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# Farm Business Guide



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## SUCCESSION PLANNING



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# Let's get real

The 2016 ag census misrepresents the state of succession planning on Canada's farms. Here's why that matters – a lot – for your decisions in coming months

TOM BUTTON, EDITOR / COUNTRY GUIDE



**I**f you told a roomful of bright people to come up with a census question to underestimate how much thought farmers have put into succession planning, you could hardly have produced a better choice than the question that Statistics Canada actually asked.

Do you have a written succession plan? It's a question that only works if you believe, as StatsCan apparently believes, that unless you have a formal, written plan sitting on a shelf, you're totally unprepared for succession.

It's also the only question that can get us to StatsCan's bald statement that a mere 8.4 per cent of farms are ready for what comes next.

The weaknesses in this are so clear, they hardly need raising, but let's consider the most obvious. Succession planning might take two to four years, and if you've gone 90 per cent of the way through the process, you've had the family meetings, you've changed who does what on the farm, you've brought in your banker and accountant, you've taken out insurance policies, you've done everything except sign off on some written document, does that mean you're unprepared for succession?

I'm a believer in planning and I'm a believer in communication, and I believe in written plans in part because they help ensure you make progress on those goals. But even I have to admit that the work that goes into producing and revising a written plan isn't going to happen on every farm, and they'll end up okay anyway.

The problem here is that, once again, the intelligence of farmers is being sold short. In Ottawa, the take-home is that farmers are sitting on half a trillion dollars' worth of assets and aren't on the ball enough to know that they can't just let everything sort itself out on its own.

This kind of paternalism rarely ends well.

Worse, it creates confusion. It makes me want to ask detail questions, like whether the 7.6 per cent of farms that produce over \$1 million in annual sales and that produce 60 per cent of Canada's farm receipts are essentially the same farms as the 8.4 per cent that have written succession plans.

Instead, we should be focusing, as writers Maggie Van Camp and John Greig do in this supplement, on what takes a succession plan from good to great.

Just because a plan is written doesn't mean it's the best possible plan for that farm, or even that it's realistic.

Clearly, the most significant learning from the 2016 census is how difficult it is to grow today's farms. Yes, farm size is increasing, but only by about one per cent per year.

If the census had asked farmers in 2011 how much they hoped to grow, and how much they were ready to grow, Ottawa would get a shock.

Succession is the foundation not just for asset transfer, but for farm growth, profitability and sustainability. It will also be hugely important to Canada's competitiveness.

It's time to get real about our farmers.

Are we getting it right? Let me know at [tom.button@fbcpublishing.com](mailto:tom.button@fbcpublishing.com). ▀

**GWEN PADDOCK**  
NATIONAL DIRECTOR,  
AGRICULTURE  
ROYAL BANK OF CANADA



**A**t RBC we know that farming is not only a way of life, but also an essential contributor to the Canadian economy, which is why we're proud to partner with farmers to help you deal with present-day challenges — whether that's volatile commodity markets, the fluctuating Canadian dollar, the need to establish public trust or making decisions about retirement.

Whether you're looking to expand your farm or to pass it to the next generation, or if your goal is to protect the farm against potential risks, we have experienced and knowledgeable agriculture banking specialists and a full lineup of products and services to help you make your next move.

We're pleased to work with *Country Guide* to highlight the importance of succession planning and share some strategies you can use with your business. Should you have any questions, the RBC team of industry experts have worked with many other farm families to create effective succession plans. We look forward to the opportunity to partner with you. ▀

# SUCCESSION: From good to great

Follow these nine strategies for a better succession plan and a stronger family

BY MAGGIE VAN CAMP, SENIOR BUSINESS EDITOR / COUNTRY GUIDE

**A**n accountant, a lawyer and a farm financial adviser swap stories with me about farm families and succession planning. Perhaps not surprisingly, they start with the disasters. They talk about the overreactions they've witnessed, the pain, the gulfs they've seen between dream and reality, the costs, the broken families.

Quickly, though, the talk turns to the wins, and the stories are about the communication they've seen happen, the understanding that has grown, the preplanning that has begun, and the joy and pride that come alive when a family gets together around shared goals.

And we notice that in so many of these successes, there seem to be the same critical success factors coming up again and again and driving farm succession planning from good to great.

Often these linchpins put the family on a course to new levels of management and even happiness.

This article is our effort to get these linchpins into a format that you can share and that can elevate your plan above what any individual could achieve on their own.

Succession planning is a group effort, with parents, siblings, spouses and other family members, plus their bankers, professionals and advisers. And it is sticky with group dynamics, history and personalities.

*Country Guide* put together an advisory team with decades of experience helping families with succession. Our team includes:

- ▶ Darrell Wade, founder of Farm Life Financial Planning Group located in Peterborough, Ont.
- ▶ Reid Wilkie lawyer with Smith and Hersey in Medicine Hat, Alta.
- ▶ Dean Klippenstine, a CPA with MNP in Regina, Sask.

