporting the mandates and work of other people or organizations. I felt that it should align more with my values – food production and hands-on environmentalism. We hired a mediator who, at a family strategy session, asked us, "What do you want out of your future, and where are the gaps in the business?" While staring at a whiteboard of everyone's desired personal and business legacy, plus the gaps, I realized my skillset fit.

Playing to each other's strengths

Arlen: We work well together, complementing each other, as long as he stays where I tell him (laughs). Seriously, we have about two breakdowns a year. We argue, air our thoughts, then we're good.

RJ: We're opposites except for our values and aspirations.

Arlen: I'm crass-talking with an operations focus. He's diplomatic with the strong communication skills needed to professionalize our business and participate in the volunteer-run industry association we're a part of. Basically, I roped RJ in and then roped in my husband when I needed maternity leave following our son (laughs). Both of us also married local men.



Learn, focus on the future and adapt

Arlen: Coming home, and as a young woman, which is atypical in this industry, my first mission was visiting other fish farms and getting perspectives from industry veterans by asking what's good, bad, their learnings and recommendations.

RJ: We've concentrated on acquiring land-based farms and rebuilding them. Raising fingerlings was lucrative, enabling reinvestment into the business, but the pandemic led to cancelled orders. We diversified, growing fish to market size and delivering fresh fish direct to consumers. We introduced new species and are now setting up our net pen farm on Manitoulin Island.

Since we began operations on the island, we've embraced the opportunity to connect with Sheshegwaning First Nation on the north end. We want to advocate, speak out and shine attention on Indigenous communities that have been part of our fish industry for 30 years.

Speaking up for their industry in person and on their website

RJ: Selling fresh fish, we talk to thousands. We listen. When negative comments come, I typically ask for further explanation because we're eco-certified and our environmental record is open. We're audited annually for our environmental, social, community and animal welfare. It's a personal challenge to help educate. I also invite them to visit the farm.

Fostering a strong business and team

Arlen: Families struggle with an older generation unable to step back. It's a lifestyle and their livelihood. We respect the previous generation, yet we must make the business our own. Life moves fast, and you've got to be agile.

RJ: Finding an accountant, banker and lawyer who matched our age, values, and style was big – someone dynamic with creativity, not a cookie-cutter transition plan.

Arlen: Three rules direct us: 1) Take care of our people and ourselves. 2) Is something a good business decision? Is it going to be a sustainable business option? 3) Have fun! We report to nine ministries or entities, which is not so fun, and some of our plans have failed, but we have incredible farm managers by whom we run every idea. We value their collective energy and unique strengths and are super transparent in sharing all financials so everyone knows what's leveraged to keep growing.

My biggest learnings are to work collaboratively and respect your history, understand your routes before you try to fly, and set your morals and stay grounded with them. ■

A man with grey hair and glasses, wearing a black puffer vest over a blue and white plaid shirt, stands in a vast green field with rows of young crops. He is looking down at a smartphone in his hands. The background shows a horizon under a cloudy sky.

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WHY MORE FARMERS ARE CHOOSING RENEWABLE ENERGY

BY RICHARD KAMCHEN

Renewable energy sources have become genuine alternatives for Canadian farmers, more of whom are making the transition.

Statistics Canada's 2021 Census of Agriculture reported nearly one in eight farms – 11.9 per cent, or 22,576 – reported some form of renewable energy production, more than double the 5.3 per cent, or 10,185 farms, in the previous 2016 census.

Lower costs and stronger incentives like carbon taxes played a big part in the surging numbers, according to Nazim Cicek, a biosystems engineering professor and associate dean of agricultural and food sciences at the University of Manitoba.

Renewable energy production could make farmers not only less reliant on outside energy sources but, in some jurisdictions, sellers of the power they generate.

The 2021 Ag Census reported 17,080 farms produced renewable energy for use on the operation and 6,517 for sale.

Solar power

Solar energy production remained the most common form of renewable energy production on Canadian farms, the Ag Census reported. Solar includes solar panels, solar heating equipment, solar fencing systems and solar water pumps.

The number of farms that reported producing this form of energy rocketed 68.5 per cent from 2016 to 14,587 in 2021.

