



Phase 3 – Plan Development

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Phase 3 – Plan Development

Congratulations on completing the Readiness Assessment Phase of transition planning. To get to here, your transition planning group has successfully completed a substantial amount of work. Celebrate this accomplishment!

You are now ready to begin the step-by-step planning for your farm business's transition.

The Plan Development Phase of transition is broken into three chapters and 15 topics.

Depending on which planning approach your family/group selects, you will be guided through some or all of the following Plan Development Phase topics:

Chapter 6: Foundation and Strategic Direction

Topic 14: Foundation

Challenges in Transition Planning

While countless emotional issues can crop up throughout transition planning, this topic outlines the 20 most common interpersonal challenges. Though they are often called 'soft issues', make no mistake: they can be decidedly 'hard' to solve in many cases. In fact, they can be more difficult to deal with than more concrete operational and financial issues.

Guiding Principles

The Guiding Principles Survey is designed to uncover individuals' business priorities that may affect their perspectives on the transition planning process. Understanding each other's priorities and aligning all participants' priorities where possible will make transition planning far more effective and, ultimately, more successful.

Conflict Management

Transition planning includes discussion and decisions regarding many issues about which participants may have strong opinions. It is not unusual for emotion and conflict to result. Luckily, conflict can be managed if a group proactively plans for it.

Resource Team Identification

Successful transition planning requires input from various professional advisors. Collectively, these advisors should be considered a valued and vital resource team.

Advisor Information Report

Advisors can only offer good advice, resources and solutions if they receive good and timely information about your farm business and planning process. As such, they should be included very early in the Plan Development Phase of your transition planning process.

Topic 15: Strategic Direction

Vision

While every farm business is different and each participant in every transition is unique, almost all transition plans are motivated by a similar vision: the hope that a succeeding generation will build upon what was created by the retiring generation. Defining goals for that future helps clarify participants' priorities and outline a path forward.

Situational Analysis

All farms are influenced by internal and external forces. Understanding a farm's strengths and weaknesses as well as the opportunities and threats it faces can help define both a starting place and boundaries for a transition plan.

Risk Assessment

Risk is an inherent part of farming. However, some risks are significant from a transition perspective. Identifying those risks and then determining strategies to mitigate them can prove the key difference between transition success and failure.

Critical Issues

Many, many issues need to be handled throughout transition. While the decisions around some of these may be simply a matter of preference, it is important to know which decisions are critical to the success of transition planning.

Critical Issue Action Plans

Once critical management issues have been identified, detailed action plans need to be developed to address these issues. Action plans bring accountability, helping to keep the planning and implementation process moving forward.

Financial Targets

Implementing a transition plan will affect the farm's financial performance. Setting targets for key ratios helps to identify both goals and lower limits for performance.

Topic 16: Strategic Direction Review Meeting

Regular and structured communication is critical to achieving the desired outcomes of the transition planning process.

Chapter 7: Structure

Topic 17: Transition Options

Successor Assessment

Transitioning a farm's management into the hands of the succeeding generation is one of the key goals of transition planning. Both the retiring and succeeding generations often feel more confident moving forward with transition once the succeeding generations completes a readiness assessment exercise that identifies the successor(s)'s management strengths and weaknesses.

Ownership Options

There are many options available to transfer partial or complete farm ownership from the retiring to the succeeding generation. If the retiring generation intends to transfer ownership in whole or part, the options should be explored early in the planning process, long before any final decisions are made.

Business Structure

A farm business can be structured in a variety of ways to complement its ownership structure. During transition planning, it is important that all participants understand the different structures available and how they might apply given each farm's unique situation.

Financial Performance – Transition Scenarios

Using the farm's past financial performance as a baseline and financial targets as goals, participants should measure the impact that different transition scenarios might have on a farm's financial performance.

Topic 18: Preliminary Advisor Review

After discussing the different ownership and business structures available and examining the potential impact different scenarios may have on financial performance, farm families should meet with professional advisors and start to incorporate their feedback into the developing plan.

Topic 19: Estate Plan Elements

Estate Distribution

With support from one or more professional advisors, the retiring generation should start to develop a plan for how their estate will be distributed.

Wills, Power of Attorney, Executor

Writing and updating a will and nominating an executor and power of attorney are vital planning priorities for everyone, regardless of their stage of life. As such, it is highly recommended that all participants in the planning process ensure these documents and nominations are complete. For the purposes of transition planning, completing a will and nominating a power of attorney and executor are necessary components of estate planning.

Insurance

Insurance plays an important role in certain estate plans and farm transitions. Participants in farm transition should collect as much information as possible about the advantages and disadvantages of various insurance options that relate to estate and transition planning.

Topic 20: Human Resources

Management Structure

While the transfer of a farm's management is one of the most important parts of transition planning, many farms do not create a formal transfer structure or strategy. This planning gap can lead to significant conflict and confusion. The retiring and succeeding generations should work together to create a formal transition structure that suits all participants' transfer priorities.

Management Activities

Clarifying and agreeing upon who will do what throughout and after transition can reduce stress, lessen conflict potential, and improve a farm's overall performance and profitability.

Job Descriptions

Many farms operate according to a 'if the job needs doing, do it' philosophy. As such, few farms formalize on-farm job descriptions. However, job descriptions not only help create structure during the upheaval that transition brings, they also identify the full scope of each participant's role within the farm business.

Compensation

One of the most controversial and conflict-inducing issues associated with transition is compensation. Developing a compensation plan decreases the potential for longer-term conflict as individuals' contributions to the farm business will be clearly discussed and compensation structures pre-determined.

Roles, Responsibilities and Authority

In the midst of – and often even after – transition, it can be challenging for the retiring generation to give up authority over decision-making. Identifying roles, responsibilities and authority can reduce confusion, stress and conflict, and allow leadership to transition as it needs to.

Training and Skill Set Development

Before the succeeding generation begins to take over management responsibilities for the farm, they should determine what additional personal, operational or management development they require in order to position the farm for success.

Topic 21: Agreements

Unanimous Shareholder / Partnership Agreement

Much business in agriculture gets done on the basis of a handshake. However, the reality is that farming today is big business. Formalizing a shareholder/partnership agreement minimizes disagreement and conflict, reduces stress and uncertainty, can save both dollars and relationships, and is a highly recommended component of transition planning.

Business Agreements

Most farm businesses are tied to one or more formal business agreements, such as land rental agreements or marketing agreements. These agreements, and the business relationships that go with them, must be transitioned to the successors as part of the plan implementation.

Topic 22: Deal Breaker Issues

Before starting to finalize and implement a plan, participants should step back, review the planning process completed so far, and identify any critical, unresolved issues that need to be addressed.

Topic 23: Transition Plan Review

Regular and structured communication is critical to achieving the desired outcomes of the transition planning process.

Chapter 8: Review

Topic 24: Accountant Review

Once participants feel comfortable and in agreement about their transition plan, an accountant should review the plan to identify any financial concerns participants might have overlooked.

Topic 25: Lawyer Review

Once participants feel comfortable and in agreement about their transition plan, a lawyer should review the plan to identify any legal concerns participants might have overlooked.

Topic 26: Final Plan Adjustments

Participants should review and incorporate any suggestions provided through the accountant and lawyer reviews.

Topic 27: Accountant and Lawyer Sign-off

Before the transition planning group proceeds to implementation, a lawyer and accountant should complete one final review of the plan.

Topic 28: Final Review Meeting

Phase Two: Transition Plan Development is now complete. Participants should discuss how and with whom they would like to share information regarding the transition plan's implementation.

Chapter 6: Foundation and Strategic Direction

Topic 14: Foundation

Part A: Challenges in Transition Planning

Most people enter transition planning anticipating the process will require many decisions about a farm's operations and management. As such, they are often relatively well prepared for the mental exertion of decision making. Far fewer people enter transition planning expecting the intense and often difficult emotional challenges that transition can also bring.

While countless emotional issues can crop up throughout transition planning, this topic outlines the 20 most common interpersonal challenges. Though they are often called 'soft issues', make no mistake: they can be decidedly 'hard' to solve in many cases. In fact, they can be more difficult to deal with than more concrete operational and financial issues.

Why is this relevant?

Handled poorly, issues surrounding participants' emotions and feelings can slow or even stop the transition planning process. By recognizing that 'soft' issues could become a problem at any stage in the transition planning and/or implementation process, groups can pre-plan techniques and solutions to address them.

How will this help transition planning?

Examining typical 'soft issues' that can surface during transition planning: encourages participants to:

- think about different parts of the planning process;
- consider other people's perspectives; and
- calmly and rationally think through their own responses to potential conflicts before those conflicts actually occur.

Creating space for discussion about emotional concerns can:

- open lines of communication;

- encourage early resolution to any soft issues that do surface;
- decrease the likelihood of concerns festering; and
- foster a group 'culture' of open dialogue.

Part A: Challenges in Transition Planning 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 a separate Challenges in Transition Exercise. Discuss the responses at your next Transition Planning Meeting.*

Instructions

1. Read the summaries below of 20 common transition challenges.
2. In the table following the summaries, identify which challenges are or could be a specific concern for your transitioning farm.
3. For every challenge that is identified as a current or potential concern, indicate whether that challenge:
 - a. has been dealt with;
 - b. has been resolved;
 - c. needs follow-up in order to be resolved. Identify who will address the issue and when.
4. Store the documents for future reference.

20 Key Challenges in Transition Planning

1. Lack of Awareness:

The issue:

Lack of Process Awareness: It is common in transition planning to find that some or all of the participants lack awareness of the process involved to develop and implement a transition plan. Specifically, participants may lack awareness of the component parts of the process; the time commitment required to start, work through and apply a transition plan; and/or the challenges typically encountered during the process.

Lack of Interpersonal/Lifecycle Awareness: Transition affects the lives of individual participants very differently. Someone entering a farming career will have different priorities and expectations than someone mid-career; someone in the retiring generation will have different goals and concerns than someone in the succeeding generation. Transition planning can be particularly challenging when a participant lacks awareness of how transition is likely to affect others and/or lacks awareness of how transition fits into the current lifecycle stage of others or of the farm itself. Transition planning should start at least three to five years before the desired implementation date to allow all participants significant time to work through and develop an

understanding for the process and each other's priorities and needs. In fact, in an ideal scenario, transition planning starts 20 or more years prior to transition in order to allow it to best develop in alignment with the farm and participants' lifecycles.

Tips:

Knowledge and understanding are the best antidotes to lack of awareness. Open communication among all participants is key to successful transition. In addition, seek out resources: information is available online, through Alberta Agriculture and Forestry, and via transition planning workshops and seminars. It is also highly recommended that your group talks to farmers who have already worked through or are currently working through transition planning.

2. Difficulty Getting Started:

The issue:

Countless farmers and farm families dream about the day the older generation will exit farming and pass their thriving farm business into the hands of successors. In reality, however, many families/groups find it difficult to move from casual conversation about succession to formal transition planning action. As such, the necessary planning that transition requires is often deferred or overlooked. In fact, a large percentage of families/groups talking about transition do not start investing in the planning process until an event or crisis forces them to react. Reactive planning is far more stressful and much less effective than proactive planning.

Tips:

- The simplest way to get started on transition planning is to call a meeting. One person's action can kick-start the entire process and get everyone moving in the same direction.
- Alternatively, you can begin by assigning someone the task of calling a meeting and/or facilitating the first meeting. Officially assigning tasks can help create accountability in your group.
- If calling an unassisted meeting seems overwhelming, help is available. Consider hiring an external facilitator to call the first meeting, ask the first questions, and get the group's planning started in the right direction. Depending on your preferences, your group may want to hire a consultant to walk with you through the entire transition planning process, or you may simply hire someone to get the process started.

3. Planning Drift (Procrastination):

The issue:

Transition planning is a significant amount of work. Many groups start the planning process with excitement and commitment but find it difficult to maintain their momentum. Conflict, uncertainty, and/or the reality of the energy investment required can all overwhelm participants and bring transition planning to a halt. Once derailed, work done on early stages of a transition

plan quickly loses value, since participants may forget what has been discussed and decided, and participant and/or farm circumstances may change. Unfortunately, allowing a partially completed plan to sit idle usually results in the effort invested up to that point being lost, which means participants must start their planning all over again.

