

Chapter 5: Assessment

Topic 7: Financial Performance

One of the most important tasks in transition planning is accurately analyzing the financial performance of the farm operation. Unfortunately, many people working towards transition jump into making decisions about farm buyouts, estate/inheritance plans and living arrangements with inadequate and/or inaccurate financial information. Assuming that a farm business will be able to financially support personal and business goals without adequate analysis is incredibly risky to a family/group's harmony and to the long-term operational success of the farm.

Transitioning a farm from a retiring generation to a succeeding generation can place additional demands on a farm's finances.

Additional costs that stem from the succeeding generation may include:

- salary(ies) for additional farmers during the 'overlap' period when both the retiring generation and succeeding generation are farming;
- additional residences or other living arrangements;
- potential farm buyout plans; and/or
- farm expansion or diversification based on new ideas.

Additional costs that stem from the retiring generation may include:

- increased withdrawals to fund non-farm retirement assets (RRSPs, savings accounts etc.);
- lump-sum financial needs at retirement for living costs and lifestyle choices, including housing, vacations, vacation properties, recreational vehicles, etc.; and/or
- asset splitting according to an estate plan, where funds/assets/etc. are passed out of the farm business to non-farming children.

One way to analyze financial performance is to calculate key financial ratios for each of the previous three to five years. These ratios can then be compared year-over-year to measure progress and performance trends.

Since each ratio offers only partial insight into a farm's financial story, it is important that multiple ratios be analyzed collectively. A single ratio that shows good results or a single ratio that shows poor results should not alone be the basis upon which one makes management decisions, especially decisions with transition planning implications.

Stable or improving performance trends provide a strong starting place for intergenerational transfer. Declining performance trends may make transition risky and should be analyzed carefully. Before proceeding with transition, both generations should analyze whether there are good explanations for any poor performance and whether corrective actions are necessary and/or possible.

** Unless all participants are very knowledgeable in financial analysis, it is highly recommended that an outside financial consultant is hired to assist in calculating and analyzing a farm's financial state.

RATIO CATEGORIES

Ratios can be organized into four categories: liquidity, solvency, profitability and financial efficiency. These categories and their corresponding ratios are listed in the tables below. An extended explanation of the ratios and their corresponding benchmarks is provided on page 295 in the Appendix section of this Guide.

Why is this relevant?

Very early in the transition planning process and before any commitments are made, all participants in the farm business transfer need to analyze the farm's current and historical financial situation to determine whether the business can support the additional financial draws that transition demands.

How will this help transition planning?

Having a detailed and accurate understanding of a farm's financial situation will help you decide whether to proceed with the transition planning process or not.

Financial Performance Analysis

*** All participants involved in transition planning should work together through the Financial Performance analysis and then reconvene as a group to discuss further at the next transition planning meeting.*

Instructions

1. Gather your farm's accountant-prepared financial statements or tax returns from the past three to five years.
 - If you are using tax return information, you will not be able to calculate historical

(past years') ratios that use balance sheet information. If you have prepared an annual statement of net worth for your lender, you may use this information instead of accountant-prepared balance sheets.

- If you do not have historical net worth statements, create a net worth statement for the most recent year ended December 31. This statement will allow you to calculate ratios for the most recent year. If you need help creating a net worth statement, consider meeting with a financial advisor, speaking to an Alberta Agriculture and Forestry (AAF) farm business development specialist, or using an online tool.
2. Calculate the ratios for each of the past three to five years.
 3. Look at the trend in each ratio category to determine whether performance is improving or weakening for each ratio.
 4. Compare each year's results and the overall trend to benchmarks recommended for each ratio.
 - Determine whether your farm is currently in or trending towards the caution zone for any of the ratios.
 - If yes, this may be a cause for concern and reason to pause the transition planning process to see what corrective actions can be taken. Talk to a financial advisor or your AAF farm business development specialist.
 - If your farm is currently showing or trending towards average or good performance for each ratio, it is likely well positioned to continue transition planning.



EXAMPLE:

Here is an example of what a partial Financial Performance Exercise might look like:

*The following example is based on the Case Study found at start of this Guide (pages d-j).
Once you review this example, complete similar ratios for your own farm business.*

Liquidity: the ability of a business to meet financial obligations as they come due in the ordinary course of business. Liquidity relates to cash flow and short-term risk.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Current Ratio	Current assets / Current liabilities	Can the farm meet current obligations as they come due?	> 2:1	1.5:1	< 1:1	2.7:1
Working Capital Percentage of Total Cash Expenses	(Current assets – Current liabilities) / Cash operating expenses	If current liabilities are retired as they come due, what current assets will be left (percentage of annual expense)?	> 50%	20 – 30%	< 10 %	120.1%
Debt Structure	Current debt / Total debt	What percentage of total debt is due within the next 12 months?	< 20%	25%	> 35%	41.4%

Solvency: the amount of business debt relative to the amount of owner’s capital invested in the business. Solvency relates to longer-term risk and how the business is financed.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Leverage Ratio* or Debt to Equity Ratio	Total Liabilities / Total Equity	For every \$1 in equity, how many dollars of debt are there?	< 4:1	0.65:1	> 1:1	0.65:1
Equity Ratio*	Total Equity / Total Assets	What proportion of farm assets are financed by the owners?	> 70%	50 to 70%	< 50%	60.8%
Debt Servicing	(Net income + Amortization + Interest Family Wages**) / (Annual Principal and Interest Paid)	Can the farm come up with enough income to pay the debt requirements?	> 2 : 1	1.5 : 1	< 1.1:1	3.27:1

* Industry standards based on assets at market value.