"Solar costs dropped by almost 90 per cent over the last 10 years," Cicek notes.

A bonus is that farmers can scale their setup to what they need. It might be for a high-electricity-consumption dairy farm, a crop farm that doesn't need as much or, depending on the jurisdiction and available space, producing more than the operation needs and selling the excess.

Wind power

Wind was the second-most renewable energy-producing system reported in the census at 1,955 farms, up from 1,597 in 2016.

Some of the cheapest sources of electricity that can be produced come from wind and solar, Cicek says. Like solar, the cost of harnessing the wind has also been slashed.

"Wind energy cost has dropped by about 70 per cent over the last 10 years," he says.

Reliability

Although wind and solar are great ways of producing green electricity, intermittency remains a challenge, Cicek says.

"Days the wind doesn't blow or the sun doesn't shine, you need to store electricity for those days," he says. "If you can't feed the grid and utilize the grid as a storage, or don't have battery or another kind of storage technology, that becomes a problem."

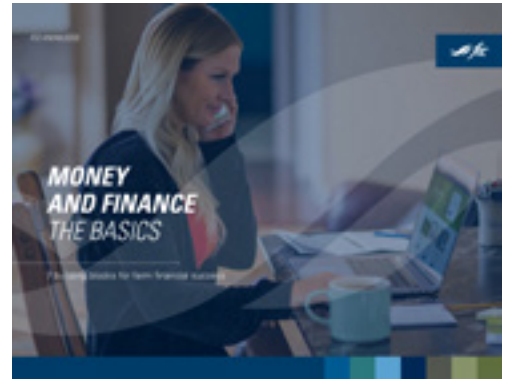
Farmers can come out ahead in their annual grid transactions if they can sell electricity on sunny or windy days and pull electricity from the grid on others. ■

Check for national, provincial and territorial government incentives for adding alternative energy to your operation. These include potential subsidies, interest-free loans, rebates and buy-back of energy produced.

PLANNING TO START A FARM? KNOW THE 7 BUILDING BLOCKS FOR FINANCIAL SUCCESS

FCC's Money and Finance: The Basics will help you create a clear vision for your money as you embark on and evolve your farming journey.

Use the guide to learn more about anything you need: the fundamentals of borrowing, understanding debt, managing cash flow, financial statements, managing financial risk, tax planning and cost of production. It's all there.



bit.ly/MoneyFinanceBasicsGuide

HOW DOES YOUR FARM PERFORM?

Benchmarking can be an insightful way to measure financial performance. It can help you identify strengths and opportunities for improvement to inform management decisions.

If you're operating in the dairy or grain/oilseeds sectors, try the FCC Benchmarker tool today. fcc.ca/Benchmarker

DESIGN YOUR **BUSINESS PLAN**

Use FCC's new business plan template and take the guesswork out of what to include:
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WEAR TECH AS YOUR PERSONAL FARM MANAGEMENT ASSISTANT

Smartwatches can be used as digital assistants on your wrist. Wearing one can improve farm management effectiveness by ensuring you receive task manager reminders, can dictate notes at any time and never miss a call.

Plus, they make communication convenient and can encourage healthy habits via health and wellness reminders.

Source: businessnewsdaily.com



NAVIGATING CONTRACTS

Farm operators draw up contracts for many things: land leases or purchases, supply, marketing, equipment rental, livestock production and so on. Before you sign your next contract, consider this checklist:

- ☐ Obtain and read the entire contract, including the terms and conditions.
- ☐ Get agreements in writing. Verbal agreements should be followed by written correspondence.
- ☐ Review the liquidated damages clause (damages paid out if there is a breach of contract) and understand the consequences of default.
- ☐ Know how to terminate. If needed, terminate as early as possible by phone and send an email or letter to confirm.

Source: ccga.ca



MENTAL HEALTH MATTERS

FCC's Rooted in Resilience publication features articles on mental health, personal stories from Canadian farmers and practical wellness tools.

To read more, scan the QR code or visit fcc.ca/Wellness.





PLANNING FOR TRANSITION BRINGS A FAMILY TOGETHER

THE FOLLOWING FICTIONAL CASE STUDY WAS CREATED BY BDO.