Tips:

- Create accountability. Work backwards from your end goal by first agreeing on a start date for plan implementation. Then, break the required investment into manageable pieces: identify each participant's roles and responsibilities in the planning process, preschedule meetings and timelines for key decisions, and specify due dates for specific tasks.
- Invest in process facilitation. Many groups/families find being accountable to an external facilitator decreases their desire to procrastinate. For best results, preschedule facilitator meetings: the added pressure to have certain transition items discussed or decided in advance of meetings with a facilitator can keep planning on track.

4. Avoidance/Denial:

The issue:

Farm transition can be an emotional and difficult process. Often, the retiring generation's sense of self is tied to their roles on the farm. As such, some soon-to-exit farmers may prefer to entirely avoid thinking and talking about retirement, change and/or a loss of management control. A similar 'do nothing' philosophy can also plague successors who do not want to accept a future in which the retiring generation is no longer able to work on the farm. However, one need only look at the countless stories of transition planning done wrong or forced because of crisis to clearly see how avoidance and denial can damage a farm's progress and potential.

Some participants worry that transition planning is akin to writing a death certificate or issuing a layoff notice. Others worry the transfer of ownership and management responsibilities to the incoming generation will happen too quickly once they start the planning process. In reality, transition is a gradual process that, handled with care and thought, can meet all participants' priorities, goals, needs and timelines.

Tips:

- To tackle issues of avoidance and/or denial, it is best to communicate openly about issues and directly address individual and/or group fears. An open discussion about concerns can clarify issues, solve misperceptions, and soften stress. If, after attempting to create open dialogue about concerns, one or more participants continues to avoid or deny farm transition, seek help from an external facilitator.

5. Not Wanting/Not Willing to Commit:

The issue:

While some individuals avoid or deny farm transition, others accept the need for transition planning but are unwilling to commit to the process or to the end goals. The reasons for this unwillingness are often similar to those that cause avoidance/denial: the retiring generation may not want to talk about or commit to retirement, change, and/or a loss of management control; the succeeding generation may feel anxiety about the responsibility of becoming the main decision maker, or sadness about the retiring generation's exit from active farming life.

Tips:

- One way to approach this challenge is to develop a series of smaller commitments. Start by encouraging participants to commit to one meeting and one step at a time, preferably with the help of a facilitator/advisor. Listen to concerns and address them openly and directly. Build on shared priorities with the end goals firmly in mind. Once the process is moving, create a strategy to maintain planning momentum.

6. Lack of Accountability:

The issue:

Transition planning often derails because no one feels enough individual responsibility and accountability to keep the process moving forward.

Tips:

- While responsibility and accountability can be shared, it is far more likely that a transition plan will be successfully completed if at least one person accepts control of moving the process forward, and all other participants agree to support the planning momentum.
- Few people would choose the hassle of nagging their family/group to attend meetings or to complete transition planning duties. However, this is exactly what is needed to successfully see most farm transition plans to implementation.
- Keeping the planning process moving forward does not have to be just one person's responsibility (unless he or she is willing to take on that role). Another option is divide responsibility by assigning various elements of the planning process (i.e. scheduling meetings, contacting advisors, etc.) to different people.

A lack of accountability can be real or perceived. In some cases, participants may accept responsibility for a task but not follow through on completing it. In other cases, tasks may be dropped simply because no one was specifically assigned to carry them forward.

Tips:

- It is important to discuss, agree upon, and then write down who is responsible for

which tasks. Assuming that participants naturally 'know' who should do what without specifically identifying responsibilities typically results in tasks falling through the cracks. This can create frustration, resentment and conflict. At worst, it can derail planning and/or result in operational set-backs and financial costs.

- Remember that roles and responsibilities can change as the plan evolves and the business changes. As such, invest in regular discussions regarding task assignment and responsibilities.

Do not allow participants' lack of willingness to take on planning leadership and accountability to derail the planning process.

Tips:

- External consultants/advisors may be tasked with moving the process forward if no transition participants can/want to take on leadership responsibility.

7. Selfishness vs. Selflessness:

The issue:

The blending of personal (usually familial) and business priorities often makes transition planning very complicated. Whereas most business owners attempt to maximize profit when they sell their businesses, retiring farmers must balance that desire with the conflicting desire to offer the succeeding generation a strong start. Meanwhile, the succeeding generation may struggle with selflessly wanting the retiring generation to get what they deserve for the farm business, while at the same time selfishly hoping for a break on farm asset prices or payment terms. Finding balance between all participants' selfless and self-motivated priorities can be difficult to achieve.

There is a fine balance between:

- being realistic about future financial needs and wants;
- seeing the next generation get off to a good start; and
- fulfilling retirement dreams.

Tips:

- The retiring generation's needs must be considered before the needs of successors. Though this may appear unbalanced and the retiring generation may feel selfish following through on this hierarchy, keep in mind that the retiring generation does not have the luxury of time to fix a financial shortfall.

8. Estate Planning Gaps:

The issue:

Estate planning is the process of planning how your estate will be managed following your death. Specifically, estate planning includes organizing wills and legal documents, tax management strategies, estate distribution, contingencies, and other financial matters including investment, savings and insurance. If you do not intend to pass on the management of your farm business to a family member or other successor at or before your death, you likely only need an estate plan.

Transition planning is the process of planning a smooth shift in the management of your farm business, usually when one or more members of a younger generation take over a farm business from older family members. A transition plan requires a complementary estate plan.

Often, elements of an estate plan are missing.

Tips:

- As part of transition planning, ensure an estate plan is entirely completed, as an incomplete or non-existent estate plan can hugely impact a farm upon the death of one or more of the retiring generation.
- A lawyer and accountant should be consulted regularly to make sure wills and tax strategies are current and complete. Depending on the preferences and priorities of participants, it may be helpful to also consult with investment and insurance advisors.

9. Conflicting Goals, Priorities and Values:

The issue:

It is natural and common for there to be differences between the goals, priorities and values of the retiring and succeeding generations, simply due to their respective stages in life. From a business perspective, the retiring generation will often be more focused on conserving equity, minimizing risk and securing funds for retirement. The succeeding generation, on the other hand, will often be more focused on growth, which may include borrowing money, taking on risk, and finding ways to increase the farm's cash flow.

Tips:

- Differences in goals, priorities and values need to be openly communicated between all participants and managed in the transition plan. Until each person's desires are raised, it can be difficult or impossible to determine what differences exist between participants, and incredibly challenging to come up with strategies to deal with these differences.

10. Fears:

The issue:

It is entirely normal for many and varied fears to come to light during the transition planning process. Some of the most common fears surrounding transition are related to control (i.e. the uncertainty of giving up or taking over managerial control of the farm business), wealth (i.e. the potential of carefully earned equity being eroded by successors), and conflict (i.e. the possibility of transition negatively affecting personal relationships).

Tips:

- Addressing fears requires acknowledging that they exist, communicating to others that they exist, and then developing tactics to mitigate them. Implementing a transition plan without first properly addressing all participants' fears may prove a recipe for disaster.

11. Fair is Not the Same as Equal:

The issue:

When considering estate planning and distribution, ownership and management transfer, and the division of labour, keep in mind that equal and fair do not mean the same thing. Whereas fair translates to equitable, equal means 'the same', an almost impossible ideal during farm transition. The retiring generation can derail transition if they become stuck on trying to treat all of their successors equally.

Tips:

- Ideally, each family/group should work to find a balance between fair and equal that is acceptable to all stakeholders. That said, for the purposes of transition and estate planning, 'fair' need only make sense to the retiring generation. As owners of a business they've built over time and shouldered all risks for, they have full control over deciding what they would like to do with it at their retirement and/or death.

12. On-Farm Versus Non-Farm Successors:

The issue:

The reality for most families working towards farm transition is that at least one of the retiring generation's children will not be directly involved in the farm business. The challenge of on-farm and non-farm successors outlined here is not about how they will be treated in the final transition plan but how they will be involved in the actual planning process. Some families want all successors at all meetings while others keep non-farming successors advised as the retiring generation deems necessary.

Tips:

- Regardless of whether non-farming successors will be actively involved in transition planning or not, maintain open lines of communication. Regular and open conversation allows non-farming successors the opportunity to voice concerns and

opinions. Further, it can help solve misperceptions that exist or could develop regarding 'special treatment' and the retiring generation's relationship with the on-farm successors.

- During the planning process, many personal and financial issues will come to light. Both the retiring and succeeding generations' individual privacy wishes need to be respected. This may mean that non-farming successors may not actively participate in certain or all aspects of the planning process.

It is possible that certain non-farming successors may refuse to participate in the transition planning process. There can be many reasons for a successor to opt out of transition planning, ranging from immaturity to geographic distance to a general lack of interest.

Tips:

- Participation cannot be forced. In situations where a successor does not want to participate, it is strongly recommended that the active participants continue to attempt to include them in the process wherever possible by inviting them to meetings, providing them with meeting notes and transition related information, and keeping them informed of decisions. If ongoing attempts have been made to include a non-participating successor, he or she cannot later declare that they weren't given a chance to participate.

13. Entitlement:

The issue:

Feelings of entitlement are common in transition planning. Successors who have been working on the farm prior to transition planning will often believe they deserve a greater share of the farm and the retiring generation's estate than successors who lived and worked elsewhere. Yet, successors who have not worked on the farm may feel entitled to an equal share through birthright. Meanwhile, the retiring generation may feel entitled to spend the equity that they have earned as they please. These feelings must be acknowledged, balanced and incorporated into the transition plan.

Tips:

- A first step to tackle entitlement issues is to openly discuss each individual's goals and values. Shared goals and values set a strong foundation for a transition plan's development and implementation. Working together towards compromise in areas where goals and values diverge can help minimize tension and conflict in the short and longer terms.

14. Successor Training and Skill Development Requirements:

The issue:

Given the size of most farms today, their increasingly high-tech nature, and the high cost of

land, equipment and inputs, farming now requires higher level agronomic skill, more technological know-how, and a sharper business mind than ever before. Ensuring that the succeeding generation has the necessary skills to take on all areas of a farm's management must be a top priority. Tackling this issue can be tricky because some successors may feel personally attacked/hurt if their management skill deficiencies are pointed out.

Tips:

- Management skills are almost always learned rather than natural. As such, someone entering farm management will generally require operational, financial, leadership and business management training before they are ready to take over the business.
- Many excellent farm management training programs exist: talk to your Alberta Agriculture and Forestry farm business management specialist for more information.

15. The Challenge of Compensation:

The issue:

Because most farm businesses have few staff, individuals usually wear many hats: the owners and managers are often also the labourers, the administrators, the marketers, etc. As such, it can be very difficult to determine appropriate compensation in the form of wages, dividends, bonuses, personal loans, and ownership and equity gains in land. Add to that the fact that farming is a lifestyle rather than just a job, that succession is often in-family, and that compensation often includes gifts (housing, school, vehicles,) training, perks (vehicles, vacations, trips, business/personal expenses), and/or inheritance, and calculating appropriate compensation becomes even more difficult. Finding a balance between these forms of compensation can be challenging and can create conflict during transition planning.

Tips:

- A formal compensation plan outlines exactly how money will flow out to participants (retiring and succeeding generations) and under what terms, including performance expectations.

16. Communication Gaps/Problems:

The issue:

Open and frequent communication is a vital part of helping the transition planning process flow smoothly. Within the planning group, open communication allows participants to provide feedback and input throughout the planning process, and creates space for conflict resolution. Open communication's necessity extends to advisors as well: advisors will only be able to provide relevant and timely advice if they are kept abreast of discussions and potential decisions. Unfortunately, not all transition planning groups find open communication easy. Because planning groups are often made up of family members or others who know each other well, long term habits can shape how the group communicates: if one member has always been

the dominant 'head of the family', for example, changing that pattern during transition planning can be challenging.

Tips:

- Conduct meetings according to an agenda, take notes and circulate them to everyone in attendance and others as necessary.
- Ensure all stakeholders are informed about transition planning progress.
- Create opportunities for all participants to provide input.

17. Management Conflict:

The issue:

Transitioning the management of a farm is one of the most important aspects of transition planning. It can also be one of the most challenging, since the successor's management style and management priorities will be somewhat different than those of the retiring generation.