Each has a portfolio thick with farms they've helped, and each also has memories of the occasional succession gone wrong.

Mostly, they know how succession can create growth, ideas, and opportunities, and how it can bring families even closer together.

If you pull a chair up to the table, and if you roll up your sleeves and work through the tough issues, succession can yield unexpected rewards and teach powerful lessons.

Succession planning can be bigger than keeping the farm in the family... if you do it right.

## 1 BE OPEN TO RE-ENERGIZING THE FARM.

Every farm is different, but generally the upcoming generation brings new ideas and youthful energy to a farm business, and this combination of energy and fresh thinking can drive future success.

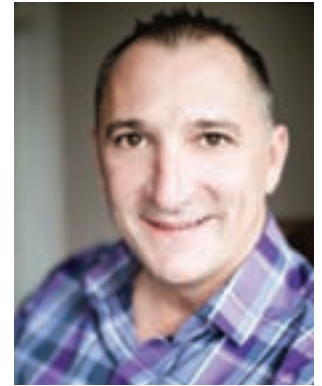
Even better, this can-do attitude can be contagious. Youthful optimism affects the older generation and often drives changes and expansion for the whole farm.

In fact, it even has a name — “the succession effect” — coined by English ag economist Matt Lobley at the University of Exeter.

“It's simply more fun when you have a younger person around who is full of energy, and ideas,” agrees MNP's Klippenstine.

As his clients get past 50, he says, it isn't unusual for them to become less motivated by money. He thinks that's because, compared to the effort and risk that it would take to achieve real growth, lifestyle doesn't improve that much when personal net worth rises from, say, \$1 million to \$3 million.

A young person will rekindle that drive, even if it's a non-family successor instead of a son or daughter. Klippenstine has helped a few farms where the children aren't interested



“The value of the farm assets becomes dwarfed by how much the members value their family,” says adviser Darrell Wade

in the farm and instead they've brought in a key person, setting up a profit-sharing agreement or maybe helping them obtain five per cent of the business. This allows the older generation to enjoy a better quality of life in retirement while bringing in hard-working younger, skilled people to drive growth.

## 2 FOCUS ON PROFIT.

Adding another generation to the decision tree will change the way decisions are made.

Perhaps today you can just make a decision and tell everyone what you've decided, but as you get into succession you'll have to make a business case for why it's the right step.

That's good, however, because numbers don't lie, and they aren't emotional.

At the same time, succes-

sion planning also puts the farm's financial performance on the table for everyone to examine, often because you need to find ways to generate another household income, and you need to look at the productive value of assets.

But this too is an opportunity. Succession planning shows farmers how powerful financial information can be to their farms.

As Wade says, there's nothing like a goal to motivate and teach.

Klippenstine adds that you can have the slickest, smartest, most congenial succession plan, but if the business doesn't make money or there's no plan to make more money, it isn't going to work.

So, while the parents might fear the younger generation could take the farm down with uncontrolled spending, Klippenstine finds that adding a younger generation usually increases financial success.

In fact, he says businesses should want to have young people on board. "They add energy, they add drive, they tend to create profit," Klippenstine says. "Adding young, smart, hard-working next generations can drive success."

Although younger farmers might draw more for lifestyle, Klippenstine has found they tend to look at farm decisions with sharper pencils and have a more realistic view of the cost of carrying inventory and non-working assets. In other words, they don't hold on to inventory as a security blanket, or keep iron around simply because it's a bother to resell it.

It's one reason why, instead of simply helping the next generation to borrow equipment and rent a quarter section on their own, Klippenstine sees

greater benefits with profit-sharing agreements for the whole farm.

Team work will help improve overall productivity, which needs to be a priority because no matter how smart the people are, and no matter how good their business plans, the farm won't be profitable if it doesn't produce.

"You can't fix that in the boardroom or in an accountant's office," says Klippenstine. "All my best growers are unhappy all season, they are constantly micromanaging their fields, trying to improve. That's why they are successful."

### 3 GET THE MATH RIGHT.

Over the 23 years Klippenstine has been helping farms with succession, he has found that having the right business structures in place helps the farm solve its soft issues.

For example, if the value of ownership is defined it will help keep the discussion out of the weeds.

The same is true of the division of duties and the ownership structure of the farm. Getting your processes right, including the paperwork, helps prevent disagreements before they occur, and typically allows for better conversations going forward.

However, this needs to be coupled with a focus on getting the math right, which is crucial for future success. This is why, for example, profit sharing with the younger generation may be a great mentoring tool, even with teenagers, but it needs to make sense financially.

"The business arrangement has to be good and solid before succession can occur," says Klippenstine.