Siblings Graham and Camille worked together for almost 40 years managing a large grain and livestock operation. They represented the fourth generation on the farm and like their predecessors, expansion and innovation were cornerstones of the business strategy.

Both had young adult children working full time on the farm. The mutual assumption was that the farm would transition to the fifth generation. Everyone was on the same page until two years ago. Some aggressive land and equipment purchases combined with two poor crop years, rising input and interest costs, and a failed equipment retail start-up business resulted in financial hardship that challenged cash flow and debt servicing capabilities.

Graham's son and daughter, Brody and Cleo, worked closely with their dad on the grain side of the operation. Camille's two sons, Cole and Blake, worked with their mom managing the livestock.

Transition assumptions are tested

Over the past six months, regular meetings to review financials and discuss decisions had become more intense as the business continued trending in the wrong direction. Revenue projections weren't being met, and costs kept rising. The equipment business was shuttered earlier in the year, and they'd taken a significant hit. Slowly, over time, the family started to divide into two camps.

Cole and Blake were worried. They were skeptical of Brody and Cleo's plan to take on more debt and keep pushing forward with expansion and infrastructure upgrade plans for livestock and grain enterprises.

Cole and Blake wanted to fine-tune the status quo, pay down debt and see what interest rates and inflation numbers looked like in a couple of years.

The discussions were becoming heated. Camille and Graham had a long history of working through these kinds of challenges – they knew it was easy to say something inflammatory but hard to reel it back in if others were offended. Camille and Graham got together on their own and talked it out. Camille finally said it out loud, “Maybe it's time for the two of us to retire and figure out a way for our kids to go in whatever direction they think best.”

They agreed to talk with their families and meet again in a month. The proposal for Camille and Graham to retire via a transition plan, allowing the kids to go in different directions, generated a good discussion instead of rehashing the same old arguments.

Advisors provide clarity

They agreed they needed help understanding how the transition plan would manage a complex operation that included significant land and equipment assets and different enterprises. After preliminary discussions with their advisors, they better understood the many ways to approach this crossroads.

The income tax, financing and legal considerations could be complex. To prepare for the next steps, each family member was asked to think about how they saw the end result working for them. The next meeting would allow everyone to lay out their detailed visions. This would be the first step in crafting a basic implementation plan.



Emotional attachment is honoured

Graham and Camille felt it was time to take steps towards retirement, but both agreed they weren't ready to abruptly end their involvement in the farm. They knew it was not financially possible for their kids to buy them out immediately. And emotionally, they were both struggling with the decision to split the operation started by their great-grandfather. They both wanted to retain some ownership in the land base for the short term and remain active on the farm for the next couple of years.

On reflection, Cole and Blake began to consider the feasibility of starting a new livestock operation in a different part of the province where land prices were lower. Proceeds from selling their family's share of the land base would allow them to buy land and build new facilities there. This was a longer-term vision.

Brody and Cleo had to re-evaluate the viability of their grain operation if Camille's family were to eventually sell. They needed to investigate whether there was any way they could buy out their aunt and cousins over time.

Third-party valuations inform decisions

They obtained third-party valuations for all the real estate and large pieces of equipment held by the company. Even though Graham and Camille had worked together successfully for four decades, Brody, Cleo, Cole and Blake wanted to set up ongoing operations with a structure that would allow each of them to have autonomy in the future.

Subsequent meetings with their accountant, lawyer and lender led them to a transition plan that changed the ownership structure from one company that owned everything (except for a few parcels of land owned personally by Camille and Graham) to two separate companies.

Certainty and comfort in future plans

The new model saw Graham as owner of the now smaller original company, which included the core of the grain-producing land and the field equipment. A new company would be set up with Camille as owner. It would own less land, but it would also assume less debt to equalize the value of assets going to each family. Camille's company would retain all livestock and related equipment.

Agreements were put in place to provide certainty for everyone going forward. The two families would continue to work with each other, but appropriate values would be applied to custom work, feed purchases, trucking and other considerations between the two companies. If Cole and Blake found an alternate location for their operation, Graham's family had a first option to purchase any land sold from the existing operation at fair market value.