Tips:

Include all participants in a discussion and try to agree on:

- whether the farm should operate according to a business-first or family-first approach;
- ways to connect financial performance and human resource management;
- investment objectives and priorities; and
- strategic direction, planning priorities, and ownership guidelines.

18. Tax Planning Challenges:

The issue:

Transition planning's tax implications are complex and should be considered with the help of a professional advisor. Tax implications can be very costly if ignored. That said, it is important not to let tax implications drive transition as doing so can create a plan that is hard to understand, difficult to implement and impossible to work within.

Tips:

- Work closely with your accountant regarding the tax implications of your transition plan.

19. Risk:

The issue:

Risk is a reality in agriculture. It can take many forms, from market fluctuations to weather

challenges to safety concerns and more. Mitigating risk must be a key priority for management.

Tips:

- Wherever possible, risks should be proactively identified and their probability and potential impact measured.
- Mitigation plans should be developed for potentially significant risks (high probability and high impact).

Transition planning participants will have different personal tolerances for risk. Usually, as people age, their tolerance for risk decreases. This means that it is common for there to be differences of opinion between the retiring and succeeding generations when it comes to decisions that include elements of risk.

Tips:

- A good understanding of risk and personal risk tolerance may help minimize conflict. Each participant should work through an exercise that helps them to gauge their personal risk tolerance.
- The transition planning group should then discuss their individual risk tolerances, identifying where differences exist and talking about how these differences may influence transition plan development and related management decisions.

Certain risks may significantly impact transition planning and should be specifically considered.

Tips:

- The 'Five Ds' (death, divorce, disability, dispute and disaster) should be discussed and, if and where possible, contingency plans formed.

20. Process facilitation:

The issue:

All transitioning farms face issues, disagreement and conflict. Some challenges are best addressed and managed through a facilitated process in which a trained, unbiased professional helps the group discuss issues they find difficult to tackle on their own. The right facilitator can help your group negotiate emotions, conflict, financial and legal matters.

Tips:

- What are the traits your group needs in a facilitator? Do you need a mediator? A financial expert? A motivator? Look for a professional who will meet your group's specific requirements. For more information, see the Advisors document on page 358 of the Appendix.



EXAMPLE:

Here is an example of what a completed Challenges in Transition Planning 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 317 in the Appendix.

Challenges	Applicable / Not Applicable	Reviewed?	Resolved?	Follow-up Required?	Follow-up by Whom? When?
1. Lack of Awareness	<i>Not Applicable</i>				
2. Difficulty Getting Started	<i>Applicable</i>	<i>No</i>	<i>No</i>	<i>Yes</i>	<i>Rob, Faye, John. ASAP</i>
3. Planning Drift (Procrastination)	<i>Applicable</i>	<i>Yes</i>	<i>Yes</i>	<i>Maybe</i>	<i>All. Ongoing monitoring</i>
4. Avoidance/Denial	<i>Applicable</i>	<i>No</i>	<i>No</i>	<i>Yes</i>	<i>Rob, Faye ASAP</i>
5. Not Wanting/Not Willing to Commit	<i>Not Applicable</i>				
6. Lack of Accountability	<i>Not Applicable</i>				
7. Selfishness vs. Selflessness	<i>Not Applicable</i>				
8. Estate Plan Gaps	<i>Applicable</i>	<i>No</i>	<i>No</i>	<i>Yes</i>	<i>Rob, Faye Within one year.</i>
9. Conflicting Goals, Priorities and Values	<i>Applicable</i>	<i>Yes</i>	<i>Yes</i>	<i>Maybe</i>	<i>All. Ongoing monitoring</i>
10. Fears	<i>Applicable</i>	<i>No</i>	<i>No</i>	<i>Yes</i>	<i>Rob, Faye, John, Rebecca ASAP</i>
11. Fair is Not the Same as Equal	<i>Not Applicable</i>				
12. On-Farm Versus Non-Farm Successors	<i>Applicable</i>	<i>Yes</i>	<i>N/A</i>	<i>No</i>	
13. Entitlement	<i>Not Applicable</i>				
14. Successor Training and Skill Development Requirements	<i>Applicable</i>	<i>Yes</i>	<i>No</i>	<i>Yes</i>	<i>Rob, Faye, John Ongoing.</i>

15. The Challenge of Compensation	<i>Applicable</i>	<i>Yes</i>	<i>Yes</i>	<i>No</i>	
16. Communication Gaps/Problems	<i>Applicable</i>	<i>Yes</i>	<i>No</i>	<i>Yes</i>	<i>All parties Ongoing/ASAP</i>
17 Management Conflict	<i>Applicable</i>	<i>No</i>	<i>No</i>	<i>Yes</i>	<i>Rob, Faye, John, Rebecca</i>
18. Tax Planning Challenges	<i>Applicable</i>	<i>No</i>	<i>No</i>	<i>Yes</i>	<i>Rob, Faye ASAP</i>
19. Risk	<i>Not Applicable</i>				
20. Process Facilitation	<i>Not Applicable</i>				

How does this apply?

As you work through these topics, your group will identify issues that require follow-up. Staying on top of these tasks and ensuring they get completed is key to a successful transition. When your group identifies issues that require follow-up, it is recommended that you add the task to a master list of follow-up items, and then write a specific action plan for the item. The action plan should:

- clearly identify who should follow-up on the issue and by when;
- list specific steps required to adequately tackle the challenge, including a time line to each of these steps;
- list any specific materials or resources that will be needed to complete the follow-up;
- list how often the action items should be monitored, and who will be responsible for monitoring;
- identify how your group will be able to assess whether progress is being made.

Addressing the challenges in transition planning that apply to your group and farm and then developing specific follow-up plans to address them is a huge step towards successfully completing farm transition.



KEEP IN MIND:

- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about conflict that may come from discussing one or more of the challenges.
- Consider using an external facilitator if you find it difficult to lead a discussion about some or all of the challenges.



WHAT TO WATCH FOR:

- Not all challenges will be encountered by all farm families.
- The challenges identified are common to farm transition but may not appear all at the same time. Refer to this topic during planning and implementation to see how the challenges are being managed.
- Identify someone as responsible for keeping this exercise's checklist current throughout transition planning and for making sure action items and monitoring are completed as necessary.



EXERCISE: Complete the Challenges in Transition Planning Exercise on page 317 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.

Part B: Guiding Principles

The Guiding Principles Survey is designed to uncover individuals' business priorities that may affect their perspectives on the transition planning process. Understanding each other's priorities and aligning all participants' priorities where possible will make transition planning far more effective and, ultimately, more successful. Guiding principles can be broken into three major categories:

a. *Major Concerns:*

A listing of each participant's key priorities and major 'red flags' as they look forward towards transition. These concerns may change as the group works through transition. Open communication can often mitigate some major concerns.

b. *Planning Objectives:*

A listing of each participant's priorities surrounding transition planning (the 'who, what, when, where and how' of transition).

c. *Strategic Goals:*

A listing of longer term goals for the business that define what each participant wants to accomplish and how they want the operation to look in the future.

Why is this relevant?

The Guiding Principles Survey builds on the Goals exercise (Chapter 4, Topic 1) completed in the Readiness Assessment Phase. By helping each participant outline their major concerns, planning objectives and strategic objectives for the farm, the survey encourages individuals and the group to think through priorities for both the farm and the transition planning process. The resulting discussion can help identify where group members' priorities align and conflict regarding the future of the farm. For the best chance of transition planning success, differences of opinion should be addressed now, before the group proceeds further with plan development.

How will this help in transition planning?

The Guiding Principles exercise:

- helps to promote communication and discussion about priorities, concerns and goals related to transition planning;
- helps to ensure all participants are on the same page; and
- helps to decrease the likelihood of conflict.

Ag Planner IV. Don Jonovic. Family Business Management Services, Inc. Cleveland, Ohio

Guiding Principles 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 a separate Guiding Principles worksheet. Discuss the responses at your next Transition Planning Meeting.*

Instructions - Major Concerns

1. Individually read each of the 15 Major Concern statements listed. As you read each statement, consider whether you are worried that the issue is currently or could become a problem for your group and/or business in the foreseeable future.
2. Rate the issue on the numbered scale: the more concerned you are about it, the higher the number you should circle.
 - If you are confident the item is not of concern for your group and/or farm, circle a number close to 0.
3. If you are not particularly concerned about an item but believe there is some possibility that it could be or become a problem, rate the item in the 'somewhat concerned' range between 3 and 6. As a group, compare and contrast participants' answers, looking for areas of agreement and disagreement.
 - Discuss areas of alignment and conflict.
4. Store the documents for future reference.

Instructions – Planning Objectives

1. Individually read each of the 15 Planning Objective statements listed. As you read each statement, consider how important it is to you that your group/business take on that particular challenge.
2. Rate the issue on the numbered scale: the more important you think it is, the higher the number you should circle.
 - If you are confident the item is not likely to be important to your group and/or farm, circle a number close to 0.
 - If you are not sure whether the item is important to your group and/or business, rate the item in the 'somewhat important' range between 3 and 6.
3. As a group, compare and contrast participants' answers, looking for areas of agreement and disagreement.
 1. Discuss areas of alignment and conflict.
4. Store the documents for future reference.

Instructions – Strategic Objectives

1. Individually read each of the seven Strategic Objective statements listed. As you

read each statement pair, consider which of the two opposing goals or standards on each line is more important to you, and by how much.

2. Mark the number (one number only) on the line that you feel represents the best answer.
 - Try to avoid selecting 0, which means you are truly undecided about relative importance. Think more deeply. If you are truly undecided, it may be best to follow your first inclination.
3. As a group, compare and contrast participants' answers, looking for areas of agreement and disagreement.
 - Discuss areas of alignment and conflict.
4. Store the documents for future reference.

How does this apply?

While all transition planning participants may share excellent intentions and commitment regarding a farm's transition, differences in individuals' guiding principles can derail the process and the success of the ultimate plan.

These differences must be reconciled during the planning process and within the transition plan. The only effective way to reconcile conflicting principles is to communicate very openly, working towards agreement and consensus.

Keep in mind that there are often natural differences in priorities between the retiring and succeeding generations due to their respective stages in life. The retiring generation is typically more concerned with preservation of their wealth (equity) and keeping to known paths of success. In comparison, the succeeding generation may be more inclined to take on risk and try new methods or business practices. Understanding how stage of life impacts priorities can help participants be open to others' perspectives.

Note: You will refer back to this exercise in the Risk Management and Critical Issues topics ahead.



KEEP IN MIND:

- There are no right or wrong answers in this exercise.
- Everyone who is actively involved in the business now and anyone who will be actively involved in the business in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.
- Differences of opinion can sometimes simply be a different interpretation of the statement.
- Try to build on agreement.
- Not all of the statements will be relevant to all farm families.



WHAT TO WATCH FOR:

- Be open minded: there is as much to learn from areas where participants agree as there is from areas where they disagree.
- As you compare and contrast all participants' answers, note any major differences or similarities:
 - Are there major differences that could impede the transition process?
 - In what ways might you capitalize on similarities for the success of the farm?
- If you find that there are major differences of opinion, try to find common ground.
 - With effort, the differences of opinion may be resolvable. Consider using a facilitator or advisor to assist in working through the differences of opinion if the differences are severe.
 - Differences of opinion sometimes cannot be resolved. Depending on the specific difference and the group/farm, this may or may not be a problem. Sometimes it is best to wait to see if and how these differences arise later in transition planning process, and agree to deal openly with them then.



EXERCISE:

Complete the Guiding Principles exercise on page 318 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.

Part C: Conflict Management

Transition planning brings change, decisions, and intensive discussion: all prime opportunities for conflict to arise among planning participants. While conflict can be uncomfortable, remember that it is a normal part of human interaction. With effort, most conflict can be managed.

Why is this relevant?

Managed positively, conflict can actually be beneficial to the planning process, opening doors to better, deeper conversation; encouraging participants to consider other people's perspectives, and moving groups towards compromise. Managed incorrectly, however, conflict can derail the entire transition planning process.

Transition planning typically occurs within a family or other group of closely-tied people. When conflict occurs among people who know each other well, the conflict may involve much more than the surface dispute. Because the people involved bring with them a history of expectations, assumptions and old hurts, getting to the deeper issue may be key to transition planning success.

