

ADVISING THE FAMILY FARM BUSINESS

SUCCESSION & PERFORMANCE



Presented by:
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for
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OVERVIEW

- The Family Farm Business Succession Environment
- The Barriers – Why don't we do Succession Planning?
- Defining Succession Planning
- A Synopsis of the Succession Planning Process
- Process Leadership
- The Team Recruitment
- Preparedness
- Conditioning the Family Farm Business and Governance Systems for Success
- Getting in Shape
- Initial Considerations
- The Steps
- Summary
- Questions and discussion

THE FAMILY FARM BUSINESS SUCCESSION ENVIRONMENT

The agriculture industry today – characteristics:

- high degree of regulation in marketing and production
- continuing consolidation of assets and operators
- high degree of risk
- capital intensive
- growing opportunities
- skill sets are changing
- family wealth – significantly comprised of farm assets

THE SUCCESSION ENVIRONMENT- FINDINGS

- agriculture industry – part of world-wide phenomenon seeing 1.2 Trillion in business assets changing hands before 2010 (CIBC World Markets)
- over 50 Billion of farm assets held by farmers over 60 in Canada
- 40% of owners of small to medium enterprises plan to retire in the next five years
- only 1/3 of those planning to retire have a transition plan
- 60% of 'seniorpreneurs' (between 55 and 60) have not yet begun to discuss transition with partners or families
- Majority of plans are informal, unwritten and have not been shared

UNRAVELLING THE MYSTERY

Family businesses are "like Russian novels - there are many subplots that make up the story, and they are all being played out simultaneously."

Sal Minuchin
Family Business Review

BARRIERS TO FAMILY FARM BUSINESS SUCCESSION - FINDINGS

- Complexity – where do we start?
- Reluctance to address the 'personal' issues – who will succeed? - competing successors; fairness / equity in the family
- Time to deal with issues
- Reluctance to acknowledge mortality / disability
- Financing for the transition
- Valuing the farm business

**BARRIERS TO FAMILY FARM
BUSINESS SUCCESSION - FINDINGS**
(cont'd)

- The Retirement / Succession equation
 - Pre-requisite is a financially secure retirement for the owner / founder
 - Will my later life needs be looked after?
 - How to 'unlock' the value of the farm assets if liquidity is needed for the founders
 - Generally 'asset rich, cash poor' – can the farm support both growth and a retirement
 - Demographics – longer life means longer / greater financial need

**BARRIERS TO FAMILY FARM
BUSINESS SUCCESSION - FINDINGS**
(cont'd)

- Retirement and succession may weaken the Family Agriculture Business
 - Cash flow needs for both a retirement and sustainability of the farm business may be restricted or constrained when most needed
 - Asset (land) sales to fund retirement may diminish revenue opportunities
- Market for farm operating assets may be smaller than for land assets alone
 - Children/heirs generally don't have cash
 - Equalization issues among family members

DEFINING SUCCESSION PLANNING

- Let's take a moment and talk about what we mean by the term "succession planning".

Uniqueness

- Each and every farm business is unique.
- Each and every family is unique.
- Thus, each and every succession plan will be unique.
- Therefore, there are NO cookie cutter solutions or magic pills.

A SYNOPSIS OF THE SUCCESSION/TRANSITION PROCESS

The Alternatives:

- Not everyone has a succession plan but everyone does have an 'exit strategy'
- 'Controlled' or 'out of control' exit strategy – our choice
 - Controlled – a considered and family developed plan
 - Out of control – do nothing, let others figure it out – after we are gone!

A SYNOPSIS OF THE SUCCESSION/TRANSITION PROCESS

(cont'd)

Successful Process is Characterized by:

- recognition and understanding that each family farm's business and family dynamics are unique
- tolerance to accept generational differences
- understanding of generational attributes, expectations and influences

**A SYNOPSIS OF THE
SUCCESSION/TRANSITION PROCESS**
(cont'd)

- a willingness to involve **ALL** family members in the discussion and development of the plan
- recognition of the roles of professional advisors
- Commitment to an investment of time and money
- patience – it won't happen overnight

Succession Planning can be thought of as:

- The long-term thinking and advanced planning for:
 - The smooth entry of the next generation (or a third party) into a profitable agriculture business and rewarding careers.
- AND
- The gracious exit of the retiring generation into a financially secure and satisfying retirement.

Succession Planning...