It took a year to get to the point where everyone was comfortable with the plan. However, each family could now plan for their own future. Graham and Camille were satisfied that their kids were positioned well for the future and, most importantly, that everyone remained on good terms. ■

BDO is a trusted advisor for agricultural accounting, tax planning and business consulting. Visit their website [bdo.ca](https://www.bdo.ca).

HOW DO I TRANSITION TO FULL-TIME FARMING FROM AN OFF-FARM JOB?

BY TREVOR BACQUE

Farming full time is a wonderful thing. But not everyone can do it. Some contend with an off-farm job to help pay for the farm, while others are unsure of how to even get in the game. There are countless considerations to review, from location and weather to markets and agronomics. Read advice from three experts on what they believe are key areas of focus when transitioning to farming full time.



Katelyn Duncan

Farm Management Consultant, Backswath Management, Regina, Sask.

Picture a tractor. Now ask, “Who bought it? Who operates it? Who services it? Who orders its parts?” The answer used to be one person. Today, it could be one person per question. To transition to farming full time, you need a clear vision of the future, on a personal level and for the farm. This may require a substantial upgrade of the management side of the business.

A first step is to ensure financial and business plans are in place, plus a management strategy to succeed at carrying out these plans. These plans are inextricably linked and one cannot work without the others. You also need finances available to facilitate the change. For example, know how you and other team members will be compensated for your skillsets, and how you value your labour.

You may also need to manage, hire and retain employees and give performance evaluations. Any management experience from a past job will be an asset to success, and a strategy to this end will bolster your experience, providing clear operational guidelines.

Family farms are run with increasingly corporate sophistication due to increased risks and responsibilities, so communication is important. Ensure roles and responsibilities are well established so everyone is on the same page and there are no surprises.

This also helps to manage conflict and increase profitability, efficiencies and organization. But give yourself the flexibility to amend guidelines as often as necessary to reflect the current reality of the farm.

Write out what you’d like your next one, five and 10 years to look like. This is a natural and simple entry point into vital conversations. As part of this exercise, envision what the management structure will look like in each scenario. If all make financial and personal sense, farming full time is likely feasible.



Stuart Person

Senior Vice-President, Agriculture, MNP, Edmonton, Alta.

Knowing if and when you can move into full-time farming requires many things, including a strong and focused financial plan. If it doesn't work on paper, it will probably not work in reality. Before you do anything, run the numbers. It's okay if you have to adjust your plan, and it's certainly a lot easier when it's just written on paper and you're not already headlong into farming.

Once you have a working plan on paper, you can begin to 'stress-test' that plan to ensure it will withstand the sometimes-harsh realities of farming. What happens if you face a drought, flooding, hail or severe livestock disease? If you get into one of those situations, does your plan still work, or are you just burning equity to keep living?

Keep projections realistic as well. If you use high yields and prices for revenue projections, you leave yourself exposed to huge potential risks. You can't just pencil it out on gross margin – it must be done on net income because the net is what's available to you.

Consider scenarios. If the worst case means you can't farm and the best case means you are swimming in cash, what's the average of that? That's what you need to look for because you'll have good and bad years. If the first two years you farm are bad, will you be able to keep going? You must be stable enough to handle that.



Mary Robinson

Past-President, Canadian Federation of Agriculture, Albany, P.E.I.

I rejoined my family ag businesses full time after working in Canada and abroad in an array of jobs. I find that even beyond the stresses of markets and other outside factors, agriculture is an emotional roller-coaster. Remember this when considering full-time farming.

Like many, planting and harvest are 'go' times for us, with full days and little or no time for self-care. When those seasons end, I personally experience a huge emotional transition. Developing the capacity for the demanding seasons and, on the flip side, managing the slower-paced times is something I'm slowly catching on to. Consider that the pace differs from many off-farm jobs and will be a lifestyle shift.

It's fair to say that many full-time farm operators feel a lot of guilt in agriculture as well, compared to those who have off-farm employment. A lot of responsibility, risk and decision-making will fall on your shoulders. The farm operators I most admire give themselves permission to take time for themselves, especially during busy periods. This investment is so important because our mental and physical health is paramount.