How will this help transition planning?

- Having all planning participants read about and discuss conflict management may help avoid conflict.
- Working through conflict in a constructive and proactive way can be a positive experience for individuals and the entire planning group.
- Working effectively through conflict can bring energy and confidence to the transition planning process.

Conflict Management 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 to read through and discuss the Conflict Management resources provided on page 321 of the Appendix.*

Instructions

1. Individually or as a group, read the information on conflict management provided on page 321 of the Appendix.
2. As a group, discuss your individual and group's:
 - a. sources of conflict;
 - b. conflict management styles; and
 - c. strategies to find win-win solutions.
3. Discuss how your group should proceed if conflict currently is or becomes an issue.
4. Discuss when and how your group might use an external facilitator to assist:
 - a. if group members are concerned about issues that have the potential to turn into conflict; and
 - b. if conflict actually occurs.

How does this apply?

As your group continues to work through the transition planning process:

- Be aware what issues may cause conflict within your group/farm business.
- Be aware of your individual conflict management style and how this style can positively affect or hinder resolution of conflict.
- When your group encounters conflict, refer to and apply the strategies to find win-win solutions as outlined on page 321 of the Appendix.



KEEP IN MIND:

- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.



WHAT TO WATCH FOR:

- Conflict can be a positive experience when it leads to more creative solutions, deeper discussion, better engagement, and/or stronger group bonds.
- Conflict sometimes remains unresolved. There is no perfect solution to deal with unresolved conflict. However, open communications and a commitment to rediscussing the issue at a later date is always better than sweeping the unresolved conflict under the carpet.



EXERCISE:

Review the Conflict Management resources on pages 321 of the Appendix.
Discuss as a group.

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.

Part D: Resource Team Identification

Throughout the transition planning process, various professional advisors should be consulted regarding transition planning decisions and options, where the farm business's finances currently stand, and the business's future potential. These professional advisors should be considered a highly valued resource team, vital to your farm's transition planning success.

Why is this relevant?

The Resource Team Identification Template is intended to provide an at-a-glance summary of your farm business's resource team.

How will this help transition planning?

Organization is key to effective transition planning. Creating a listing of your resource team and then maintaining easy access to this list will keep your professional help top of mind and will make leveraging their valuable input more likely.

Resource Team Identification Exercise

***Key individuals involved in your farm's transition planning can take the lead on this exercise, with input from any other participants and, if desired, other stakeholders who have a vested interest in the farm business.*

Instructions

The Resource Team Identification Chart (page 324 of the Appendix) outlines nine key areas in which most transitioning farms require external support.

1. In each area's corresponding row, fill in the name and contact information of your farm business's current advisor.
2. List any comments that may be pertinent to the advisor's ongoing involvement in the transition plan, including:
 - a. length of time they have been involved with the farm business and/or your group's transition planning;
 - b. frequency of meetings;
 - c. information on where to find notes from advisor meetings; and
 - d. other comments, as necessary.
3. Post/store the Resource Team Identification Chart in a common location accessible to all group members.
4. Consider sending a copy of your Resource Team Identification Chart to each advisor so they know who else is on your resource team.
5. Update the Resource Team Identification Chart annually or as changes occur.
6. Store the documents for future reference.

How does this apply?

A completed Resource Team Identification Chart provides all transition planning participant's easy access to your farm business's professional advisors. In addition, this chart will be necessary in future transition planning steps, including the Advisor Information Report (Topic 14 Part E) and the Advisor Review topics (Topics 24 to 27).



KEEP IN MIND:

- Your group may have more than one advisor per resource area.
- Your group may want to add additional resource areas.
- If your group needs to choose one or more new advisors, refer to page 358 in the Appendix for more information about how to choose and work with an advisor.



WHAT TO WATCH FOR:

- Highlight any resource areas noted in the Resource Team Identification Chart for which your group does not yet have an advisor. Discuss as a group whether an advisor is necessary in this area. Remember that dollars spent on professional advisors are usually very well spent, given that the costs associated with financial, operational and/or management errors can be very significant.



EXERCISE:

Complete the Resource Team Identification Exercise on page 257.

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.

Part E: Advisor Information Report

The purpose of the Advisor Information Report is to begin a conversation with your advisors regarding your preliminary plans for the farm transition. An Advisor Information Report is optional. If your group already has regular contact with your advisors regarding the progress of your plan, this kind of formal report may be unnecessary. The report is designed to provide an at-a-glance overview of your group's efforts, decisions and planning progress to keep advisors up-to-date.

A completed Advisor Information Report should include the following sections:

1. advisor(s);
2. family members involved (now and in the future, as applicable);
3. plan development completion date;

4. summary of your planning group's initial thoughts regarding your farm business's transition plan; and
5. other relevant information.

Why is this relevant?

Professional advisors should be included very early in and then frequently throughout the planning process. Creating a formal overview report of your planning process promotes communication with your advisors and is a simple and efficient way to ensure they have the information they need to provide timely, relevant, accurate advice.

How will this help transition planning?

Seeking advisor input as soon as possible when starting on preliminary stages of transition planning will:

- allow the advisor to provide feedback and influence direction now, while changes are easiest to make;
- allow your group time to prepare information required by each advisor, and then to make adjustments to the information and/or answer advisors' questions as required;
- establish or improve communication with your advisors so they feel invested in the overall process;
- reflect positively on your group's management abilities; and
- provide your group with information necessary to build the most effective and informed transition plan possible.

Advisor Information Report Exercise

***Key individuals involved in your farm's transition planning can take the lead on this exercise with input from any other participants and, if desired, other stakeholders who have a vested interest in the farm business. Before submitting the Advisor Information Report to your advisors, all planning participants should review and provide input on the report.*

Instructions

Fill out the applicable sections of the Advisor Information Report (page 325 of the Appendix) with the following information:

1. Advisors: list advisors in all areas that are helping your group complete a transition plan. Refer to your Resource Team Information Chart.
2. Group Members Involved: list the family/group members that are directly or indirectly involved in your farm business's transition plan, and what level of participation or contact they will have in developing the plan.

3. Plan Completion Date: indicate the date your group plans to have the transition plan completed and ready to implement.
4. Summary of Transition Plan to Date: describe your progress to date, including any major discussions or decisions, any priorities and goals, etc.
5. Other Relevant Information: detail any additional thoughts or explanations that may help the advisor best understand your group, your transition process to date, and/or your farm business.
 - a. Make sure each advisor receives a preliminary copy of your group's Advisor Information Report.
6. Provide updated Advisor Information Reports to your advisors as necessary throughout the planning process when major changes/decisions occur. Store the document for future reference.



EXAMPLE:

Here is an example of what a partial Advisor Information Report 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 325 in the Appendix.

Advisors

Resource Area	Name	Firm	Contact Information
Accounting	John Money	Money & Money	John.money@moneymoney.com (555)555-5555
Tax	John Money	Money & Money	John.money@moneymoney.com (555)555-5555
Legal	Andy Will	Will & Company	Andy.will@willandco.com (555)555-5556

Family Members Involved

Name	Relationship	Direct/ Indirect Involvement	Contact Information
Rob Sample	Current owner of Sample Farms; husband to Faye.	Direct	Rsample@samplefarm.com Cell: (555)555-1111 Home: (555)555-1234
Faye Sample	Current owner of Sample Farms; wife to Rob.	Direct	Fsample@samplefarm.com Cell: (555)555-2222 Home: (555)555-1234
John Sample	Primary management successor of Sample Farms; son to Rob and Faye.	Direct	Jsample@samplefarm.com Cell: (555)555-3333 Home: (555)555-4321
Rebecca Sample	Daughter-in-law of Rob and Faye; wife of John.	Direct	Rsample@samplefarm.com Cell: (555)555-4444 Home: (555)555-4321
Carol Sample	Daughter of Rob and Faye.	Indirect	Csample@otherjob.com Cell: (555)555-5555 Home: (555)555-5678
Brad	Carol's partner	Indirect	Brad@otherjob.com Cell: (555)555-6666 Home: (555)555-5678

Transition Plan Completion Date: [Date: April 20xx](#)

Summary of Transition Plan to Date:

We have:

- Established individual and business goals.
- Identified individual and business values.
- Worked through an initial discussion of Rob and Faye's retirement needs.
- Written down John and Rebecca's initial thoughts on becoming involved in the business.
- Reviewed our financial information and looked at our management style and structure.
- Decided to go ahead with developing a transition plan.

Other Relevant Information:

We have some additional work to do:

- We're not sure about our tax situation.
- We've not had much chance to talk to Carol and Brad.
- We think we should be talking to someone about life insurance.

How does this apply?

Once completed, present your Advisory Information Report to any advisors you would like to keep informed of your transition plan progress. Be prepared to answer questions about your group's progress. Ensure you identify a contact person so advisors can easily request clarification and additional information.



KEEP IN MIND:

- The Summary of Transition Plan to Date (point #4) should simply be a short overview of the most important points you wish to highlight. Additional information can be provided to the advisor(s) as necessary later.
- Other Relevant Information (point #5) could include key questions that you want to keep top of mind.
- Before submitting the Advisor Information Report to your advisors, all planning participants should review and provide input on the report.
- Some advisors require confidentiality agreements to be agreed upon and upheld for the protection of the advisor and/or the client. Confidentiality may require that some details of your client-advisor relationship be excluded from this report.
- As your transition planning process progresses, update your Advisor Information Report and forward to each advisor to keep everyone up-to-date.

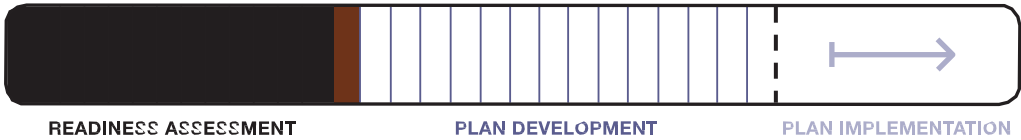
EXERCISE:

Complete the Advisor Information Report on page 325 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 15: Strategic Direction

Part A: Vision

Your farm business's vision is a description of what you would like the business to become and accomplish in the mid and long-term future. A vision statement acts as a guide to help farm business managers/owners choose current and future courses of action.

Specifically, vision helps a farm business to:

- define what it hopes to achieve and what its purpose is;
- define who will play what roles within it;
- create energy and momentum;
- keep all players working together in the same direction;
- provide everyone involved with an understanding of why they are investing their effort in the business.

A vision statement should include:

- A short summary of the values/priorities that form the heart of the farm business; (i.e. What is important to the farm business?)
- A description of the business's future when it achieves its goals; (i.e. Where is the business going?)
- Recognition of how the farm business serves its stakeholders. (i.e. What does the business do?)

Why is this relevant?

A vision describes a farm business's overarching purpose and goals for the future. In order to know if your business is on track, it is incredibly important to know *why* you are in business and *where* your business is going in order to measure direction and progress.

As a farm business begins to implement its finished transition plan, it can be challenging to know if the changes being put into action are moving the business in a positive or negative direction. Referring to a vision statement can offer clear insight into whether the business is on track or becoming misdirected.

How will this aid in transition planning?

The Vision Exercise:

- challenges groups working towards transition to think specifically and creatively about the farm business's future;
- identifies the farm business's direction and purpose;

- promotes communication between group members;
- encourages participants to be open to different ideas and suggestions;
- can help individuals/the entire group recognize a need for directional change if the business is off track/coasting/selecting the path of least resistance rather than a chosen direction;
- promotes a common interest and commitment to the business; and
- builds corporate 'culture' (the 'personality' of the business, as defined by its priorities, commitments, and goals).

Vision Exercise

*** Each person involved in your farm's transition planning and any other stakeholders who have a vested interest in the farm business should brainstorm independently to start the Vision Exercise, and then work together through steps #4-9.*

Instructions

Refer to page 327 in the Appendix.