- Is a continuous process...NOT an event... finishing with the implementation of a plan or series of plans to be implemented with family support
- Involves the interaction of long-term family personal and farm business goals.
- Considers the issues relating to the transition of:
 - Ownership
 - Family governance
 - Management

HOW TO GET THERE – THE PROCESS OF PLANNING

- The Steps:
- Communicate your wish to develop a plan and be prepared to lead it by being the family 'champion'
- Determine who will 'manage' the Planning Process – trusted advisor, friend, family business consultant?
- Assessment (information gathering)
 - Compile Family and Business histories
 - Review financial viability of the agriculture business as a pre-requisite to planning
 - Fact finding – legal status, financial results, business overview (markets, competitive advantages)
 - Issue identification – competitive factors, personnel, financial



HOW TO GET THERE – THE PROCESS OF PLANNING

(cont'd)

- The Family Meeting(s) – facilitated by a family farm business advisor to define:
 - Personal, family, business goals
 - Assess compatibility of generational objectives
 - Identify successor(s)
- Identify and recruit the team members (professional advisors)
- In conjunction with advisors, develop options
- Preliminary decisions / draft plan
- Implement (documentation and execution)
- Monitoring and evaluation
 - Family meetings
 - Facilitate and review



Process vs. Plan

- The succession planning **process** requires:
 - investigating and analyzing the business;
 - exploring and understanding the goals and aspirations of all family members;
 - balancing these needs and expectations against the business, legal and tax considerations
- The succession **plan** accurately documents the decisions that result from the **process**.



PLAN COMPONENTS

“THE PLAN IS REALLY A SERIES OF INDIVIDUAL PLANS”

- An index of considerations:
 - A 'Farm Business' Plan
 - A 'Family Member' Plan
 - A 'Transition Plan' (management, ownership)
 - A 'Contingency' Plan

Process Leadership

- Who?
- Single Most Important Factor to Success
- Alternatives
 - Family Members
 - Family Friend
 - Trusted Advisor(s)
 - Family Farm Business Consultant
 - One or more of the above

The Team

- Family Members
 - All?
 - Active in Business Only?
 - In-laws In or Out?
 - Spouses?
- Non-Family Management?
- Advisors?
 - Financial
 - Legal
 - Advisory Board
 - Independent Directors
 - Insurance
 - Wealth Planners
 - Farm Credit
 - Canadian Association of Farm Advisors

The Team

(cont'd)

Team of Advisors – Collaborative Approach

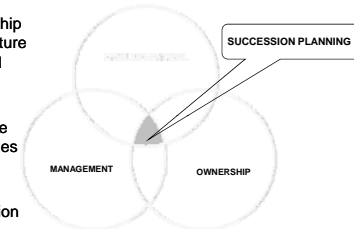
- Different issues and considerations in developing a succession plan:
 - human and family dynamics
 - viability, profitability, feasibility
 - financing, insurance, investments
 - retirement planning (both financial and lifestyle)
 - legal
- Due to complexity and overlap of issues:
 - Good idea to utilize a “team approach”
- Do the Advisors regularly work together?
- Are the ‘dynamics’ of the Advisors workable?

Preparedness THE FRAMEWORK

- Interrelationship of business and family.
- 3 types of issues:
 - ownership
 - management
 - family/personal
- This model can be extended to explain the challenges of succession planning.

Preparedness FARM BUSINESS and FAMILY

- Interrelationship of the agriculture business and family.
- Conflicts arise because issues get blurred.
- Communication essential.



**Preparedness
UNDERSTANDING FARM BUSINESS
& FAMILY OVERLAP**

CATEGORY	FAMILY SYSTEM	BUSINESS SYSTEM
Membership	Is unconditional. Based upon blood, marriage, adoption, etc.	Is conditional. Based upon qualifications and performance.
Compensation or income	Often based upon equality (e.g. like an allowance)	Based upon responsibilities and performance.
Leadership	Leadership is bestowed. Based upon family position (parent/child), birth order or gender.	Leadership is earned (merit). Management officers control day-to-day operations.
Heads of Operation	Emotional based.	Task oriented.

**Preparedness
LIFE STAGE CHALLENGES**

- In addition to the three types of issues and how they relate to business operations and decisions, life stage challenges can impact upon the succession (and Success and Performance) discussion.

**Preparedness
HOW DIFFERENT GENERATIONS INTERACT**

Age of Older Generation	Age of Next Generation	
40-50	Early 20's	Problematic period
51-60	24 - 33	Harmonious period
60's	34 - 40	Problematic period

**Preparedness
UNDERSTANDING
THE FARM BUSINESS & FAMILY**

- Family agriculture businesses involve a careful balance between operations and family harmony
- It is this balance that can be particularly challenging, especially when dealing with sensitive issues like planning for succession.

SUCCESSION

Setting the stage – Preconditions to Success

After the assessment phase, when succession is identified as the key problem to be managed, it is important to create the conditions that are associated with successful transitions whether the transition is an intergenerational transfer or sale. Typical conditions described as “ideal” in each of the Family, Business, and Ownership/Governance systems might be the following.

**CONDITIONS ASSOCIATED WITH
SUCCESSFUL TRANSITIONS**

Conditions in the Family System

- The family shares a common view of what is fair and equitable;
- The family has goals, a clear vision of the future and they agree on whether the business should continue to be run by the family, turned over to professional management, or even be sold;
- The family is prepared for unexpected emergencies (deaths, illness of key family managers) and therefore has created buy-sell agreements and related contingency documentation;
- The family is able to manage conflict successfully; and
- High trust exists within the family.

