



## CURRENTS

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*If none of your children want to farm, how can you get your operation into the hands of someone who will work to see it thrive?*

# Who Shall INHERIT THE LAND?

**Y**ou have built the farm to 2,000 acres, carefully applying chemicals to enhance the soil capacity and keeping rotation records to manage crops and herbicides. In the early '90s you adopted minimum till and planted shelter belts to slow erosion. You have been a steward of the soil. The business you inherited from your father has diversified and become less exposed to price cycles.

You have created a strong business, but as the age of 60 comes closer, thoughts turn to retirement. Still, the idea that the business could be broken up to finance a retirement just doesn't sit well. Many entrepreneurs wish to see the organization they nurtured persist into the future. What stymies this plan is the lack of a logical successor and the need to finance retirement. In this issue I want to discuss the problem of succession for the farmer who wishes to see the business survive retirement.

Most businesses have succession problems. Eaton's was able to move through three generations of family managers, but faltered with the fourth. A non-family member had to assume the direction of the company. The jury is still out on whether this tactic will work.

Fortune 500 companies routinely face succession problems. Flashy entrepreneurs often believe in their own immortality and fail to identify successors. After his or her retirement, the scramble for the top spot can consume management energy and lead to serious problems in the company.

The first choice for any family business is to maintain it in the family. Sometimes a horizontal transfer to a brother or sister is possible, but more often a child is the primary candidate for successor. It makes no sense to split a farm among several children to be fair. Modern agriculture has clear economies of scale and creating two

or three small farms from a larger unit is almost certain to fail. Therefore, the only choice is to allocate the farm to one child.

The problem is not over. That child must have both the ability and interest to manage a complex operation. Fortunate is the retiring farmer who can transfer the operation to an energetic son or daughter who has just completed an agriculture degree. However, if your child is studying fashion design, you need a non-family succession strategy.

The trick to non-family succession is to identify a buyer to purchase the business, maintain it as an economic entity and offer you retirement income. The most



important step is to plan well ahead, at least 10, preferably 15 years ahead of your target retirement.

You must decide whether your operation could include a future successor as a partner who will buy into the business over time. Ideally, this should be an employee whose management skills and commitment you trust. Your operation must be at a sufficient scale or diversity to

require regular employees. Even a part-time employee might be a good candidate as a successor to your operation.

If you cannot afford to include a regular employee in your operation, then non-family succession plans are probably not feasible unless you can find a local resident who is willing to acquire the farm. If that person already farms, chances are that your operation will be integrated with his or her existing operation, defeating your purpose. If they are not farming, you must be certain they have the desire and skill to run the operation. They need to be able to generate the cash flow to buy you out over time. If this is not likely, the conventional retirement route of selling and/or renting your land is the only option.

The final requirement for succession is incorporation. Over time the employee can purchase shares. Slowly the balance of ownership shifts from you to the other shareholder. Even beyond your formal retirement from active farming, you could still be selling your shares to the new owner. In this way, you retire from farming with an income and have a plan to see your business thrive into the future. Of course, such succession planning requires an accountant to value the shares and a lawyer to structure a share purchase process that protects everyone's interests.

A small but growing number of farms have become businesses that can survive the retirement of the owner intact. Succession to non-family members can be a viable option provided you set out the process carefully. This trend will continue as farms become larger and more diversified. ■

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