This also means that the

financial structure of your business must make sense for operational reasons, not just for succession.

### 4 SET GOALS COLLABORATIVELY.

Succession requires clear long-term goals for the business and the family. These goals become very powerful when they're co-created, says Wade.

The process also identifies and quantifies gaps, which advisers can then help provide various solutions to fill. For example, if the older generation says equal treatment within the family is the problem, then the advisers should help quantify how much is needed to fill that gap and how to fill it. This could include potentially selling some land, giving shares, or buying life insurance.

People need certainty to move forward, says Reid Wilkie, and succession planning does that for both generations. It allows the successors to know the transfer is really going to happen and not just be hoped for, so they can do things like quit their job, plan for their personal future, or be more aggressive on expansion plans. "Today, it's almost impossible for most young farmers to buy land without their parents' collateral backing them up," Wilkie says. "Having something in writing gives them this ability."

Mom and Dad need to accept the change so the next generation can put their whole heart into the farm, but goals also help parents plan their own futures and their retirement, giving them the opportunity to choose whether they want a clean break from the farm, or if they want to die in the combine, or something in between. But at least everyone knows there's an agreed plan.

### 5 UNDERSTAND EVERYONE'S SITUATION.

Wilkie has found many older farmers, especially those over 80, sometimes don't really appreciate and understand their financial situations, including their net worth and their living costs.

But on the other side of the coin, sometimes the next generation and their spouses don't understand the difference between market value and productive value, and what it's like to farm with lower prices.

Higher farm values make both of those more challenging. Reality is that succession and estate planning become more complicated when the stakes get higher.

Farmers need to accept this, says Wilkie. Simple solutions don't always address the potential problems or take advan-

CONTINUED ON PAGE 6



**Parents may worry about the next generation, Klippenstine says. Usually, though, they create profit**

tage of the special tax rules for transferring farms to the next generation.

Recently, Wilkie has found more people are missing out on the capital gains exemption on jointly owned land served up as a simple solution. But he says there are many factors to consider and it's not just about managing tax. "As soon as you put someone's name on land, it drags you into the middle of their potential issues."

## 6 LEARN HOW TO HAVE MEETINGS.

Family business meetings are often adopted as part of succession planning, and then become an integral part of the farm. You might be the most open, caring family in the world but learning how to have good business meetings together is entirely different. Learning how to have regular business meetings can be the switch that changes how the farm is run overall.

"... Not at Mom's dinner table, not talking business on Sunday when the nieces and nephews can overhear," says Wade. "I show them how to do a good job at the first meeting, with a code of conduct."

Some families Wade has worked with even hire him to come back once a year

and chair the farm's annual meeting. It keeps the process ingrained and is a way for the family to stay engaged with an outside, informed third party.

## 7 USE ADVISERS BETTER, FASTER.

Succession planning helps families understand the importance of hiring good professionals like accountants, financial advisers, insurance agents and lawyers.

A third-party facilitator can also help build accountability and honesty into the communication and planning process. "Facilitators keep everyone on the path and ensure participation of all parties to co-create a plan to build the farm and maintain the family," says Wade.

Wade finds that usually by the time people call a succession adviser they're very motivated to get a plan done and just need a quarterback to ensure all the working parts are considered and that the process is kept to a timeline.

Succession planning teaches people how to ask questions of professionals and how to get the most value from them, and how to control advisory and consulting costs using preplanning and communica-

tion within their organization. "It's way faster and cheaper if there's been some advance planning, someone who understands the soft issues, and puts the personalities into context," agrees Wilkie.

It's important because time can become a significant factor. A recent Agri-Food Management Institute study of Ontario farmers found that compared to five years ago, more farmers are starting to scale down and hope to transition the farm in the next five years. But the median time it takes to create a succession plan is five years.

Succession can also make you ask questions about the professionals you're using, says Klippenstine. It doesn't hurt to get a second opinion from another professional, he says. "It's hard to know what people don't know... They can talk fast and draw fancy pictures, but do they know what they are doing?"

## 8 FACE YOUR FEARS.

Part of the succession process is to identify the big issues before you commit to working together permanently and before you transfer assets or build an estate plan.

At the same time, procrastinating because of fear is one of the most common killers of succession. "We understand the fears families have about having these difficult conversations, but not having them leads to many larger and greater problems in the future," Wade says.

One of the biggest problems with succession, our experts find, is that people don't start soon enough, not only because it limits the next generation but also because the older generation is beyond the hard work it takes to find good solutions.

## 9 IMPROVE YOUR 'FAMILINESS.'

Succession can drive the farm's success when the family learns to work as a family.

"One of the things I love about doing succession planning is the familiness of it," Wade says.

Family is more than the people, it's their history, their traditions and the general identity of the farm, Wade says. "The value of the farm assets becomes dwarfed by how much the members value their family."