Conditions in the Business System

- The transition occurs when the business is relatively "healthy";
- The founder/family leader is prepared to move gradually away from active involvement in the day-to-day operation of the business;
- There is a well-developed training and socialization plan for successors in which mentoring is critical; and
- There is an interdependent relationship between the founder/family leader and the successor.

Conditions in the Governance/Ownership System

- Authority relationships are clear; there is little ambiguity concerning decision making.
- The governance forum has, or has retained, the necessary expertise and implicit authority to manage the succession issues with the family.

Getting in Shape

To create these conditions in the three systems and thereby improve the chances of a successful transition, the following interventions or preliminary actions may be necessary:

- Assessing the current ownership structure of the Business to develop or confirm a picture of what ownership should look like after succession;
- Providing career and personal development planning for the founder/ family leader and potential successors so they can prepare for the transition;

Getting in Shape (Con't'd)

- Creating an effective board of directors (or other types of boards, such as an asset management board, advisory board or family council) to provide a forum for discussing some of the important business and family issues and to help oversee the transition process; and
- Managerial or organizational weaknesses that need to be improved for the family farm business to maintain financial stability. This may involve change in the basic structures and systems before the transition.

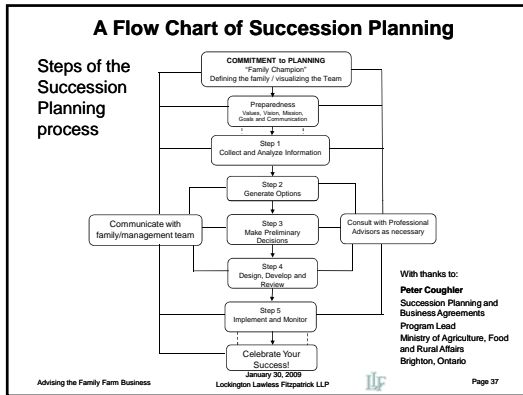
Getting in Shape (Con't'd)

Develop a Communications Policy and Procedure that will ensure:

- All participants receive regular and consistent information, including outside advisors.
- Establishment of ground rules of etiquette, participation and management of meetings.
- Awareness of and availability of a dispute resolution or mediation method.

The Flow Chart of Succession Planning Initial Considerations and Issue Identification

- Need to understand what's important to parties (values).
- Defining individual personal and business goals.
- Based upon the values – determine Vision, Mission and Goals.
- Communication – opening the lines.
- Determine if the family goal is to transfer the business to the next generation.
- Three key questions to consider:
 - Is there anyone on the management team (family or key employees – if applicable) capable of running the business when founder retires and before a successor emerges?
 - Identify the successors.
 - Is the successor(s) interested in taking over the business?
 - Discuss the roles and responsibilities.
 - If yes, then what are some of the options to train and prepare them for leadership of business?



- ### Step 1: Collect and Analyze Information
- **DO WE HAVE EVERYTHING WE NEED TO:**
 - Assess the current business situation
 - Confirm current profitability
 - Assess future growth and profitability projections to confirm if there really is a future for the business
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- ### Step 2: Generate Options
- Generate options regarding:
 - Management transfer
 - Successor development
 - Timelines, etc.
 - Management – interim or permanent
 - Ownership transfer
 - Tax considerations
 - Methods of Transfer – the sale, lease
 - Capital Gains and Exemptions
 - Tax Deferred Transfer or Rollovers
 - Business structures – joint ventures, corporations, partnerships, trusts
 - Legal Considerations – estate planning
 - Contingency plans/strategies (5-D's – disability, death, disagreement, divorce and disaster)
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Step 3: Make Preliminary Decisions

- Make preliminary decisions about direction and preferred options.
- Consider various options and their implications with help of Advisors. Advisors should be creative in development of the options.
- Ensure decisions align with goals, objectives and expectations of team members (family and others).

Step 4: (Cont'd) Flight Testing the Decisions with the Advisors

- Do the Plans have the support and technical approval of:
 - Farm Business Owners
 - Family Farm Business Consultant
 - Lawyer
 - Financial Planner/Investment Advisor
 - Financial Institution Representative/Banker
 - Business Advisor/Mentor
 - Advisory/Formal Board

Step 5: Implement and Monitor

- A plan is useless unless implemented.
- Put documents and agreements in place.
- Move forward with transfer of management/leadership, control and ownership.

SUMMARY

- 'It is not a single plan, but a series of plans'
- 'It is a "collaborative process" – essential to understand the various requirements and professional resources that are needed'
- 'It takes a "champion" to lead
- 'It will involve a commitment to invest in time and money to complete'

SUMMARY (cont'd)

- 'It will require patience, tolerance and understanding'
- 'It will be a process of "discovery"'
- Start yesterday
- Make yourself dispensable
- Clean house
- Follow the plan
- 'Sleep well'

QUESTIONS

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