1. As goals and values are closely tied to vision, review the Goals and Values Exercises (Topics 1-3 in the Readiness Assessment) completed earlier.
2. Individually write down initial thoughts about the farm business's vision. The thoughts do not have to be in sentence or paragraph form. Single words or phrases are absolutely fine. Answer:
 - What values/priorities are important/define the farm business?
 - Where is the farm business going? What are its goals?
 - What does the farm business do? How does the farm business serve its stakeholders?
3. If your group experiences difficulty describing vision, imagine that you are hovering in a helicopter 3,000 feet over your farm, five years in the future:
 - What does the farm look like?
 - How has it changed?
 - What has happened in the industry and how has the farm business responded?
 - Who is now working on the farm? What are they doing?
 - What business is being conducted? Is the business different than it was during the transition planning process?
 - What are the neighbours likely seeing and thinking when they look over at your farm?

- How is the community likely to view your business?
4. Discuss all participants' responses. Look for areas of agreement and conflict; talk about what descriptors best define the farm business.
 5. Begin to condense and refine the responses into a single statement that all participants agree to. Ideally, the statement should consist of two or three phrases. At maximum, a vision statement can be two to three paragraphs.
 6. Set the exercise aside for a few days so participants can reflect individually.
 7. Reconvene to review and edit the vision further.
 8. Store the documents for future reference.
 9. Review and edit the farm business's vision at least annually.



EXAMPLE:

Here is an example of what a Vision 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 327 in the Appendix.

Sample Farms Ltd. Vision

Sample Farms Ltd. is a progressive grain farm that values the personal needs of our owners, managers, employees and their families. We strive to provide a work/life balance that motivates our people to achieve their highest performance. We operate with modern equipment and employ proven technologies. We are profitable and ready to take calculated risks that will not jeopardize our financial security.

How does this apply?

The goal of the Vision Exercise is to create a statement that all participants agree captures the heart and goals of the farm business. It can be very challenging to summarize a farm business's multiple priorities, its direction and its unique 'essence' into short, written form. Keep in mind that your farm business will not be unchangeably tied to the vision written in this exercise. Vision often takes time to define, and can change and evolve over time. Therefore, consider this exercise an ongoing work in progress that should be re-discussed throughout and



KEEP IN MIND:

- There are no right or wrong answers to the brainstorming component of this exercise. However, working to consensus in the second part of the exercise is very important so everyone strives towards a similar idea of the business's future.
- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion, or if working towards consensus proves too difficult.
- Your farm business's Vision Statement should be communicated both internally (to managers, owners, and staff inside the business) and externally (to advisors, key stakeholders, and customers). Think about placing your vision statement on a plaque and displaying it in a prominent place in your office or home.
- Your farm business's Vision Statement should be reviewed at least **annually**.

after the transition planning process.



WHAT TO WATCH FOR:

- The vision that develops from this exercise may not be perfect. Perfection is not the goal. Instead, getting participants thinking about a shared vision is the priority at this stage. Keep in mind that a Vision Statement is a work-in-progress that requires substantial effort and that will evolve over time.
- Most groups find it difficult to successfully develop a well-worded Vision Statement that concisely and completely expresses the 'heart', priorities and goals of their business. If your group runs into this difficulty, consider hiring an external facilitator.



EXERCISE:

Complete the Vision Exercise on page 327 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.

Part B: Situational Analysis

Every farm business is impacted both by those factors that occur inside its boundaries and within its control, and those that occur outside its boundaries and beyond its control. A situational analysis analyzes these internal and external impacts according to a strengths, weaknesses, opportunities, and threats (SWOT) analysis.

- Strengths: advantages stemming from within your operation;
- Weaknesses: points of concern stemming from within your operation;
- Opportunities: potential advantages or factors that could positively impact your business, stemming from outside your operation (in the surrounding community, market, landscape, culture, etc. in which you currently or could conduct business).
- Threats: potential disadvantages or factors that could negatively impact your business, stemming from outside your operation (in the surrounding community, market, landscape, culture, etc. in which you currently or could conduct business).

Why is this relevant?

Strategy, goals and business decisions should be considered using a situational analysis that analyzes negative and positive potential influenced by both internal and external factors.

Wherever possible, farm businesses should:

- build on strengths;
- acknowledge weaknesses;
- capitalize on opportunities; and
- minimize threats.

How will this help transition planning?

Conducting a situational analysis, and then using the identified strengths, weaknesses, opportunities and threats in all business goal setting and decision making:

- helps participants get 'on the same page' about internal and

- external forces that affect the farm business;
- encourages participants to be realistic about goals and decisions; and
- promotes open communication between transition planning group members.

Situational Analysis 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 to complete the Situational Analysis Exercise.*

Instructions

Refer to page 328 in the Appendix.

1. As a group, brainstorm your farm business's strengths, weaknesses, opportunities and threats in the corresponding spaces.
2. Discuss each list and prioritize in order of importance.
3. Discuss the four lists again, this time considering which strengths, weaknesses, opportunities and threats are most critical from a transition planning perspective.
4. Store the document for future reference.



EXAMPLE:

Here is an example of what a completed Situational Analysis 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 328 in the Appendix.

Strengths	Strengths Prioritized	Weaknesses	Weaknesses Prioritized
Management team has decades of experience to draw from.	1. Good debt-to-equity ratio. We should be ok even if a few bad years happen in a row.	Succeeding generation lacks experience.	1. The labour situation is unstable outside of the management team.
The farm is incorporated, which will make managing future changes easier.	2. Management team has decades of experience to draw from.	Work life balance is heavy on the work side.	2. Succeeding generation lacks experience.
Planning: we have always been careful in our approach.	3. Planning – the farm has always been careful in our approach.	The labour situation is unstable outside of the management team.	3. Work life balance is heavy on the work side.
Good debt-to-equity ratio. We should be ok even if a few bad years happen in a row.	4. The farm is incorporated which will make managing future changes easier.		
Opportunities	Opportunities Prioritized	Threats	Threats Prioritized
Grain prices are high and look like they will stay high for a while.	1. Grain prices are high and look like they will stay high for a while.	Global recession could drop grain prices and hurt land values.	1. Weather is always a threat in farming.
Lots of neighbouring farmers are starting to retire. Growth potential.	2. Lots of neighbouring farmers are starting to retire. Growth potential.	Weather is always a threat in farming.	2. Global recession could drop grain prices and hurt land values.

How does this apply?

Identifying your farm’s strengths, weaknesses, opportunities and threats can:

- help determine direction and focus;

- reduce over-positive, high-risk decision-making;
- influence plans made throughout transition planning;
- improve group communication; and
- help all participants gain/maintain a realistic perspective of the farm business's potential and limitations.

Your farm business will build on the SWOT analysis in the Risk Assessment (Topic 15 Part C) and in the Critical Issues Exercises (Topic 15 Part D and E) ahead.



KEEP IN MIND:

- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the discussion.
- The SWOT analysis exercise should be reviewed annually and changes made to reflect the current situation and surroundings.



WHAT TO WATCH FOR:

- Try to maintain balance between the positive (strengths and opportunities) and negative (weaknesses and threats).
- Prioritizing the lists in each area helps focus the planning process.
- It is common that what one participant considers an opportunity or a threat is not something other participants feel is important. Write the idea down anyway. When reviewing the SWOT analysis at a later date, the opportunity or threat may be more or less critical and can either be moved up the priority list or removed entirely depending on how participants feel at this time.



EXERCISE:

Complete the Situational Analysis Exercise on page 328 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.

Part C: Risk Assessment

Every farmer knows that farming is risky. From unexpected weather events to market fluctuations to safety issues, risk is inherent to farming.

In a farm business context, risk can be defined as any event that could result in the business performing below expectation.

Risks to farm businesses can be broadly classified as:

- business risk:
 - operations risk
 - strategic risk
- financial risk
- market risk (cost of inputs and product/commodity pricing)

Risk should be measured by both its impact (consequence) should it occur, and its probability (likelihood) of occurring.

Impact	Description	Score
Very High	Significant consequences to the achievement of stated goals and objectives.	5
High	Considerable consequences to the achievement of stated goals and objectives.	4
Medium	Modest consequences to the achievement of stated goals and objectives.	3
Low	Limited consequences to stated goals and objectives.	2
Very Low	Negligible consequences to stated goals and objectives.	1

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Probability	Description	Score
Very High	Almost certain to occur in the context of stated goals and objectives.	5
High	Likely to occur in the context of stated goals and objectives.	4
Medium	May occur in the context of stated goals and objectives.	3
Low	Unlikely to occur in the context of stated goals and objectives.	2
Very Low	Extremely unlikely to occur in the context of stated goals and objectives.	1

Why is this relevant?

Change brings risk. As such, the process of transferring a farm business's ownership and management to a succeeding generation typically increases the business's risk potential.

How will this help in transition planning?

Risk Management is the process of identifying, measuring and managing uncertain events. Creating a detailed risk management plan and then carefully implementing it helps:

- allow a farm business to capitalize on business opportunities while protecting itself from undesirable outcomes or severe losses;
- promote discussion and communication between transition planning participants;
- encourages participants to consider different perspectives;
- identify risk areas that may require specific attention or mitigation efforts;
- minimize the potential for conflict within the transition planning group and/or farm management team; and
- increase the likelihood of a successful transition.

Risk 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 together to complete the Risk Assessment Exercise.*

Instructions

Refer to page 329 of the Appendix.

1. Under each risk category, read the list of risk examples and circle those that apply to your farm business.
2. If applicable, add additional risks specific to your farm business in the space provided.

3. Refer to your farm business's SWOT analysis (from the previous exercise in this Topic). Determine which of your business's listed weaknesses and threats may be risks.
4. Using the 1 to 5 rating described in the Impact and Probability tables above, rate the probability and impact of each risk to your farm business.
5. Score each risk by multiplying your probability and impact ratings.
6. Total the scores in each risk category.
7. As a group, discuss how you might mitigate risks of key concern. Focus your attention on areas with the highest scores.
8. Store the document for future reference.



EXAMPLE:

Here is an example of what a partial Risk Assessment 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 329 in the Appendix.

Human Resources

Risk category	Description	Probability	Impact	Score
Human	Four Ds (death, divorce, disability, departure); management and ownership capacity; transition; performance and training			
	Your Farm	2	5	10
	<i>We are at risk if our succeeding generation does not grow their management capacity to match the demands/growth of the farm</i>			

Financial Risk

	Description	Probability	Impact	Score
Financing and Financial Structure	Debt servicing capacity, leverage, liquidity, profitability	2	5	10
	Your Farm			
	<i>We are at risk if we take on too much debt and are unable make our payments.</i>			
Interest Rate	Foreign exchange, cash savings, interest rates on debt, investment assets	4	5	20
	Your Farm			
	<i>We are at risk if interest rates rise significantly (more than 3 points.)</i>			
			TOTAL	30

How does this apply?

Completing the Risk Assessment Exercise will help groups involved in transition planning understand the many and varied risks that applies to a farm business. Groups should consider developing specific risk mitigation strategies for risk categories that have the highest scores.



KEEP IN MIND

- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Farms businesses encounter some risks that cannot be controlled, such as weather.
- When working through the exercise, try to step back and look at the risks from an outside perspective.
- **Proactive risk management is always preferable to reactive crisis management.**



WHAT TO WATCH FOR:

- Refer to this Risk Assessment Exercise when developing your Critical Issue Action Plan (Topic 15 Part E).
- A farm business's Risk Assessment Exercise should be reviewed and updated annually.
- Risk associated with unfavourable events can cause stress within a farm family/group, which can lead to disagreements and conflict. Consider using an external facilitator if you are concerned about potential for conflict during a discussion about risk, or at such point that your group faces any unfavourable event.



EXERCISE:

Complete the Risk Assessment Exercise on page 329 of the Appendix.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. 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.

Part D: Critical Issues

Critical issues are the handful of factors that are most critical to the future of the farm business. Their importance can generally be measured by how big a gap there is between where the farm currently is and what it requires to successfully achieve its priorities and goals. Common critical issues for farm businesses include human resource gaps (i.e. lack of manpower), financial resource limitations, and/or environmental challenges.

Unmanaged, critical issues can affect a farm's ability to grow, to develop financial stability, and to transition successfully. Additionally, critical issues can create significant stress and conflict within the farm business.

Unfortunately, critical issues are typically difficult to solve and rarely have obvious solutions. (In fact, if a solution appears obvious, the solution is more likely solving a symptom rather than the root of the issue).

Why is this relevant?