Wade has found that succession planning can build on family because this is a time when farming and non-farming family members learn to value each other.

Non-farming members can voice their concerns but also begin to understand that tradition doesn't run a business — it takes smart, committed, risk-taking people.

Such discoveries help the entire family more toward a really satisfying resolution. "Create a participatory culture," says Wade. "It builds unity." ▀



**“You own and run a multimillion-dollar business, you need to treat yourself accordingly,” says Alberta lawyer Reid Wilkie. “Your creditors, Canada Revenue, your children and their spouses are going to treat you like it’s a multimillion-dollar business. You better treat yourself like that too.”**

# Younger-generation farmers share succession tips

BY JOHN GREIG, FIELD EDITOR / COUNTRY GUIDE

## Three young farmers tell us why their succession plans are working

**C**laire Kincaid and her partner Greg Allison decided in the fall of 2015 that they wanted to farm in partnership with Claire's parents. Claire and Greg have their own farm, but their parents have larger holdings. Together they farm 2,500-acres near Nesbitt, Man.

Not surprisingly, their succession planning process is still underway, but Claire says several early steps have set the plan up for success.

The first was to actually have a written plan, one they have created with help from Jackie Gerrard of Backswath Management. Even if the plan changes, there are guidelines for the future that are comfortable for all involved.

Knowing the route ahead reduces anxiety for everyone.

"We still have a lot to figure out," Claire says, but they now have a good idea of when they will transition to farming more of her parents' land.

Claire and Greg's farm is called Bramble Grain Farm and her parents' Creevy Farm, but they run it as one farm. Greg works on the farm during the summer, and Claire works for Dow AgroScience. They have a plan in place that will allow them to move in a direction that works for everyone.

Meanwhile, at Embro, Ont., Nic Mutsaers is another young farmer who believes in starting early with succession planning.

His father, Jim, started the process when Nic was 18. Nic is now 26 and his father is 53, so they still have a number of years yet to work together. Their plan has set the guidelines for the transfer of assets and provides assurance for both the younger and older generation that their wishes will be met.

Nic has become a cheerleader for good succession planning in his community, where the Mutsaers milk 70 cows on their 200-acre dairy farm.

"I'm very open about this. I'm 26 and a lot of my friends don't have anything in place," he says.

Jim's succession experience with his own father was less than ideal, says Nic. He didn't want the same experience for his son.

"He was adamant we start early," says Nic, who remembers that his parents had him take a day off school when he was 18 to attend a succession education session.

"There was a guy sitting there my dad's age, with his dad, and they were just starting."

Advisers are also important. Their accountant, Larry Batte from Collins Barrow, had succession planning experience, as did his parents' financial adviser.

Nic credits several factors for the family being able to work within their successful succession plan to about the halfway point.

One step at a time, Nic has taken over more of the

farm management. First was the herd breeding, then the feeding, and then when they moved into their new barn in October 2013, more of the overall herd management.

By 2021, the transition plan will be complete. Jim and his wife Kim will still have a significant investment in the farm, but Nic will have control.

Nic says it is important that the plan has a built-in option for his parents to pull their investment if they don't like what is happening on the farm. It gives the older generation a fail-safe.

Near Tisdale, Sask., Ryan Bowditch's succession plan has recently resulted in his purchase of his uncle's farm.

Bowditch, 44, has farmed for 25 years with his father Fred and his Uncle Ralph. When Ralph decided he wanted to sell out his financial stake in the 7,000-acre grain farm and move off the farm and into town, Bowditch was ready to move out from town and onto the farm.

From the start, they knew pretty clearly how they wanted their succession plan to go.

"I'm pretty lucky because we were all on the same page, the three of us, and my wife and my aunt were all of the same opinion on what had to take place," say Bowditch. "Our management style is pretty much joint. We've farmed as a team for a long time and are very comfortable with each other."

However, they figured they could use some help to put the plan together, mostly to make sure that all the financial questions were answered.

Backswath's consultants helped them make sure all of their questions were answered, even some they hadn't thought about, and they also helped them access funding to pay for the succession plan through the provincial government's Farm Business Development Initiative.

Then Backswath Management helped them put the plan together. It took time, longer than Bowditch expected, although the biggest delay in the transition was the time it took to get the financing in place, even though the bank agreed that it made sense. Bowditch took ownership of the farm on May 1.

"It was time consuming. We spent a lot of time on it, no doubt," he says.

But it's also a signal to the younger generation that it's important to build good relations within the family, and that instead of acting with a sense of entitlement, the younger generation needs to prove that they are interested in improving their own skills, and that they understand the challenges they'll face.

Says Bowditch: "I can't imagine if someone is in a row with their family or one of the partners how difficult some of the planning would be." ▀



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