** If not already included in expenses (e.g. non-corporate farms).

Profitability: the extent to which a business is able to generate profit (income) from use of business assets. Profitability rates investment decisions based on their ability to generate net income.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Return on Assets*	Net Income plus Interest / Total Assets	What return is the farm generating as a percentage of capital assets?	> 4%	2%	< 0%	11.1%
Return on Equity*	Net Income / Owners Equity	What return is the farm generating as a percentage of equity?	> 10%	6%	< 2%	15.4%
Capital Turnover*	Gross Income / Capital Assets	How efficiently are assets (capital) being used?	> 40%	20%	< 10%	31.2%

* Industry standards based on assets at market value.

Financial Efficiency: the extent to which a business is able to use its resources (inputs) efficiently. Financial efficiency rates annual operating cost decisions on their ability to generate gross revenue.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Gross Margin	Gross Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 65%	55%	< 50%	63.0%
Contribution Margin	Contribution Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 50%	45%	<40%	45.9%
Net Profit Margin	Net Profit / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 20%	10%	<5%	21.5%
Interest Expense	Interest / Gross Revenue	How much of the gross revenue generated by the farm goes to pay interest?	<10%	15%	>20%	6.3%
Amortization Expense	Amortization / Gross Revenue	How much of the gross revenue generated by the farm goes to pay interest?	<10%	15%	>20%	5.4%

How does this apply?

Analyzing farm finances prior to beginning the transition planning process will help determine if a farm business has resources to handle intended:

- buyout, financing or payment options relating to transition;
- compensation levels;
- retirement plans and payments;
- estate and inheritance plans.

If sound financial analysis shows that your farm is financially able to proceed with transition planning, congratulations!



KEEP IN MIND:

- You may use cash or accrual accounting as the basis for calculating ratios. **Accrual accounting will provide much better information.** Decisions made based on superior information will have a better chance of having successful outcomes. ****If you do not have accrual information or are not sure, talk to an advisor.****
- As part of your analysis, you should include a market value for land and quota. You may also include a market value for equipment and buildings, but these values can be difficult to determine. Consider using an independent appraiser to determine market values.
- Five years of cash-based income statements (with no structural changes on the farm) can sometimes be a close approximation of accrual based statements. However, be careful with this assumption.



WHAT TO WATCH FOR:

- If you do not have a good set of historical (past years) financial information, you can try to create the statements. However, if you decide to do this, STOP and proceed no further as soon as you find that you have to make an assumption or estimate on a value. Decisions based on estimated financial information are very risky. When developing statements of net worth, watch to make sure that the dates are consistent. Differing dates can have significant impact on ratios as market inventory, accounts payable and accounts receivable can vary greatly throughout the year and year to year. As such, statements of net worth made based on inconsistent dates will be less accurate, decreasing their usefulness in decision making.
- All ratios tell something about the financial health of a farm. They should be analyzed individually for what they specifically measure but they should also be analyzed collectively. Think of each ratio acting like a piece of a jigsaw puzzle: taken together, the puzzle can be completed and an overall picture is clear.



EXERCISE:

Refer to the Case Study (on pages d-j at the beginning of this Guide) to see an expanded version of Sample Farms Ltd.'s financial statements and ratios. Then, calculate similar ratios for your own farm business.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area on your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 8: Management Assessment

Transition brings added operational burden and financial cost to a farm business. For transition to be successful, current managers need to make sound decisions so that the farm can meet these additional demands.

Management practices can be assessed in five key areas: marketing, production (operations), human resources, finance, business structure and environmental responsibility.

Why is this relevant?

Management practices that might be adequate in day-to-day operations may not be the best to carry a farm through transition. In fact, transition often requires some changes to a manager's management style, decision making, and / or performance. A management assessment boils down to a single key question: will the management decisions the farm manager(s) make today pave a path so retiring and succeeding generations can achieve their goals in the future?

There is no one-size-fits-all approach to ensure that the management practices in place support transition, or to adjust management practices when necessary. Ideally, the existing manager(s) will initiate and work to achieve necessary changes. It is far less ideal (and often unsuccessful) for the succeeding generation to attempt to push change onto the existing manager(s).

Help is available. An external management advisor can be invaluable in helping to assess management practices, identify appropriate resources and implement necessary change.

How will this help transition planning?

A management assessment will:

1. identify areas where existing management practices may be negatively affecting the farm business;
2. guide the development of action plans to best support a successful transition;
3. help align management decisions with longer term objectives; and
4. start a conversation between all transition participants about management practices, thereby helping everyone get 'on the same page'.

Management Assessment Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interest in the farm business should work independently to complete an assessment of management. Discuss the responses at your next Transition Planning Meeting.*

Instructions

1. Download and print copies of the *Gaining Ground Agribusiness Assessment* available from Manitoba Agriculture.
2. Individually complete the assessment. It contains approximately 100 questions and should take about 30 minutes to complete.
3. Compare and contrast each individual's answers, looking for areas of agreement and disagreement.
4. Review your assessments **from a transition planning perspective** and look for management practices that show some room for improvement.
5. Review your results with an independent consultant and / or your Alberta Agriculture and Forestry farm business management specialist.
6. Store the documents for future reference

How does this apply?