Handled incorrectly, critical issues may negatively affect a farm business's performance, and/or create barriers that limit a farm business's ability to accomplish its vision.

In the day-to-day busy-ness of farming, it can be easy to focus only on *doing things right* rather than on taking time to prioritize and focus on *doing the right things*. Critical issues are farm business priorities that must be consciously and effectively tackled rather than left to chance.

How will this help in transition planning?

Working through a process that identifies the issues that are critically important to the long-term success of the farm business helps prioritize where to invest mental and physical energy. Unless one identifies what is important over the longer term, what *gets done* may not necessarily be what *needs to get done*. Open discussion about a farm business's critical issues between all transition planning participants helps get everyone on the same page about priorities and goals, which can decrease conflict, disagreement and frustration.

Critical Issues 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 to complete the Critical Issues Exercise. Complete steps 1 and 2 of the exercise individually and steps 3 through 6 as a group.*

Note: this exercise builds on and uses the self-assessment information from the *Gaining Ground Agribusiness Assessment* used in the Management Assessment Exercise (Topic 8 of the Readiness Assessment). Downloadable and print copies of the *Gaining Ground Agribusiness Assessment* are available from Manitoba Agriculture.

|

Instructions

1. Refer to page 332 of the Appendix, and your completed *Gaining Ground Agribusiness Assessment* (referenced above).
2. Individually, review your own self-assessment and write down up to three critical issues in each of the following categories:
 - Business Structure
 - Production/Operations
 - Environmental Responsibility
 - Human Resources
 - Marketing
 - Financial Management
3. As a group, review, compare and discuss individuals' responses.
4. Compile all responses into a master list.
5. Prioritize the issues.
6. Compare the prioritized issues to the SWOT (Topic 15, Part B) and Risk Assessment (Topic 15, Part C) exercises completed earlier.
 - Look for additional issues that may be critical to a successful transition. Add these to the master list, ranked according to their importance and priority.
7. On the final prioritized list, record a brief summary of each critical issue including:
 - the issue;
 - underlying causes; and
 - its potential impact on the farm business and transition planning.
8. Store the document for future reference.



EXAMPLE:

Here is an example of what a partially completed Critical Issues 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 332 in the Appendix.

Business Structure

1. *We are currently lacking several plans. The most glaring one is we have no contingency plan in the event of financial/operational crisis. The farm has grown to a point where we need to treat it like a small business and make sure we have the proper plans and processes in place to be successful.*

Operations

1. *We have not yet determined the most cost-effective balance between acres, custom work and machinery upgrades. It needs to be affordable, provide labour efficiency and fit into our operations.*
2. *We need to find an operational structure that allows Rob more time away from the farm.*

Environmental Responsibility

1. *We need an Environmental Plan. (This is tied to the critical issue already identified in the “Business Structure” section above.)*

Human Resources

1. *The farm is at risk because we don’t have a long-term plan for the attraction and retention of both full and part-time employees.*
2. *We need to develop an organizational structure that meets our current management needs and accommodates a possible transition plan (that may or may not involve the next generation).*
3. *We need to develop job lists and related job descriptions.*

Marketing

1. *We have not found any critical issues for the Marketing section.*

Financial Management

1. *We need to analyze financial performance in more detail, considering current performance as it relates to opportunities and potential retirement / transition planning.*
2. *We need to structure the farm so that is consistently profitable, able to capture opportunities as they arise (e.g. purchasing additional land), and able to withstand some bad years.*

Final Prioritized List

1. *Our farm lacks a contingency plan, an environmental plan, and an HR recruitment and retention plan.*
 - *Underlying cause: we got by without them in the past but the farm has grown to a point where these plans are now needed.*
 - *Impact: during our transition planning process, the lack of these plans could seriously hinder our progress. In the future, the success of the farm could potentially be compromised if this gap is not addressed.*
2. *We need to develop an organizational structure that meets the current management needs and accommodates a possible transition plan (that may or may not involve the next generation).*
 - *Underlying cause: we got by without one in the past but the farm has grown to a point where we would benefit in having our organizational structure more defined.*
 - *Impact: having a developed org chart will provide clarity in regards to roles on the farm for us (Rob and Faye) and for the kids (John and Rebecca).*
3. *We need to find the most cost effective balance between acres, custom work and machinery upgrades. It needs to be affordable, provide labour efficiency and fit into our operations.*
 - *Underlying cause: we think that this is a new reality that we are facing. As margins get thinner and weather becomes more variable, we need to be more efficient and thoughtful about making operational decisions.*
 - *Impact: this balancing act is one of the most important aspects for the succeeding generation (John and Rebecca) to learn, since it may make the difference between continued success for the farm and failure.*

How does this apply?

The very first step in tackling critical issues is identification. In the next section (Topic 15 Part E), you will work to develop action plans to address your critical issues.



KEEP IN MIND:

- Everyone who is actively involved in the business now and anyone who might be actively involved in the business at some point in the future should complete this exercise.
- Family members/others who are not currently actively involved and/or who are not planning on ever being actively involved in the business can optionally be included in this exercise.
- Consider using an external facilitator if you are concerned about potential for conflict during the critical issues discussion.
- The most common areas for critical issues are within finance and human resources. These are also the areas with the biggest impact on intergenerational transfer.
- Transition planning groups should try to limit their prioritized list of critical issues to four or fewer. Critical issues are challenging and time-consuming to tackle. Farmers tend to be very busy and can expect to experience challenge and frustration trying to address a longer list. That said, if the group cannot come to consensus on a shorter list of priorities, it is acceptable to create a slightly longer list of critical issues.



WHAT TO WATCH FOR:

- Avoid the urge to drill down into detail at this stage, or to attempt to solve the critical issues. Detail will come in the next section: Part E: Critical Issue Action Plans.



EXERCISE:

Complete the Critical Issues Exercise on page 332 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.

Part E: Critical Issue Action Plans

In Topic 15 Part D, your planning group identified critical issues that have the potential to make or break your farm business. This section develops action plans to best deal with the identified issues.

Critical issue action plans often require the investment of financial, mental, informational, equipment or infrastructure resources. While most planning groups focus mainly on whether they have the financial resources to tackle specific issues, groups should think first about their human resource capacity (manpower and/or mental energy), since this resource tends to be the most difficult to supply. Transition planning groups often simply run out of time or lack the knowledge/skill required to solve critical issues and keep the planning process moving forward.

Once critical issues and associated action plans are identified, it is vital that a planning group designate individuals responsible for each action and each overall action plan in order to move the action along and keep progress monitored.

Why is this relevant?

No matter how well-intended the plan or how committed the planning group, a transition plan will remain on paper unless specific action steps are outlined to translate it into reality and counter critical issue roadblocks.

How will this help transition planning?

Creating action plans is one of the most important components of transition planning. Action plans:

- serve as a step-by-step map to achieving transition planning's goals;
- foster accountability;
- keep the planning and implementation process moving forward;
- stimulate communication between planning participants;
- counter roadblocks; and
- minimize potential for conflict.

Critical Issue Action Plans Exercise

*** Everyone who completed the Critical Issues Exercise (Topic 15 Part D) should work together to complete the Critical Issue Action Plans Exercise.*

Instructions

1. As a group, review the list of prioritized critical issues identified in the Critical Issues Exercise (Topic 15 Part D).
2. Using the blank templates on page 335 of the Appendix, work through each critical issue from your prioritized list as follow:
3. Write a statement that defines the critical issue in more detail. (Note: though this step is optional, it is recommended as it will help participants gain better understanding of the issue and the actions needed to address it.)
 - a. Identify the sequence of the actions.
 - b. Identify how the task should be carried out.
 - c. Identify the personnel, equipment and other resources needed to accomplish the action.
 - d. Specify who will do what and when.
4. Identify one person from the planning group to take primary responsibility for each action plan.
5. Store the document for future reference.



EXAMPLE:

Here is an example of what a partial Critical Issue Action Plan 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 335 in the Appendix.

Critical Issue: <i>Absence of SEVERAL important long-term plans</i>				
Person with Primary Responsibility: <i>Faye</i>				
Statement that Defines the Critical Issue (optional): <i>The plans we need are Contingency Plans, Environmental Plan, and an HR Recruitment and Retention Plan.</i>				
Action Items	How	Specifics		
		Resources	When	By Whom
1) Hold a meeting to discuss this Critical Issue to make sure we don't duplicate anything that might already exist in our files.	Call John and Rebecca and set up a time and place	Time. No money involved.	November 1, this year	Faye
2) Assign responsibility so we know who is taking care of which plans.	Complete at the meeting and record it in the notes.	Time, discussion, computer. No money required.	November 1, this year	Everyone
3) Review progress in three months.	Email the group to check on their progress	Time, computer	February 1, next year	Faye
4) Make changes or assign help as needed	After reviewing progress, make sure no one is lagging behind. If they are, regroup to provide help or possibly hire an external advisor.	Time, computer, perhaps some fees for an external advisor if necessary	February 15, next year	Faye leads; each person with their own plan to complete.

critical Issue: *Absence of an organizational chart/structure*

Person with Primary Responsibility: *Rob*

Statement that defines the critical Issue (optional): *Develop an organizational structure that meets the current management needs and accommodates a possible transition plan.*

Action Items	How	Resources	Specifics	
			When	By Whom
1) Create a first draft of an org. chart	Use a template or draw one on our white board	Time, computer	November 15, this year	Rob
2) Hold a meeting to discuss with the team	Call John and Rebecca and set up a time and place.	Time	November 30, this year	Rob
3) Make changes based on decisions from team meeting.	Update org chart. Put it in electronic format if not already.	Time, computer	January 15, next year	Rob
4) Share and post final org. chart	Email it to the group, and print a copy and post it in the office	Time, computer	March 1, next year	Rob

How does this apply?

Critical issues can seem daunting until clear steps to mitigate/solve them are laid out. Assigning responsibility for each separate action plan and then for each individual step within each action plan fosters accountability and helps ensure the jobs get done.



KEEP IN MIND:

- Everyone who participated in identifying critical issues in the previous exercise should complete this exercise. Other key stakeholders may optionally participate as well.
- Identify one individual as responsible for overseeing completion of each action plan, and then identify individuals as responsible for completing each point within each action plan.
- Regular meetings and frequent discussion about the critical issues, their associated action plans, and each individual's efforts will keep the process moving forward. When people know the action plans and their individual efforts will be regularly reviewed, they tend to be much more accountable.



WHAT TO WATCH FOR:

- Be realistic about what can be accomplished and by when.
- Action plans must be monitored to be effective. Schedule regular reviews of the plan.
- Action plans with too little detail will be of less value to the process.
- Many things can change as the transition plan is developed and implemented. Action plans should be adjusted or new plans created to accommodate these changes.



EXERCISE:

Complete the Critical Issue Action Plan Exercise on page 335 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.

Part F: Financial Targets

In Topic 7 of the Readiness Assessment Phase, your planning group reviewed your farm business’s historical financial performance. In Financial Performance: Transition Scenario (Topic 17 Part D, coming up), your group will analyze the impact of different transition scenarios on your future financial performance. A very important step that links historical financial performance and potential future financial performance is the setting of financial targets.

As explained in the Historical Financial Performance Exercise (Topic 7), it is important to look at multiple ratios when analyzing financial performance. When setting financial targets during transition planning, analyze a minimum of six ratios, preferably including one ratio from each of the four categories: liquidity, solvency, profitability and financial efficiency. These categories and their corresponding ratios are listed in the tables below (reprinted from Topic 7). An extended explanation of the ratios and their corresponding benchmarks is provided on page 336 in the Appendix section of this Guide.

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
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 %

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
Leverage Ratio* or Debt to Equity Ratio	Total Liabilities / Total Equity	For every dollar in equity, how many dollars of debt are there?	< 4 : 1	0.65 : 1	> 1 : 1

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
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* 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 the use of business assets. Profitability rates investment decisions based on their ability to generate net income.

Ratio	Formula	Explanation	Good	Average	Poor
Return on Assets*	Net Income plus Interest / Total Assets	What return is the farm generating as a percentage of capital assets?	> 4%	2%	< 0%

*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 the annual operating cost decisions on their ability to generate gross revenue.

