

**Brief  
to the  
House of Commons Committee on Agriculture and Food (AGRI)  
Regarding  
*Young Farmers and the Future of Farming*  
From  
Members of the Alberta Ag Business Consultants**

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## **Executive Summary**

Members of the Alberta Ag Business Consultants (AABC) have collaborated to prepare this brief. AABC is an association of independent farm financial consultants. The members of the input group are Owen Nelsen P.Ag, Larry Lindquist P.Ag., Larry Morin, Gordon Williams B.Sc. and Art Lange P.Ag.

The scope of this brief is limited to farm financial and business management issues. Since the time to prepare this brief was very limited the observations and recommendations are from our own experiences. We define “young” as anyone under 40 years of age and our comments mainly relate to the non-supply managed sectors of the industry in western Canada. Our definition of “viable” or “profitable” is based on business ratios that lenders use, however we realize that other factors such as education, experience, access to capital (finances, land, facilities and equipment) and human resources are also important.

We feel that future farmers will come from three main groups. Firstly there are those that will “take over” farms, usually from other family members. Secondly, there are innovators that are looking for niche market opportunities (at least initially) or adding value to existing products. Lastly there are immigrants from other countries.

There are some basic requirements that beginning farmers must have such as education and practical training in their chosen endeavour, access to capital and good business and operational skills. Since profit margins are usually slim in the on-supply managed sectors of the industry it can be difficult to generate enough income for two or more families to earn a living from one farm.

Beginning farmers can encounter many problems. Some of the common ones that we have encountered are: not having a sound business plan at the outset, borrowing too much money too quickly, entering into farm succession arrangements without considering the inter-personal and business issues, not having enough profitability to service debt (as well as other expenses) and trying to retire debt too quickly.

Our recommendations to aid young and future farmers are as follows:

- Supporting a few good information sources regarding farm succession that people can easily access (eg. via the Internet)
- Supporting one-on-one mentoring and peer support groups such as production and marketing clubs and young farmer organizations.
- Government assistance for succession planning as was the case under the APF Renewal chapter.
- Government assistance for young farmers to take the training and development needed to run profitable businesses like the CASS (Canadian Agricultural Skills Services program which was also available under APF.
- Only providing government financial assistance to individual farmers if they have a business plan for a viable operation or showing how they can transition into one.
- Changes in the tax laws to allow joint ventures or cooperative pooling of capital purchases to help build economies of scale and operational efficiencies.

## **Scope and Parameters**

The scope of this submission is limited to matters involving farm business planning with emphasis on the financial aspects. Due to the limited time available to prepare this brief, time for research was inadequate and most of the information in it is gleaned from the experiences of the input panel. We define “young” as anyone under 40 years of age. Most of our comments are in relation to the non-supply managed sector of the industry and the majority of our experience is working with commodity producers and value added enterprises in western Canada. .

We define a “viable” farm in terms of business ratios which are calculated with a financial model using accrual accounting. The financial analysis includes farm income and off-farm income (if applicable) and also government payments. However, since government payments are transient and/or unpredictable, we assume that the operation must be able to at least “break even” with the farm and off-farm (if applicable) income. Some of the ratios we consider are the same ones lenders use (eg. current ratio, leverage ratio, solvency ratio, debt service ratio, return on equity, return on assets etc. ). Trends over a period of years such as the level of debt and net worth are also important. When farm succession is involved, other factors become important as well. Farm operators must also have adequate education/experience, access to capital and human resources to start, or continue a successful operation.

## **Future Farmers:**

We feel that future farmers (young or not) will come from three main groups:

1. Those who will be farming on a commercial scale, usually building on a farming business that started one, two or even three generations ago. These producers will likely be producing generic commercial crops and livestock on an extensive basis.
2. Those who will be operating a “lifestyle” farm which will usually be fairly small in scale, producing speciality products and/or serving niche markets with value added products and services. These farms will usually not be able to sustain the operators solely from farm income so “off farm” income will be required, at least initially. These people may transition into full-time farmers or they may not, depending on the individual’s determination to do so and the financial success of their chosen endeavour.
3. Immigrants of various ages have come to start or buy existing farms for a number of years. Some of these have been from Europe where they have “sold out” since it was too expensive to expand and earn enough income to support another family (the next generation). During the early and mid 2000’s Alberta Agriculture even had staff go to various European countries and “entice” farmers to come to Alberta.