The exercise is designed to reveal the relative strengths and weaknesses in your current management practices and can help identify management areas that may require attention or change, especially given the demands of transition planning.



KEEP IN MIND:

- A management assessment should be conducted annually to keep focus on improvement and adjust practices as needed.
- No individual is naturally skilled in every area of management. This is okay!
 - Management skills can be learned and perfected.
 - Other family members (often the succeeding generation) can develop skill sets in areas that require attention.
 - Outside resources (eg: hired consultants) can provide support in areas that require attention.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.



WHAT TO WATCH FOR:

- Expect to see some areas that require attention. No one person possesses all management skill sets.
- There will be some variation in the assessments between family members who complete the assessment. This is normal. Use the different opinions as a way to start discussion about the management of your farm.
- Be aware that, unless this assessment is handled gently and tactfully, it is possible that existing managers may feel hurt or attacked, or perceive that their efforts are undervalued or unseen.
- As you compare and contrast participants' answers, note:
 - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
 - Does this exercise identify any underlying reasons for existing conflict in your operation?



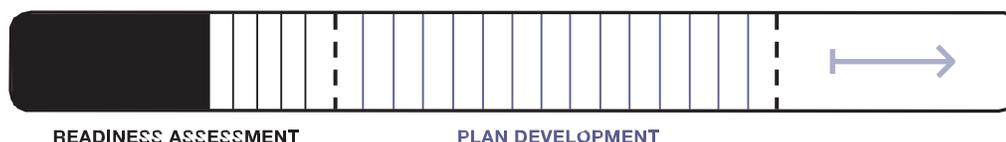
EXERCISE:

Complete the *Gaining Ground Agribusiness Assessment* available from Manitoba Agriculture.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 9: Personalities

Every person in this world is entirely unique, with a one-of-a-kind personality and set of behaviours specific to just him or her. Though this fact might seem entirely obvious, many of the biggest stumbling blocks in transition occur when one or more participants assume that another participant should think or behave in a similar way to themselves.

Different personalities can and do successfully work together to develop and implement transition plans. Patience, good communication and a willingness to work through issues are key factors necessary during transition. In addition, it can be very helpful to take time to learn about each other's personality traits and quirks and one another's default and stress behaviours.

The DISC Profile*

*Based on information from the Online DISC Profile. Personality Profile Solutions, Inc. Minneapolis, Minnesota

There are countless personality assessment tools currently available. The DISC Profile is one such tool. It's simple and non-judgmental division of personalities into four categories ('Dominant', 'Influence', 'Steady' and 'Conscientious') can help improve work productivity, reduce conflict, promote positive communication, and improve teamwork on transitioning farms.

DiSC profiles help participants involved in farm transition increase their self-knowledge of:

- how they respond to conflict;
- what motivates them;
- what causes stress for them;
- how they typically solve problems; and
- how they can adapt their own style to get along better with others.

➤ 'D' is for Dominance

You place emphasis on shaping your situation by overcoming opposition to accomplish results.

A person with a 'D' style:

- is motivated by winning, competition and success;
- prioritizes accepting challenges, taking action and achieving immediate results;
- is described as direct, demanding, forceful, strong willed, driven, and determined, fast-paced and self-confident;

- may be limited by lack of concern for others, impatience and open skepticism;
- may fear being seen as vulnerable or being taken advantage of;
- values competency, action, concrete results, personal freedom, and challenges.

Goals:

- unique accomplishments;
- new opportunities;
- control of audience;
- independence.

Needs others who:

- weigh pros and cons;
- calculate risks;
- use caution;
- study facts;
- think before deciding;
- recognize the needs of others.

When communicating with 'D' style individuals, give them the bottom line, be brief, focus your discussion, avoid making generalizations, keep from repeating yourself, and concentrate on solutions rather than problems.

➤ 'i' is for Influence

You place emphasis on shaping your situation by influencing or persuading others.

A person with an 'i' style:

- is motivated by social recognition, group activities, and relationships;
- prioritizes taking action, teamwork, and being positive and having energy;
- is described as convincing, enthusiastic, warm, trusting and optimistic;
- may be limited by being impulsive and disorganized and having lack of follow-through;
- may fear loss of influence, disapproval and being ignored;
- values freedom of expression.

Goals

- victory with flair;
- friendship and happiness;

- authority and prestige status symbols;
- popularity.

Needs others who:

- concentrate on the task;
- seek facts;
- speak directly;
- develop systematic approaches;
- prefer to deal with things instead of people;
- take a logical approach;
- demonstrate follow-through.

When communicating with the 'i' style individual, share your experiences, allow the 'i' style person time to ask questions and talk themselves, focus on the positives, avoid overloading them with details, and don't interrupt them.

➤ **'S' is for Steadiness**

You place emphasis on cooperating with others within existing circumstances to carry out the task.

A person with an 'S' Style:

- is motivated by cooperation and opportunities to help;
- prioritizes giving support, teamwork and maintaining stability;
- is described as calm, patient, predictable, deliberate, stable and consistent;
- may be limited by being indecisive and by a tendency to avoid change;
- may fear change, loss of stability and offending others;
- values loyalty, helping others and security.

Goals:

- personal accomplishments;
- group acceptance;
- power through formal roles and positions of authority;
- maintenance of status quo and controlled situations

Needs others who:

- react quickly to unexpected change
- become involved in more than one thing
- are self-promoting
- apply pressure on others
- work comfortably in an unpredictable environment
- help to prioritize work
- are flexible in work procedures

When communicating with the 'S' Style individuals, be personal and friendly, express your interest in them and what you expect from them, take time to provide clarification, be polite, and avoid being confrontational, overly aggressive or rude.