Ratio	Formula	Explanation	Good	Average	Poor
Gross Margin	Gross Margin / Total Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 65%	55%	< 50%

Net Profit Margin	Net Profit / Total Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 20%	10%	< 5%
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Why is this relevant?

Financial targets are measurable success markers that can serve as goals (high thresholds to aim for) and baselines (low thresholds to stay above).

Note: ratios are ranked as ‘good’, ‘average’ and ‘poor’. However, do not assume that a decision that moves a farm business from one rating to a lower rating (i.e. ‘good’ to ‘average’) is a bad decision. How a farm ranks in various ratios will depend on its unique financial situation and operating style, its lifecycle stage, and its progress towards transition. For example, a farmer nearing retirement might have little debt and therefore rank in the ‘good’ category for debt servicing ratio. However, if that same farmer needed to borrow money as part of the transition plan, the debt servicing ratio might change from ‘good’ to ‘average’. This kind of ranking decline is often unavoidable during transition.

How will this help transition planning?

- To remain a viable business, a farm needs to operate within healthy financial thresholds. The first step to profitability, efficiency and financial health is understanding a business’s financial ratios.
- Calculating how various transition scenarios might affect your financial performance is key to making good operational and management decisions. To be able to do calculate potential financial performance, you must first establish financial targets.
- Discussing and agreeing upon financial performance targets can minimize conflict stemming from poor financial results, differing financial expectations and/or differing risk tolerances.

Financial Targets Exercise

***Each person involved in your farm’s transition planning should participate in this exercise. Other stakeholders who have a vested interest in the farm business may optionally participate.*

Instructions

1. Unless one or more of your farm business’s transition planning participants have an extremely competent understanding of financial planning, seek professional guidance before proceeding with this exercise:

- a. hire a farm financial advisor and/or
 - b. talk to the Alberta Agriculture and Forestry farm business advisor for more resources and support.
2. Refer to page 336 in the Appendix for a blank copy of the Financial Targets Exercise.
 3. Review and discuss the Historical Financial Performance Exercise from Topic 7 in the Readiness Assessment Phase.

Based on your farm business's historical financial performance and the good, average and poor thresholds included in the tables above, discuss and agree upon financial targets for each of the ratios, taking transition planning into consideration.

How does this apply?

Once you have set financial targets (as per this exercise), your planning group will have the groundwork set to analyze the impact of various transition scenarios on your future financial performance (coming up in Topic 17 Part D).



KEEP IN MIND:

- If you do not have adequate and accurate financial information, setting targets will be difficult and may not prove useful.
- Review financial performance annually and test the performance against your targets.
- Talk to a financial advisor and/or an Alberta Agriculture and Forestry farm business advisor if you are concerned about your farm business's performance or if you have questions.



WHAT TO WATCH FOR:

- The six targets only represent a portion of an overall financial performance assessment.
 - If your performance in any of the six areas is less than desired, it is a good idea to apply a more detailed evaluation.



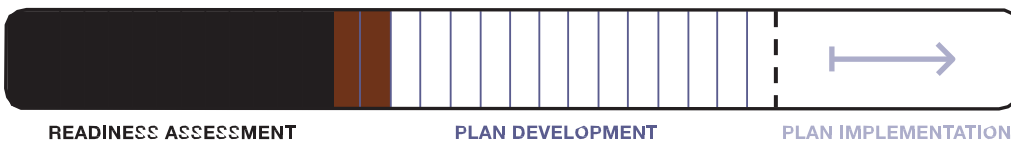
EXERCISE:

Complete the Financial Targets Exercise on page 336 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



Notes:

Topic 16: Strategic Direction Review Meeting

Congratulations on completing the Strategic Direction (Topic 15) component of transition planning. Now is an appropriate time to schedule a meeting to discuss your progress with your transition planning team and make any necessary changes to your plan.

How will this help transition planning?

Transition planning requires dedication, communication, and the investment of much time and energy. Periodically pausing in order to review progress:

- supports open communication;
- allows adjustments to planning as necessary; and
- gives an opportunity for participants to celebrate the completion of important milestones.

Strategic Direction 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 meet to review your strategic direction to date.*

Instructions

1. Refer to the sample agenda on page 338 of the Appendix.



KEEP IN MIND:

- At the very least, your Strategic Direction Review Meeting should include your farm business's management team, the retiring generation, and the succeeding generation. Additional stakeholders with a vested interest in your farm's transition may be included as your group sees fit.
- Consider using an external facilitator if you are concerned about the potential for conflict.



WHAT TO WATCH FOR:

- It is not unusual in many transition planning groups for one or more participants to be strongest/loudest. In a review meeting such as this one, it is very important that all participants are given the opportunity to share their perspective. It is the meeting chair's responsibility to ensure that all participants are given a fair chance to speak.
- 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 meeting identify any underlying reasons for existing conflict in your operation?



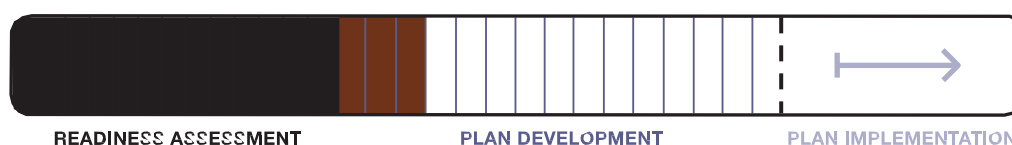
EXERCISE:

Complete the Strategic Direction Review Exercise according to the sample agenda included on page 338 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



Chapter 6: Recap Checklist

Complete the following checklist as you work through the Chapter 6 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 14 Part A: Challenges in Transition Planning	<input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the information we need to complete this exercise. <input type="checkbox"/> After completing the topic, some or all of us do not have a good understanding of the many complex 'soft issue' challenges that our business could face. <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 the many complex 'soft issue' challenges that our business could face. <input type="checkbox"/> Our individual feelings on which 'soft issue' challenges currently affect or could affect our farm business generally align.		
Topic 14 Part B: Guiding Principles	<input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the information we need to complete this exercise. <input type="checkbox"/> Some or all of us do not	<input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> We understand each other's business priorities including major concerns, planning objectives and		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	<p>understand each other's business priorities (major concerns, planning objectives and/or strategic goals).</p> <ul style="list-style-type: none"> <input type="checkbox"/> We have very conflicting business priorities. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group. 	<p>strategic goals.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Our individual business priorities generally align with each other's and/or can be made to work with each other's priorities where there are differences. 		
Topic 14 Part C: Conflict Management	<ul style="list-style-type: none"> <input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the information we need to complete this exercise. <input type="checkbox"/> Some or all of us do not understand the existing/potential sources of conflict within the group, each other's conflict management styles, and/or strategies to find win-win solutions. <input type="checkbox"/> Some or all of us are not committed to managing conflict proactively and openly. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group. 	<ul style="list-style-type: none"> <input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> We understand existing/potential sources of conflict within the group, each other's conflict management styles, and strategies to find win-win solutions. <input type="checkbox"/> Our individual understandings of conflict generally align. <input type="checkbox"/> We are all committed to managing conflict proactively and openly. 		
Topic 14 Part D: Resource Team Identification	<ul style="list-style-type: none"> <input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the information we need to complete this exercise. 	<ul style="list-style-type: none"> <input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> We agree on the importance of a resource team. 		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	<ul style="list-style-type: none"> <input type="checkbox"/> Some or all of us do not agree on the importance of a resource team. <input type="checkbox"/> Some or all of us do not agree on who should be part of our resource team. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group. 	<ul style="list-style-type: none"> <input type="checkbox"/> We agree on who should be part of our resource team. 		
Topic 14 Part E: Advisor Information Report	<ul style="list-style-type: none"> <input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the information we need to complete this exercise. <input type="checkbox"/> We were unable to create an overview of our planning group's efforts, decisions and planning progress to date. <input type="checkbox"/> Some or all of us do not agree on who should be part of our resource team. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group. 	<ul style="list-style-type: none"> <input type="checkbox"/> We completed this topic's exercise and/or already have ongoing conversation with our advisors about our transition process so deemed this exercise unnecessary. <input type="checkbox"/> We agree on the importance of keeping advisors up-to-date and informed. 		
Topic 15 Part A: Vision	<ul style="list-style-type: none"> <input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the information we need to complete this exercise. <input type="checkbox"/> Some or all of us have conflicting ideas of our farm business's vision. 	<ul style="list-style-type: none"> <input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> We were able to agree on a vision for our farm business. <input type="checkbox"/> We are all comfortable with the vision we have drafted for our farm 		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	<input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group.	business, recognizing that the statement may change over time.		
Topic 15 Part B: Situational Analysis	<input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the information we need to complete this exercise. <input type="checkbox"/> Some or all of us have conflicting understanding of the strengths, weaknesses, opportunities and threats that face our farm business. <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 individual understanding of the strengths, weaknesses, opportunities and threats that face our farm business generally align.		
Topic 15 Part C: Risk Assessment	<input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the information we need to complete this exercise. <input type="checkbox"/> Some or all of us have strongly conflicting understanding of the risks that our farm business faces. <input type="checkbox"/> Some or all of us have not discussed our individual risk tolerance levels. <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 individual understanding of the risks that our farm business faces are not in huge opposition to each other's. <input type="checkbox"/> We understand that it is normal and natural that some individuals are more risk adverse than others, and we have discussed our individual risk tolerance levels.		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
Topic 15 Part D: Critical Issues	<ul style="list-style-type: none"> <input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the information we need to complete this exercise. <input type="checkbox"/> Some or all of us do not understand the critical issues our farm business faces and/or may face. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group. 	<ul style="list-style-type: none"> <input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> We understand the critical issues our farm business faces and/or may face. <input type="checkbox"/> Our individual understandings of our farm business's critical issues generally align. 		
Topic 15 Part E: Critical Issue Action Plans	<ul style="list-style-type: none"> <input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the information we need to complete this exercise. <input type="checkbox"/> We were unable to form critical issue action plans for the critical issues our farm business faces and/or may face. <input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group. 	<ul style="list-style-type: none"> <input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> We were able to form critical issue action plans for the critical issues our farm business faces and/or may face. <input type="checkbox"/> Our individual understandings of the actions that need to be taken to manage our farm business's critical issues generally align. 		
Topic 15 Part F: Financial Targets	<ul style="list-style-type: none"> <input type="checkbox"/> We were unable to complete this topic's exercise. <input type="checkbox"/> We do not have the necessary financial information to complete this topic's exercise. <input type="checkbox"/> Some or all of us have conflicting 	<ul style="list-style-type: none"> <input type="checkbox"/> We completed this topic's exercise. <input type="checkbox"/> We understand our farm business's current financial situation and agree on financial targets. <input type="checkbox"/> Our individual 		

	Red Flag	Green Light	Follow-up Necessary?	
			Yes	No
	<p>understanding/insufficient understanding of our farm business's finances and/or financial targets.</p> <p><input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group.</p>	<p>understandings of our farm business's current financial situation and our financial targets generally align.</p>		
Topic 16: Strategic Direction Review Meeting	<p><input type="checkbox"/> We were unable to complete this topic's exercise.</p> <p><input type="checkbox"/> We do not have the information we need to complete this exercise.</p> <p><input type="checkbox"/> Some or all of us have conflicting views/understanding on one or more components of our strategic direction.</p> <p><input type="checkbox"/> This topic resulted in significant unresolved conflict/disagreement within our planning group.</p>	<p><input type="checkbox"/> We completed this topic's exercise.</p> <p><input type="checkbox"/> Our individual views and understanding of our strategic direction generally align.</p>		

From **Topic 14 Part A, Chapter 6** (Phase 3: Plan Development)
 Challenges in Transition Planning

Challenges	Applicable/Not Applicable	Reviewed?	Resolved?	Follow-up Required?	Follow-up by Whom? When?
1. Lack of Awareness					
2. Difficulty Getting Started					
3. Planning Drift (Procrastination)					
4. Avoidance/Denial					
5. Not Wanting/Not Willing to Commit					
6. Lack of Accountability					
7. Selfishness vs. Selflessness					
8. Estate Plan Gaps					
9. Conflicting Goals, Priorities and Values					
10. Fears					
11. Fair is Not the Same as Equal					
12. On-Farm Versus Non-Farm Successors					
13. Entitlement					
14. Successor Training and Skill Development Requirements					
15. The Challenge of Compensation					
16. Communication Gaps/Problems					
17 Management Conflict					
18. Tax Planning Challenges					
19. Risk					
20. Process Facilitation					