We feel the first group will be the major group that will supply the renewal for the agricultural sector, at least on the basis of commodity production and gross income . The (mostly) young people in this group are usually well educated, computer competent

and willing to “tackle” new challenges and the traditions of the industry. The latter influence can be very strong and limiting innovation for younger farmers, especially those in a multi-generational farm. Some of the traditions we are referring to are as follows:

- The desire to individually own capital assets (ie. land, equipment, etc.). The “younger” view is that farmers don’t necessarily have to own land to earn money from it. They don’t have to own all their own equipment (ie. they can share, lease, hire custom operators etc)
- The view that successful farmers are “hands on” people and have to work in the fields or in the barns. The “younger” view is that “hands on” work is necessary but so is “office work” doing business planning, preparing and enacting marketing strategies, spending time on the computer, checking prices and “locking in” profits when they are available etc. It’s interesting to note that some farmers will spend considerable time, effort and money finding and using new input products and techniques for their farming endeavour but are reluctant to spend time or money on business planning or associated consulting services.

The second group may transition into commercial full-time farmers or they may not, depending on the success of their chosen endeavours. Since these people are usually very innovative with low capital commitments they can easily move in and out of new ventures. These people also need support and encouragement since many new and innovative ideas that can lead to successful ventures come from this group. These people are sometimes ideologically driven (eg. organic farmers, consumer direct sales) and are prepared to devote large amounts of time and effort into their ventures so the capital requirements are reduced. Marketing plans, viability assessments and ongoing monitoring of financial progress are important areas for this group.

The third group usually come to Canada with considerable financial assets, expertise and innovative ways of farming which may or may not be applicable to their chosen sector and location in Canada. As they are usually well capitalized they can buy medium to large sized farms and make a success doing so providing they can access and implement “good” local information regarding business management (including finances) production and marketing in their chosen field. Business plans prepared with the help of a consultant familiar with the intended location can help to match the skills and capital to the chosen endeavour.

### **Challenges for Young Farmers**

The main challenge for any new farming endeavour or succession plan is to work through development of a business plan to determine if the anticipated venture can be successful considering the main drivers in any business which are:

- knowledge and education of the operators
- access to capital, land, buildings, equipment etc.
- anticipated profitability of the venture
- adequate human resources to operate the venture

Since the profitability margins in the non-supply managed sectors of agriculture have been slim for many years (except the spike in grain and oilseed prices in 2008) planning for any new venture or multi-generational business arrangement becomes of paramount importance. A detailed business plan with a thorough financial analysis (using accrual accounting) is a necessity. This is best done with a competent consultant since the zeal of the farmer(s) sometimes overcomes the harsh realities of the industry. Lenders are becoming more demanding of their farmer clients and a sound business plan by an impartial third party is more likely to receive a positive response. Also, since margins are slim in the non-supply managed sectors of the industry, financiers are reluctant to lend to farmers in the first place and the current recession has made that situation more difficult.

Family succession arrangements can be especially complicated since the financial as well as the inter-personal and inter-generational issues have to be addressed and often mediated to a workable conclusion for the farming business to continue successfully. On the prairies there is a strong tie to the land, especially if it has been in the family for several generations (sometimes going back to when it was first homesteaded in the early 1900's) and the belief that farmers have to own land. Once the land is "in the family" there is a strong desire by the older generation to "keep it in the family." Thus, the desire for succession usually comes from the older generation. There is also the challenge of trying to find means to compensate the off-farm children. Finding a workable "division of labour," days off, and vacation time are other issues to be addressed.

Unfortunately, in many cases there is not enough revenue generated by the farm to support two families (ie. "pay out" the older generation to provide a retirement income and provide a "decent" living for the successors). If the financial "health" of the farm is not ascertained before a succession plan is implemented, it can lead to serious financial consequences. FDMS (Farm Debt Mediation Service) financial experts have sometimes had to deal with multi-generational farms in financial difficulty because these operations have assumed more and more debt over time to try to meet the cash-flow requirements (including living costs) until the financial situation finally becomes unmanageable.