Consulting with third-party business and financial advisors can also help to alleviate the weight of heavy decisions that can take a mental toll. Advisors are invaluable for the confidence they can help to instil when you become fully dependent on the farm business thriving, compared to bringing in income from off-farm employment.

Prepare yourself for full-time farming by having business plans in place. Anticipating what's coming can help smooth out some of those large emotional peaks and valleys. Treat yourself well and have support from the people that are closest to you. ■

IS HEALTHY CONFLICT POSSIBLE?

BY PETER GREDIG

In even the most amicable and positive workplaces, team members may occasionally experience conflict. It's human nature – differences of opinion can pop up. Depending on how it's handled, the outcome can be extremely positive and talking it out can lead to improved processes or perspectives on a problem. Or it can result in ongoing and festering negativity within the team.

Bonnie Taylor, a psychotherapist and registered social worker based in rural southwestern Ontario, works with farmers to address mental health issues. She knows that conflict management is one area that can challenge farm operations, especially when family members are involved.

The first step for farm managers and leaders, according to Taylor, is to understand that a big part of conflict resolution is recognizing that everyone has a different communication style. "Not all conflict is negative," Taylor says. "Avoiding conflict at all costs means missing opportunities to try new things and benefit from other perspectives or opinions."

Some people will do almost anything to avoid confrontation or disagreement. Others run towards it at full speed, eager to engage. "Leaders need to reflect on their own management style, including how they present themselves and keep emotions in check when dealing with a disagreement," Taylor says.

Whether a team leader or employee, one can fall into patterns of communication that make it hard to resolve disagreements. On multi-generational farms, the older generation is often seen as the established leader and has been for a long time. Communication

styles can default to stating how things are going to be – end of the story. "This can silence younger family members and employees who find it hard to speak up if they feel like they are not going to be heard or acknowledged," Taylor says.

Effective leadership involves stepping back and asking: "Have I encouraged everyone to share their thoughts on this topic? Does everyone on the team feel their voice is important in working through this discussion?"

If team members on the farm experience a negative or dismissive reaction from their manager when raising an issue, they may come to assume or predict that will be the response every time. Instead of airing their problem, it could remain unresolved, impacting team morale and performance.

Pause before you react

Taylor uses the simple acronym 'STOP' to help farm managers react to conflict in a measured and consistent manner.

S – Stop. If facing a conflict with an employee or between other team members, the first step is to take a moment and listen.

T – Take a breath. Think before responding.

O – Observe. Be aware of your facial expression, body language and emotions. Ask: "Am I being dismissive or negative?"

P – Plan. Follow a consistent approach to set up a private conversation or meeting at an appropriate time and place to talk through ideas or concerns.



Be an effective facilitator

Managers often facilitate conflict resolution between other team members, which can be challenging if family and non-family members are involved. “In this scenario, farm managers must be very aware of remaining neutral. If there is even the perception of favouritism towards an individual or family member, it can severely impact the resolution process and how the team views leadership.”

A good facilitator knows what’s going on between the individuals at odds with each other, helps to determine the root cause of the problem and engages with the participants to find a way forward. Resolution doesn’t always mean finding agreement. It’s about advancing in a way that allows the individuals and the team to work effectively and positively.

“Sometimes a conflict between employees is a personality clash, such as one person on a harvesting crew feeling that a co-worker is not pulling their weight when the pressure is on, which is impacting other team members,” Taylor says. “When these kinds of conflicts aren’t addressed, team members may default to teasing or making snide jokes that create tension. Over time, this can create a toxic work environment. Ideally, the manager would approach both parties individually and ask what’s going on before it takes hold.”

Have a protocol in place

Have a defined protocol in place to create consistency in dealing with disagreements or conflicts. “Post something simple in the shop or barn

office to make it clear what the process is if an employee is facing a conflict or has something to get off their chest,” Taylor says. “Explain the steps to new employees and remind everyone of the plan regularly to help ingrain the process into the culture. Most importantly, be sure to reinforce that you invite everyone to air their ideas and concerns by speaking to the appropriate person or by writing it out and sharing it via a comments box.”