➤ **'C' is for Conscientious**

You place emphasis on working conscientiously within existing circumstances to ensure quality and accuracy.

A person with a 'C' style:

- is motivated by opportunities to gain knowledge, showing their expertise, and quality work;
- prioritizes ensuring accuracy, maintaining stability, and challenging assumptions;
- is described as careful, cautious, systematic, diplomatic, accurate and tactful;
- may be limited by being overcritical and overanalyzing;
- may fear criticism and being wrong;
- values quality and accuracy.

Goals

- unique accomplishments;
- correctness;
- stability;
- predictable accomplishments;
- personal growth.

Needs others who:

- delegate important tasks;
- make quick decisions;
- use policies only as guidelines;
- compromise with the opposition;
- state unpopular positions;
- encourage teamwork;
- initiate and facilitate discussions.

When communicating with the C style individual, focus on facts and details; minimize “pep talk” or emotional language; be patient, persistent and sensitive.

Why is this relevant?

Working and living together, particularly during farm transition, can be challenging for any group of people. Having a good understanding of the different personalities and behaviours of your farm transition ‘team’ will help to promote communication and minimize conflict.

During the transition process, it is not unusual for new participants to be added (as the succeeding generation gets married, for example). In addition, transition can sometimes initiate changes in existing relationships (when the succeeding generation becomes ‘partner’ as well as ‘child’, for example). While the addition of participants and/or changes in relationships can be very positive, they also can bring added conflict to the entire group if certain personalities or behaviours clash. In these instances, a strong understanding of each other’s personality types and excellent communication is even more vital.

Personalities Exercise

***Each person involved in your farm’s transition planning and any other stakeholders who have a vested interest in the farm business should participate in the following Personalities Exercise.*

Instructions

1. Have a discussion with all transition participants about differing personalities and behaviours. A simple discussion about personalities and behaviours may be all your group wants to complete. However, the following expanded exercise is recommended.
2. Work together through the Personalities Exercise. (Note: if doing so proves difficult, consider:
 - a. selecting one person to research and choose a resource to help your group work through the exercise. There are numerous resources available online. Contact an Alberta Agriculture and Forestry business development specialist for more information if you run into challenges.
 - b. hiring an external consultant/facilitator who has expertise in this area to help you

work through a personality assessment exercise.)

3. Each participant should identify the letter ('D', 'i', 'S', 'C') in the table that best describes his or her own personality. (Note: the exercise is based on the widely-used DiSC Profile tool outlined above. A more detailed version of this tool is available for purchase online.)
4. As a group, compare and contrast participants' responses. Discuss how this information might help all participants work together despite differing personalities.
5. Store the documents for future reference.



EXAMPLE:

Here is an example of what a finished Personalities Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 307 in the Appendix.

Personality Style	Identify which personality best reflects your style below
'D' - Dominant	Rob Sample, Carol Sample
'i' - Influence	Rebecca Sample
'S' - Steady	John Sample
'C' - Conscientious	Faye Sample

How does this apply?

Understanding different personalities and behaviours may help:

- reduce conflict;
- promote positive communication during farm transition;
- improve teamwork;
- allow a healthy environment for transition.



KEEP IN MIND:

- Consider using an external facilitator if you have trouble with this exercise, or if you are concerned about the potential for conflict that could arise from this exercise. If you opt to use an advisor, refer to the document *How to Choose and Work with an Advisor* found in the Appendix (page 358).
- Some transition participants may think this exercise is pointless and may not want to work through it. It's okay for them not to be included. They may decide to participate later after they see what others who do complete the exercise learn about themselves and others, and how the information helps.



WHAT TO WATCH FOR:

- As you compare and contrast participants' answers, note:
 - Are there major differences that could lead to conflict or create a stumbling block to completing the transition plan?
 - Does this exercise identify any underlying reasons for existing conflict in your operation?
- As you compare and contrast individuals' response, discuss:
 - how your differing personalities might be beneficial to the farm business;
 - how best to communicate with each other.

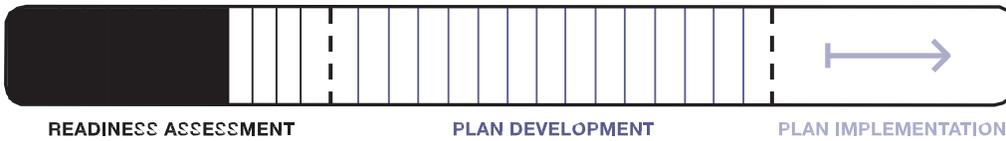


EXERCISE: Complete the Personalities Exercise on page 307 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area on your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 10: Historical Business Development

In the life of every farm business, certain events occur that could be considered monumental or business altering. Such events could include adding more acres to the business, changing a major operating strategy, altering management, welcoming a new business or management partner, etc. Understanding the factors that shape a farm business over time is fundamental to keeping it on a healthy path looking forward.

Why is this relevant?

To understand how and why a farm business is where it is today, current and future managers need to discuss and document the major events that shaped the business in the past. Ideally, managers should keep a diary or logbook so they can record major events and the circumstances that led to key decisions as they happen. In the absence of this kind of documentation, retiring and succeeding generations should work together to develop a timeline of major events that have occurred throughout the life of the business. This '20-20 hindsight' will help improve decision making should similar situations occur in the future.