### **Tools for Young and Future Farmers**

Young and future farmers need some basic tools before they can even consider the possibility of starting their own farm or working with family members. Some of these are as follows:

- Basic education and some experience in their chosen field of endeavour. This should include knowledge in production and marketing as well as business and financial management
- Access to and use of additional sources of information regarding production, marketing and business management as required. This will be an ongoing need. Access to further education in "off seasons" with "on-farm" delivery (eg the Internet) is becoming more attractive. It will also have to be recognized that good impartial information and advice comes with a price.

- Financial assets in the form of equity in an existing operation or savings that can be put towards the purchase or expansion of a farming operation. It has to be recognized that a farming business (or any business) cannot be started without financial resources. It's a good idea for the successors to work off-farm for a few years to save some money that they can then use to "buy into" their parents operation or start their own.
- Training in ways and means to interact with lenders. Since most operations will need access to borrowed capital at some time, knowing how to relate to lenders and the information that they need to review an application will be a significant advantage. A detailed business plan and analysis that makes financial as well as operational sense will greatly help to get a positive response from the lender.
- Access to ongoing support for mental and physical encouragement. This could be in the form of mentorships or peer support groups. Production and marketing clubs and the *Ranching for Profit* KIT (Keeping in Touch) and Executive Link groups as well as "Rock the Farm" (an Alberta Young Farmers conference) are examples of these. The added benefit of these is that they will aid in the implementation of operational changes and new technologies since there is peer support (from progressive people) which is usually the most trusted advice.
- Information and training in farm succession for both the "older" and "younger" generations if that is the desired objective.

### **Common "Young and Future Farmer" Business Problems**

There are many problems and pitfalls that any upstart business operation can have. The AABC input group has encountered many situations through its years of advising hundreds of farmers on business matters. The following list is a collection of some of the more common problems we have encountered:

- Not having an individual business plan that is sound operationally and financially. As mentioned previously, in the present financial climate, lenders are very conservative in their lending practices so obtaining loans for young and beginning farmers is difficult.
- Borrowing too much money too quickly. Total debt (current, intermediate and long term) should be no more than 40% of total assets and 25% debt is a comfortable area to be in.
- Borrowing money for ventures that have not been carefully investigated and financially analyzed to determine if they have a reasonable chance of making a profit.

- Entering into a farm succession arrangement without first investigating all the inter-personal (including the in-laws) and financial implications in detail and/or without considering the off-farm children. The determination must first be made if the members of the total family unit can work together cohesively and can generate enough income for all the parties involved. Consideration must also be given to the off-farm children. These considerations are very important to the overall harmony of the extended family. If the succession plan is not done compassionately it may result in animosity among the members or even breakup of the farming unit and overall family.
- Not having enough debt service ability with “average” input costs and output market prices. If the debt load is too high the operation will have to hope for below average input costs and above average crops and market prices which rarely happens. The result is that short term debt usually has to be amortized over several years so more short term debt can be assumed to pay for operating expenses. The overall effect (over time) is that the total debt load rises to a point where it is not serviceable and financial ruin results.
- Retiring (paying down) loans too quickly and/or buying new capital assets that often are not necessary from an operational viewpoint and definitely not desirable from a financial viewpoint. Both of these situations again will put a strain on cash-flow for operational needs some time later.

### **Recommended Actions**

- Multi-generational farm families that want to develop successful succession plans have to realize that those plans require considerable time, effort and money. The plan must be individual to their particular farm situation and it is best done with a qualified consultant. Since these are “once in a lifetime” events they should be done with due care and attention.
- After the decision has been made to develop a succession plan, the “older” and “younger” generations should try to gain information on the subject. That is by working together to gather and study information and then by going together to seminars and conferences. There are a variety of resources available but they are not well coordinated. Better coordination on this topic by a national agency via the Internet (eg. [www.farmcentre.com](http://www.farmcentre.com)) would help with awareness. It’s gratifying to note that the Ontario Ministry of Agriculture, Food and Rural Affairs has just launched a website for new farmers [www.ontario.ca/NewFarmer](http://www.ontario.ca/NewFarmer).
- Government support for events like “Rock the Farm” sponsored by FABB (Future Agriculture Business Builders at [www.fabb.ca](http://www.fabb.ca)) is a good way to invigorate the next generation. This event is already being supported by the Wild Rose Agricultural Producers in Alberta (website [www.wrap.ab.ca](http://www.wrap.ab.ca)). Assisting peer support efforts is probably the best way to teach young farmers