From **Topic 14 Part B, Chapter 6** (Phase 3: Plan Development)
Guiding Principles

Major Concerns

Name: Date:		Very Concerned			Somewhat Concerned			Not at all Concerned			
		10	9	8	7	6	5	4	3	2	1
1	Disagreement about how to run the business among group members working in the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Long term survival of the farm business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Disagreement among owners and partners about the real purpose (priorities) of the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Fair treatment of successors in ownership transfer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Insufficient financial reinvestment in the operation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Lack of a future for family farm businesses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Unwillingness of current owner-manager(s) to retire	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Inability of current owner-manager(s) to retire	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Negative influence of in-laws on family harmony and business decision-making	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Inability to pay estate taxes in the future	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	Lack of competence of successors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	Lack of commitments of successors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Poor communication within transition planning group	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Negative influence of off-farm owners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	Negative effects of day-to-day stress caused by the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

From **Topic 14 Part B, Chapter 6** (Phase 3: Plan Development) - CONTINUED
 Planning Objectives

Name: Date:		Very Concerned			Somewhat Concerned			Not at all Concerned			
		10	9	8	7	6	5	4	3	2	1
1	Improve the effectiveness of our management team	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Improve communication between transition planning group members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Use current advisors better	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Minimize estate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Transfer ownership fairly to the next generation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Develop a specific retirement plan for the retiring generation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Develop a way of funding the retirement of current owners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Develop an agreement among all owners on investment, risk, and return standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Define clear operating responsibilities for each manager	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Define a fair method of compensating family members employed in the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	Increase personal cash flow to owners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	Grow the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Diversify the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Define or revise an effective buy/sell agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	Define how the next generation will enter the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

From **Topic 14 Part B, Chapter 6** (Phase 3: Plan Development) - CONTINUED
 Strategic Objectives

Name:										
Date:										
	← Important			Undecided			→ Important			
	4	3	2	1	0	1	2	3	4	
Own operation assets when possible	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Lease/rent operating assets when possible
Focus on current crop/livestock mix	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Diversify beyond current crop/livestock mix
Maintain marketing independence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Produce under contract
Focus on agriculture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Diversify outside of agriculture
Position for long-term family ownership	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Position business for sale to outsiders
All owners share in all ventures equally	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Different owners own ventures differently
Employ owned land for farming purposes only	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Employ owned land for highest and best use

Conflict Management

Sources of Conflict

Authority, Control, Power:

The struggle for power can affect every situation and decision related to the farm operation. Farmers generally prize the value of independence and freedom to operate their own enterprise. However, authority, control and power between retiring and succeeding generations are complicated in farm businesses, especially if the transition occurs between parents and their adult children.

Division of Income:

The question of when the younger generation gets a greater share of the farm income is a chronic point of disagreement.

Obligations and Indebtedness:

Who bears the brunt of risks in the business? Does someone feel taken advantage of? Is there someone who is not carrying their weight, yet getting paid as if they are (or vice versa)?

In-law relations and conflict of loyalties:

Many times in-laws are never quite included in the family circle. Family loyalties get tangled when conflict occurs.

Differences in risk taking:

Each person has their own set of values and goals that affect how and when they spend money and how they make decisions. If differences are not tolerated, conflict can arise.

Decision making:

The need for crucial and frequent decisions to be made, often with little time to gather all the facts, contributes to conflicts. Who makes most of the decisions? Who is blamed if decisions turn out to be poor ones?

Legal transfer of the property:

The transfer of property from one generation to the next can create tension and conflict. Some planning group members may believe that legal agreements are all that is needed to solve this problem. Other members may feel that more communication, mutual understanding and tolerance are needed to fully deal with the issues.

Conflict Management Styles

The ability to cope successfully with conflict is an important skill for all family members to develop. There is no perfect way to handle all conflicts, but several methods or styles can work well. Which one is appropriate or successful will depend on the situation and the people involved.

The Thomas-Kilmann Conflict Mode Instrument describes the five most common ways that people handle conflict, as follows:

Avoidance:

You do not pursue your own concerns or anyone else's concerns. This usually results in a lose-lose situation.

Accommodation:

You have a high concern for others' needs and neglect your own concerns in order to satisfy their needs. Here you lose; the other person wins. This is a lose-win solution.

Competition:

You are concerned only with your own interests and pursue them at the expense of others. Here you win but the other person loses. This is a win-lose situation.

Compromise:

You are equally concerned with your needs and others' needs. Compromise never fully takes care of anyone's needs. This is a no win-no lose solution.

Collaboration:

You have high concern for both your needs and others' needs. Using this style, you work with the other person or people to find a solution which is acceptable to all. This is a win-win solution.

No single style is necessarily better than the others given particular circumstances. However, collaboration and, to a lesser extent, compromise are considered to be the most constructive methods of conflict resolution.

Strategies to Find Win-Win Solutions

Specific strategies can be used to help arrive at win-win solutions to conflicts. Try the following:

Establish shared goals:

To create a climate of collaboration, people need to focus on what they share in common. Two brothers arguing over specific production methods could start by agreeing that they both share the goal of increasing productivity.

Separate the people from the problem:

Focus on the problem to be solved, not on the personality traits of the people involved. Telling someone an idea is not good is less damaging than telling them they are not good.

Focus on interests, not positions:

Interests are a person's needs, wants, fears and concerns. Interests generate positions, which are demands made by a negotiator. For example, a dispute may arise between two brothers about which one should work on the weekends. They each take the position that they want the weekend off. The underlying interest of one brother is that he wants the weekend off so he can watch his children play in hockey tournaments. For the other brother, the interest is that he has a new girlfriend who works out of town and the only time he can see her is on the weekend. Discussing interests rather than positions allows room for the other person to understand why you feel strongly about your needs, wants, fears and concerns.

Invent options for mutual gains:

Be as creative as possible. Once everyone understands each other's interests, try brainstorming to come up with as many solutions as possible.

Use objective criteria:

If the people in a dispute can shift their thinking from what they want to what makes the most sense, the merits of each possible solution will be easier to judge.

Define success in terms of gains rather than losses:

If you ask for a 10 per cent raise but get only six per cent, you could look at this as a six per cent increase or a 40 per cent shortfall. Your satisfaction with the outcome of any dispute will be influenced by the standards you use to judge it. The question to ask is whether the settlement constitutes an improvement over the starting point.

Always strive to achieve win-win solutions. Even when a win-win solution doesn't seem to exist, one can usually be found if participants have the determination to do so.

From **Topic 14 Part D, Chapter 6** (Phase 3: Plan Development)

Resource Team Identification

Resource Area	Person / Firm	Contact Information	Comments
Accounting			
Tax			
Legal			
Agronomy			
Marketing			
Investment			
Insurance			
Farm Management			
Human Resources			

From **Topic 14 Part E, Chapter 6** (Phase 3: Plan Development)

Advisor Information Report

Advisors

Area of Expertise / Profession	Name	Firm	Contact Information

Family Members Involved

Name	Relationship	Direct / Indirect Involvement	Contact Information

Transition Plan completion date

Date: _____

Summary of Transition Plan to Date:

Other Relevant Information

From **Topic 15 Part B, Chapter 6** (Phase 3: Plan Development)
 Situational Analysis

Strengths	Strengths Prioritized	Weaknesses	Weaknesses Prioritized
Opportunities	Opportunities Prioritized	Threats	Threats Prioritized

From **Topic 15 Part C, Chapter 6** (Phase 3: Plan Development)
 Risk Assessment
 Operational Business Risk

Risk Category	Description	Probability	Impact	Score
Technology	Ability/cost to adapt, obsolescence, rate of change, role of science and biotechnology			
	Your Farm			
Human	Four Ds (death, divorce, disability, departure), management and ownership capacity, transition, performance and training			
	Your Farm			
Legal / Regulatory	Regulation compliance and changes, third party liability, environmental damage/compliance, licensing and reporting			
	Your Farm			
Production	Weather, pests/disease, theft/fire, operational practices			
	Your Farm			
Relationships	Landlords, lenders, customers, suppliers, contracts			
	Your Farm			
Distribution Systems and Channels	Transportation, cost, dependence on distributors			
	Your Farm			

From **Topic 15 Part C, Chapter 6** (Phase 3: Plan Development) - CONTINUED

Strategic Business Risk

Risk Category	Description	Probability	Impact	Score
Strategic Positioning and Flexibility	Industry consolidation, resource allocation and planning, organizational adaptation			
	Your Farm			
Marketing, Reputation and Image	Company image and brand, product reliability			
	Your Farm			
Competitive Conditions	Market share, pricing wars, commodity based, price-taker, world markets			
	Your Farm			
Governmental Trade and Farm Policy	Provincial government programs, international policies (COOL, US farm bill etc.), supply managed			
	Your Farm			
TOTAL				

From **Topic 15 Part C, Chapter 6** (Phase 3: Plan Development) - CONTINUED

Financial Risk

Risk Category	Description	Probability	Impact	Score
Financing and Financial Structure	Debt servicing capacity, leverage, liquidity, profitability			
	Your Farm			
Interest rate	Foreign exchange, cash savings, interest rates on debt, investment assets			
	Your Farm			
TOTAL				

Market Risk

Risk Category	Description	Probability	Impact	Score
Input and output product prices	Price level volatility, input product availability, output premiums/discounts			
	Your Farm			
Contract terms, delivery and payment	Delivery delay, buyer default, supply chain obstacles and change			
	Your Farm			
Market outlets and access	Number of markets, ease of access to markets, qualified supplier status, cost of market entry			
	Your Farm			
TOTAL				

From **Topic 15 Part D, Chapter 6** (Phase 3: Plan Development)

Critical Issues

Business Structure

Operations

Environmental Responsibility

Human Resources

Marketing

Financial Management

From **Topic 15 Part E, Chapter 6** (Phase 3: Plan Development)

Critical Issues Action Plans

Critical Issue:				
Person with Primary Responsibility:				
Statement that Defines the Critical Issue (optional):				
Action Items	How	Specifics		
		Resources	When	By Whom

Financial Targets

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	Target
Working Capital Percentage of Total Cash Expenses	$(\text{Current assets} - \text{Current liabilities}) / \text{Cash Operating Expenses}$	If current liabilities are retired as they come due what current assets will be left? (percentage of annual expense)	> 50%	20 – 30%	< 10 %	

Solvency – The financial ratios that measure 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	Target
Leverage Ratio* or Debt to Equity Ratio	$\text{Total Liabilities} / \text{Total Equity}$	For every dollar in equity, how many dollars of debt are there?	< 4 : 1	0.65 : 1	> 1 : 1	
Debt Servicing	$(\text{Net Income} + \text{Amortization} + \text{Interest} - \text{Family Wages}^{**}) / (\text{Annual Principal and Interest Paid})$	Can the farm come up with enough income to pay the debt requirements?	> 2 : 1	1.5 : 1	< 1.1: 1	

* Industry standards based on assets at market value.

** If not already included in expenses (ex: non-corporate farms).

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

Ratio	Formula	Explanation	Good	Average	Poor	Target
Return on Assets*	Net Income plus Interest / Total Assets	What return is the farm generating as a percentage of capital assets?	> 4%	2%	< 0%	

* 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 the annual operating cost decisions on their ability to generate gross revenue.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Gross Margin	Gross Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 65%	55%	< 50%	
Net Profit Margin	Net Profit Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 20%	10%	<5%	

From **Topic 16, Chapter 6** (Phase 3: Plan Development)
Transition Planning Meeting Agenda

Strategic Direction 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. Purpose of the meeting:

- a. Review overall progress in transition plan since last meeting.
 - i. Make a plan to catch up in areas that are lagging behind (if needed).
- b. Review the farm's progress specifically relating to the strategic direction phase of the transition planning process.
- c. 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 plan development specifics:

- a. Discuss whether participants are on the same page when it comes to values, strategies, and risk tolerance.
- b. Discuss whether the action plan will get your transition planning group where you want and need to go.
- c. Make a plan to address disagreements (if needed).
- d. Conduct a general discussion and answer 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 time.

8. Adjourn