How will this help transition planning?

Understanding how a business develops over time provides historical context for current and future decision makers. As the famous quote says, those who do not learn from the past are doomed to repeat its mistakes. Likewise, those who do not understand the past's motivations and successes will have real trouble building on them. Knowing how and why farm decisions were made can provide vital guidance to the succeeding generation.

Historical Business Development Exercise

*** This exercise is best completed by the retiring generation, with input from any individuals who might offer useful insight (e.g. the retiring generation's parents or other relatives, if they were involved in the farm's history and are able to contribute).*

Instructions

In the chart below, fill in as many important, pivotal or farm business-changing events as possible according to the following categories:

1. Year: enter the year that the significant event occurred.
2. Situation: briefly describe relevant details surrounding the significant event.
3. Outcome: describe what decisions were made and the shorter term result of these decisions.
4. Significance: describe how this particular event shaped the future of the farm and why its occurrence helped shape what the farm is today.

**EXAMPLE:**

Here is an example of what a partial Historical Business Development Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 308 in the Appendix.

YEAR : 2008

SITUATION: *The neighbouring farm, consisting of 1,440 acres and some outbuildings, came up for sale. We already knew the land because we'd been renting it for a few years. We knew if we didn't buy it that someone else would.*

OUTCOME: *We purchased the land and buildings for a price of \$1,400,000. We thought the asking price was steep but we decided to go ahead anyway.*

SIGNIFICANCE: *This purchase was the biggest we've made in the history of our farm.*

YEAR: 1974

SITUATION: *My (Rob's) parents were starting to think about retirement. We were ready to start farming, so we agreed to purchase 800 acres of land from my parents.*

OUTCOME: *We purchased the 800 acres for \$200,000.*

SIGNIFICANCE: *The purchase was the first farmland that we acquired. It essentially started our farm career.*

How does this apply?

Writing down a summary of the major decisions and events that have occurred over the course of your farming career might seem redundant. After all, you might argue, if someone wants to know what happened in the past, they can just come ask you, right? Wrong. Creating a recorded history of the farm can have very long term benefits. First, keep in mind that your farm may be passed down through multiple generations and will hopefully exist longer than your own lifetime. Therefore, you may not be around to provide ongoing counsel. Second, a succeeding generation may not think to ask questions about a farm's history at points in the future that specific information would be useful. In fact, once the succeeding generation takes over, they might not even appreciate significant input regarding past or best practices. Therefore, it is incredibly useful to take time in early transition to outline a detailed history of the farm business. The goal of this exercise is to have both the retiring and succeeding generations appreciate and understand how the decisions made in the past can and do affect the farm into the future.



KEEP IN MIND:

- Start by brainstorming a list of historical events in your farm's history. Fill in details once a first draft of the list is complete, since the process will likely bring to mind additional events.
- When brainstorming, start with the most current year and work backwards.
- Consider how key family events have affected the farm business (for example: a marriage may add managerial / administrative / operational capacity to a farm business; the birth of a baby may reduce these capacities).
- Significant production events (both good and bad), unusual / catastrophic weather events, major acquisitions or dispersals, and notable business accomplishments should all be included.
- Listing important events from the business's past is just the start of this exercise. Including details about why the event was significant will provide the most useful information to future generations.
Recording via audio and video is an option, but brainstorming and writing notes prior to recording is highly recommended to keep the information detailed, complete and concise.



WHAT TO WATCH FOR:

- This exercise should be completed by the retiring generation and then shared with the succeeding generation. If the retiring generation is unwilling or unable to complete the exercise, the succeeding generation should interview the retiring generation and use the information gleaned from those conversations to draft a historical summary.
- This exercise deals with past events, which may bring up sad, bad or negative memories. Be thoughtful and tread gently during discussion about difficult past events.
- Review the summary annually as past events will gain or lose significance as a farm grows or changes.



EXERCISE: Complete the Historical Business Development Exercise on page 308 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 11: Readiness Assessment Review Meeting

Congratulations: if you have completed Topics 1 through 10 of the Readiness Assessment, you have now completed the core of readiness assessment for your farm business. Hopefully, discussions among all of the transition participants (both retiring and succeeding generations) occurred frequently as you worked through Topics 1 to 9. Now the next steps are to analyze and discuss findings and make a decision on how to proceed.

Readiness Assessment Review Meeting Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interest in the farm business should work together on this Exercise.*

Instructions

1. Hold a meeting to review all Readiness Assessment findings to date, based on the agenda found on page 310 of the Appendix.



KEEP IN MIND:

- Anyone currently involved in the farm business (the retiring generation and existing managers) and anyone who may be involved in the farm business (the succeeding generation) should participate in a readiness assessment review meeting. Other people can attend as the group sees fit.



WHAT TO WATCH FOR:

- Expect that this meeting may bring about differences of opinion, disagreement and /or conflict. Consider using an external facilitator if you are concerned that conflict may arise.
- This meeting is intended to summarize rather than rehash the nine Readiness Assessment topics already completed. Set a time limit for the meeting. If the discussion lasts beyond the agreed-upon time, plan to reconvene. Emotions may fray and discussion can become unproductive in overlong meetings.