Assess outcomes

Having everyone agree and become best friends is not a realistic outcome for conflict management. For example, a successful outcome could be to have two employees say their piece and determine that in the future, they’ll not work together on equipment maintenance tasks that led to the ongoing problems. When conflict becomes deeply entrenched, especially between family members, an external mediator can be invaluable in bringing a completely neutral perspective to the table.

Ultimately, a successful conflict resolution process is one where everyone understands how it works and is comfortable being open about interpersonal problems they’re experiencing at work. For farm families, being able to separate business disagreements from family relationships can be the biggest benefit of all. ■

Meet Justine Hendricks

FCC's new President and CEO



What an exciting time in Canadian agriculture and food!

When I joined FCC on January 30, one of my goals was to meet and engage with as many FCC employees and customers as possible. My first few months as CEO have been a whirlwind of connection and learning. I'm so impressed by the commitment, expertise and passion I've seen since day one. This industry has an incredible history and a bright journey ahead.

As I've connected with various sectors, three things have stood out for me:

- The people, passion and knowledge in the agriculture and food industry are unmatched. The shared leadership of farmers, entrepreneurs, industry partners and sector champions show that the industry is well-positioned for the future.

- The industry is rooted in innovation and adaptability. Collectively, we have a big opportunity and challenge ahead of us to produce more food in a sustainable and economically viable way. The many entrepreneurs I've met have embraced different production practices and used new technology to become more efficient, overcome labour shortages and enhance production.
- As a nation that produces more food than we consume, Canada has an important role in feeding a growing world population. We have an opportunity to change the face of food production in Canada for generations to come. There is tremendous potential for Canadian agriculture and food exports and FCC is in a unique position to help the industry compete globally.

This industry is no stranger to facing challenges and overcoming them through innovation, creativity and a passion for feeding the world. Whether you are a producer, entrepreneur or a consumer, FCC is committed to supporting you as we evolve the sector.

I look forward to meeting more of you in the months ahead. I leave each conversation with more inspiration about what we can achieve together. Thank you for making Canadian agriculture and food something we can all be proud of.

Sincerely,

A stylized, handwritten signature in black ink, consisting of a large 'J' and 'H' followed by a long, sweeping horizontal line.

Justine Hendricks

President & CEO
FCC



DEALER FINANCING PROGRAM

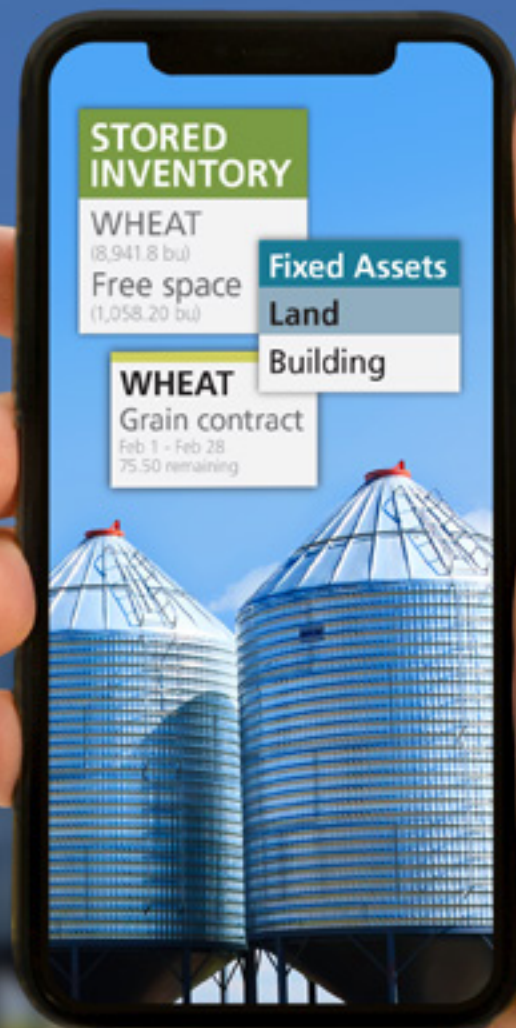
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