- Government assistance for succession planning as was the case under the APF Renewal Chapter. For concerted renewal to take place in the industry, a determined effort must be made and the federal government is best suited to foster that renewal. Unfortunately under the *Growing Forward* program in Alberta, Alberta Agriculture and Rural Development will only provide assistance for succession planning that involves non-related “older” and “younger” generations. It seems the department is not interested in assisting succession planning in a meaningful way since the large majority of succession plans will be between related generations.
- Government assistance for young farmers to take the training and development needed to run profitable businesses. A program that is similar in function to the former Canadian Applied Skills Services (CASS) program that operated under APF. Accessing information is not that difficult, paying for it seems to be the issue.
- A viable business plan prepared by a competent and impartial third party should be required before government assistance is provided to individual farmers. It makes no sense to provide assistance to farms that cannot show viability. This is the harsh reality of being in business. It was gratifying to see that business plans were required for hog farms that received government guaranteed loans under the Hog Industry Loan Loss Reserve Program (HILLRP).
- There should be favourable tax laws to allow operating structures for a number of farms to work together through joint ventures or cooperative which can pool capital purchases to build economies of scale and implement operating efficiencies. For example, not every farmer can afford a \$400,000 combine but one combine can often harvest four farmers’ fields.

### **Background Information:**

The Alberta Ag Business Consultants (AABC) is a group of independent farm financial consultants who were rostered under the former Agriculture Policy Framework (APF) Renewal Chapter, Canadian Farm Business Advisory Service (CFBAS) and its predecessors. Some are also “financial experts” under the Farm Debt Mediation Act. Since the cessation of the APF in 2009 most of the consultants that were rostered chose to become members of the AABC which is a voluntary association of like-minded people who have joined forces for networking and marketing purposes. AABC has recently become a chapter of the Canadian Association of Farm Advisors (CAFA) which is a national body to foster professionalism, accountability and continuing professional development among its members.

The following members of AABC collaborated on this brief (input panel):

- Owen Nelsen – is a young man who has 20 years of hands-on farm experience as well as 8 years of farm financial consulting experience. He is an agriculture graduate (B.Sc. Ag.) from the University of Alberta and a Professional Agrologist (P.Ag.) member of the Alberta Institute of Agrologists. Owen has his own farm which he has been operating for the last four years. He has been involved with “Rock the Farm” which is an annual conference for young farmers and sponsored by the Future Agriculture Business Builders of Alberta (website <http://www.fabb.ca/>) which is a young farmers networking organization.
- Larry Lindquist – has been a farm financial consultant and Farm Debt Mediation financial expert since 1998. Since that time he has completed about 300 farm business plans and financial analyses. Prior to 1998 he worked for 20 years as an agricultural lender for provincial and federal agencies. Before that he operated his own farm for 14 years. He is a graduate in agriculture (B.Sc. Ag.) from the U of Alberta and a professional agrologist (P.Ag.) member of the Alberta Institute of Agrologists
- Larry Morin – has a business diploma in finance from the Northern Alberta Institute of Technology (Edmonton), completed an Olds College finance course and courses from the Canadian Bankers Institute. He has 20 years of experience as an account executive with a major chartered bank, worked three years on a beef traceability project and for the last seven years has been an independent farm financial consultant. He has recently been rostered as a “financial expert” under the Farm Debt Mediation Service and currently operates a small grain farm in Northern Alberta.
- Gordon Williams – has a B.Sc. degree and 20 years of farm financial experience. He works as an independent farm financial consultant. He has taught farm financial management courses for 20 years and at colleges in Alberta and operates his own small cattle ranch. He was a CFBAS consultant and taught private farm management classes under the CASS (Canadian Agricultural Skills Services) program which operated under the APF Renewal Chapter.
- Art Lange – is a graduate in agriculture (B.Sc. Ag.) from the U of Alberta and a professional agrologist (P.Ag.) registered with the Alberta Institute of Agrologists. He is also a Certified Agricultural Farm Advisor member of the Canadian Association of Farm Advisors (CAFA). Art has a broad range of agricultural experience having worked in the sector for 40 years, on farms, for the provincial and federal governments and private industry. For the last six years he has been an independent financial consultant for the farming and food processing industries. During that time he has completed about 100 business plans.