EXERCISE:

Hold a meeting to review all Readiness Assessment findings to date. A sample agenda is available on page 310 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 12: Decision Time

The effort your transition planning group has put into Topics 1 through 11 of the Readiness Assessment has hopefully resulted in extensive and accurate background information that paints a clear picture of your farm's current status, your transition's potential stumbling blocks, and your farm business's likely future. As such, the decision of whether or not to proceed with transition may be much clearer now than it was prior to the start of the Assessment Phase. Still, it can be challenging for the transitioning group to determine whether it is ready to proceed to the Plan Development Phase.

The Decision Time Exercise will help your group summarize exercises completed in Topics 1 to 11 of the Readiness Assessment Phase. This will help your group determine whether you are, in fact, ready to proceed.

Why is this relevant?

Simply put, it is now time to make a decision on whether your farm and group should proceed with developing a transition plan.

By tying the previous 11 exercises together into a summary document, a group considering transition can determine if any issues need to be addressed before proceeding with the Plan Development Phase of transition planning.

Decision Time Exercise

*** This exercise is the culmination of the Readiness Assessment Phase. All individuals who are currently or may be involved in transition and the farm business should participate in this exercise, whether or not they actively participated in the Readiness Assessment exercises in Topics 1 through 11.*

Instructions

Complete the Decision Time Exercise as a group. Use completed exercises from Topics 1 through 11 of the Readiness Assessment as references for this exercise.

1. Read the introductory question under each heading. Discuss the question as a group and attempt to agree upon a single answer. Make note of questions where agreement is not possible.
2. If conflict, disagreement or uncertainty occurs during this discussion, attempt to brainstorm a corrective action (solution) that might solve the issue (e.g. further research to answer unresolved questions; an external facilitator to work through interpersonal conflict). Then, **discuss the following question: is the conflict, disagreement or uncertainty enough of an issue that transition planning should be put on hold until the concern is settled?**

- a. If the group answers **NO**, transition planning should NOT be halted pending conflict, disagreement or uncertainty resolution, each time this question is asked, you may be ready to proceed to the Plan Development Phase of transition planning.
- b. If the group answers **YES**, transition planning SHOULD be halted pending conflict, disagreement or uncertainty resolution, one or more times the question is asked, consider putting further transition planning on hold until you determine:
 - i. what corrective action might solve the issue;
 - ii. how you will determine whether corrective action is complete and successful;
 - iii. what the timeline is for the corrective action and who will be involved in completing it; and
 - iv. when you will revisit your group's readiness to proceed.



EXAMPLE:

Here is an example of what a finished Decision Time Exercise might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 311 in the Appendix.

Goals

Do we have similar goals for the future of the farm? Do our personal and group goals align with this future? Are our goals in line with transition planning?

Comments:

A major goal for Rob and Faye is to reduce Rob's stress level. John and Rebecca agree with this goal.

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Values

Do we have similar values about how a family business should be operated? Do our personal

values complement each other's? Will opposing values create long term conflict (or conflict in the longer term) between those managing the farm?

Comments:

There are some minor differences between Rob/Faye's values and John/Rebecca's values but overall we share quite similar values.

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Retiring and Succeeding Generation Initial Thoughts

Are there core issues within our initial thoughts that need to be addressed before a transition plan can be developed? Do we need to conduct further research into one or more areas?

Comments:

There are some rather large gaps in our plan at this point. We aren't on the same page when it comes to roles/responsibilities during transition. We also need to figure out a lot of the finer details of our plan.

Corrective Action (if any):

No major corrective actions are needed. We are hoping that working through the rest of the transition plan will help us make decisions on the details that are lacking at this point.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Financial Performance

Are we satisfied that the farm's financial performance will sustain a transition plan?

Comments:

We are fully confident that our financial situation will get us through the transition plan. What the kids do after that is up to them!

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Management

Will management skills as identified through the Management Assessment Exercise enhance or hinder our ability to develop a transition plan?

Comments:

We are not overly worried about the results from this assessment. However, we will definitely be keeping our eyes on the HR area. It is clear that area could use some improvement.

Corrective Action (if any):

None needed immediately. We would like to get better in all areas.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Personalities/Behaviours Audit

Can the different personalities involved work together effectively to develop and implement a transition plan?

Comments:

Our personalities seem to be working together fairly well so far. However, learning about each other's differing needs and communication styles was useful. We will keep this information handy in case we run into future conflict.

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Historical Business Development

Are there events in our farm's history that need to be clarified? Are there lingering effects from historical events/decisions that need to be addressed?

Comments:

We actually found this exercise to be quite enjoyable. Reflecting on our farm's history and where we've taken it helped us to appreciate the importance of transitioning it successfully in the years ahead.

Corrective Action (if any):

None needed. However, we would like to write a better farm history in the near future. We would like this to be available for future generations.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.



KEEP IN MIND:

- Some differing opinion is manageable and to be expected. You are not required to have everyone in complete agreement on all topic areas. However, everyone should agree on whether corrective action is required and whether an issue is significant enough to require transition planning to be placed on hold.



WHAT TO WATCH FOR:

- People can have differing opinions on some or all of the topics. Differing opinions can be helpful if managed correctly. Try to come to consensus on each topic area.
- In a situation where there are some unresolved differences of opinion, you can proceed to plan development and watch to see if the differences become a problem. If they do, the process can be halted and corrective action taken. While carrying unresolved issues into the Plan Development Phase is not ideal, it may be manageable depending on the issue.
- Consider using an external facilitator if you are concerned about conflict during this discussion.



EXERCISE: Complete the Decision Time Exercise on page 311 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. You may now proceed to the next topic area of your Transition Plan. If this topic brought up any new 'To Do' items, don't forget to make note of them, assign them as tasks as necessary to participants in your group, and define timelines for completion.

Planning progress



Topic 13: Statement of Intent

A Statement of Intent to Proceed or Defer is designed to formalize and record a group's intent to complete or not complete a transition plan following their readiness assessment. Ideally, everyone who is or may potentially be involved in the transition will take part in creating the formal Statement of Intent. At the very least, all participants and any potential future participants should know and understand where the farm is at in the transition process.

Why is this relevant?

A Statement of Intent to Proceed outlines a group's intention to move forward with transition, creates accountability, and defines a timeline for completion. Often, families/groups that start the transition planning process give up, get stuck or encounter difficulties they cannot overcome. In the event that difficulties are encountered and planning momentum is lost, this Statement of Intent can remind participants that they are committed to this process, and can help renew confidence in completing the process.

A Statement of Intent to Defer should be completed if a family/group identifies that they are **not** ready, prepared and/or able to complete a transition plan at this time. The Statement of Intent is powerful and useful in that all participants are jointly aware that they must either fulfill corrective actions or postpone/abandon further transition planning.

A Statement of Intent to Defer should include the reason for halting the planning process and, if applicable, a date to revisit the planning process. Completing the Statement of Intent to Defer allows all participants to fully understand where the farm is at in the transition process.

Statement of Intent Exercise

*** This exercise is the culmination of the Readiness Assessment Phase. All individuals who are currently or may be involved in transition and the farm business should participate in this exercise, whether or not they actively participated in the Readiness Assessment exercises in Topics 1 through 12 or not.*

Instructions

1. Based on the results of your group's Decision Time Exercise, together decide whether you will complete a Statement of Intent to Proceed or a Statement of Intent to Defer.
2. Complete the appropriate Statement as indicated.



EXAMPLE:

Here is an example of what a finished Statement of Intent might look like:

The following example is based on the Case Study found at start of this Guide (pages d-j). Once you review this example, complete the exercise on page 315 in the Appendix.

Statement of Intent to Proceed

Sample Farms Ltd.

STATEMENT OF INTENT TO PROCEED

Rob and Faye Sample of “*Sample Farms Ltd.*” intend to proceed with developing a transition plan for the purpose of transferring farm management and ownership to John and Rebecca. “*Sample Farms Ltd.*” intends to have the plan completed and ready for implementation by the end of next April.

OR Statement of Intent to Defer

Sample Farms Ltd.

STATEMENT OF INTENT TO DEFER

Because we are not clear on everyone’s goals, the members of “*Sample Farms Ltd.*” are unable to proceed with developing a transition plan for the purpose of transferring farm management and ownership to John and Rebecca. “*Sample Farms Ltd.*” intends to readdress this issue on March 31st next year.

How does this apply?

If you filled out a Statement of Intent to Proceed, view this document as your group’s commitment to the transition planning process. Schedule meetings and complete exercises in a timely fashion to meet the stated deadline. Keep the document on file.

If you filled out a Statement of Intent to Defer, view this document as your group’s decision to halt the transition planning process. If you have halted the process because corrective actions need to be completed, schedule these actions and family meetings in a timely fashion to meet the stated deadline. Keep the document on file.



KEEP IN MIND:

- If your group completes a Statement of Intent to Defer, remember to set a date to revisit the process.



WHAT TO WATCH FOR:

- Sometimes, every indication suggests that a farm and group are ready to proceed with transition planning, yet one individual (usually one of the retiring generation) suddenly decides he or she is not prepared to proceed. It is better to learn this now than later. And remember that this individual's opinion and priorities may change: time often helps people become more comfortable with the process and reality of transition.
- Do not give up on transition if your group opts to complete a Statement of Intent to Defer. There can be many good reasons to delay transition planning and the decision does not necessarily mean your group or farm has unpleasant issues to work through. It is far better to defer transition now and complete corrective action that will make transition successful in the future, than to move forward while issues remain that could derail successful transition.
- If one or more transition participants are not willing to sign a Statement of Intent, consider whether all aspects of the Readiness Assessment were dealt with in enough detail.
- Refer back to a completed Statement of Intent to Proceed if you run into challenges such as disagreements or lack of progress as you work through the planning process.



EXERCISE: Complete a Statement of Intent. Blank copies are available on pages on page 315 of the Appendix.

Next steps

Congratulations on completing this topic.

If you filled out a Statement of Intent to Proceed, move on to Topic 1 in the Development Phase of transition planning.

If you filled out a Statement of Intent to Defer, you have completed all necessary transition planning exercises for now. Follow up on corrective actions and revisit the transition planning process by the date you indicated on the Statement of Intent to Defer.

Planning progress



Chapter 5: Recap Checklist

Complete the following checklist as you work through the Chapter 5 topics. For each topic, mark the 'Red Flag' or the 'Green Light' checkboxes that best suit your planning group's status upon completion of the topic's exercise. Red Flag marks indicate that your group may need to discuss this topic further or seek professional support.

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Topic 7: Financial Performance	<input type="checkbox"/> We were unable to collect the necessary financial information to complete this topic's exercise. <input type="checkbox"/> We have conflicting understanding of our farm business's current financial situation. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group.	<input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> As a group, we understand our farm business's current financial situation. <input type="checkbox"/> Our individual understandings of our farm business's current financial situation generally align with the entire group.		
Topic 8: Management Assessment	<input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We were unable to assess our individual management styles. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group.	<input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> We each understand our individual management styles.		
Topic 9: Personalities	<input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We were unable to assess our individual personalities / behaviours. <input type="checkbox"/> This topic resulted in significant	<input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> We now each have a better understanding of our individual personalities and behaviours, and how best to communicate with		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	unresolved conflict/disagreement within our planning group.	and support each other based on those personalities and behaviours.		
Topic 10: Historical Business Development	<input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> The succeeding generation does not have a clear overview of the key events and decisions that shaped the farm business over its history. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group.	<input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> The succeeding generation has a clear overview of the key events and decisions that shaped the farm business over its history.		
Topic 11: Readiness Assessment Review Meeting	<input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We did not successfully discuss our findings to date in the Readiness Assessment. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group.	<input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> We successfully discussed our findings to date in the Readiness Assessment. <input type="checkbox"/> We have the information we need to move on to making a decision about whether or not we should proceed with transition planning.		
Topic 12: Decision Time	<input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We have conflicting points of view regarding whether we should proceed with or defer transition planning. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group.	<input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> Our points of view regarding whether we should proceed with or defer transition planning align.		
Topic 13: Statement of Intent	<input type="checkbox"/> We were unable to complete this topic's exercise.	<input type="checkbox"/> We completed this topic's exercise.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	<input type="checkbox"/> We have conflicting points of view regarding whether we should proceed with or defer transition planning. We were unable to formulate a statement of intent. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group.	<input type="checkbox"/> Our points of view regarding whether we should proceed with or defer transition planning align. We were able to formulate a statement of intent.		

From **Topic 9, Chapter 5** (Phase 2: Readiness Assessment)

Personalities

Personality Style	PERSONALITIES - check which best reflects your Style below
'D' - Dominant	
'I' - Influence	
'S' - Steady	
'C' - Conscientious	

From **Topic 10, Chapter 5** (Phase 2: Readiness Assessment)

Historical Business Development

In the chart below, fill in as many important, pivotal or farm business-changing events as possible according to the following categories:

1. Year: enter the year that the significant event occurred.
2. Situation: briefly describe relevant details surrounding the significant event.
3. Outcome: describe what decisions were made and the shorter term result of these decisions.
4. Significance: describe how this particular event shaped the future of the farm and why its occurrence helped shape what the farm is today.

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

From **Topic 11, Chapter 5** (Phase 2: Readiness Assessment)
Readiness Assessment Review Meeting

Date:

Time:

In Attendance:

1. Administration:

- a. Select one individual to act as the Chair of the meeting. Review their function and responsibilities (for help, review the job functions outlined in Chapter 3).
- b. Select one individual to act as the Notes Recorder of this meeting.
- c. Review decorum (optional)

2. Review previous meeting notes.

3. Outline the purpose of the meeting.

- a. to review the farm's readiness for transition planning;
- b. to make a decision whether or not to proceed with transition planning; and
- c. to address other concerns as needed.

4. Review the current situation:

- a. for each participant individually;
- b. for the group/family; and
- c. for the farm.
- d. General discussion and questions.

5. Discuss transition planning specifics:

- a. Discuss whether to proceed with the transition planning process (a formal decision will occur in the next Topic).
- b. Decide whether the management team will use an advisor/consultant during the decision making process.
 - i. If so, who?
- c. Decide how communication processes will be structured throughout the transition planning process.
- d. General discussion and questions.

6. Discuss concerns and issues:

- a. General discussion and questions.

7. Create timelines:

- a. Assign responsibilities with due dates.
- b. Set a date and time for the next meeting.

8. Adjourn

From **Topic 12, Chapter 5** (Phase 2: Readiness Assessment)

Decision Time

Goals

Do we have similar goals for the future of the farm? Do our personal and group goals align with this future? Are our goals in line with transition planning?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Values

Do we have similar values about how a family business should be operated? Do our personal values complement each other's? Will opposing values create long term conflict (or conflict in the longer term) between those managing the farm?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Retiring and Succeeding Generation Initial Thoughts

Are there core issues within our initial thoughts that need to be addressed before a transition plan can be developed? Do we need to conduct further research into one or more areas?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Financial Performance

Are we satisfied that the farm's financial performance will sustain a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Management

Will management skills as identified through the Management Assessment Exercise enhance or hinder our ability to develop a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Personalities/Behaviour Audit

Can the different personalities involved work together effectively to develop and implement a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Historical Business Development

Are there events in our farm’s history that need to be clarified? Are there lingering effects from historical events/decisions that need to be addressed?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

From **Topic 13, Chapter 5** (Phase 2: Readiness Assessment)

Statement of Intent to Proceed

STATEMENT OF INTENT TO PROCEED

_____ of _____ intend to proceed with developing a transition plan for the purpose of transferring farm management and ownership to _____.

_____ intend to have the plan completed and ready for implementation by _____.

Name

Signature

Date:

From **Topic 13, Chapter 5** (Phase 2: Readiness Assessment)
Statement of Intent to Defer

STATEMENT OF INTENT TO DEFER

Because _____, the members of
_____ are unable to proceed with developing a
transition plan for the purpose of transferring farm management and ownership to
_____. _____ intend(s) to re-
address this issue on _____.

Name

Signature

Date:
