

Topic 22: Deal Breaker Issues

Most farmers will have been involved in a transaction or business deal where, at the last minute, something changed and derailed the deal. Similarly, this can happen in transition planning. The transition planning process in most situations is spread over a considerable length of time. People involved have opinions on what they think should happen. Frustration and conflict can arise as situations change.

The purpose of conducting a review of deal breaker issues is to proactively determine whether or not issues exist that could derail the whole process. The next steps in the transition planning process are to talk with your professional advisors (lawyers, accountants, insurance and investment advisors). These discussions result in costs. The result of these discussions are the first steps in implementation. Therefore, it is better to work through this review as a final check and make appropriate corrective actions where required before proceeding.

How will this help transition planning?

- The exercise focuses discussion on potential issues that may be unresolved or may become an issue in the future.
- It can save a significant amount of time, money and emotion by dealing with unresolved issues now, before moving to discussions with professional advisors and plan implementation.

Instructions

1. All family members involved in the transition plan discussions should participate in this exercise.
2. Each family member should review the questions included in the exercise.
3. Each family member should think about the discussions that occurred within each of the question areas of the transition planning process.
4. Once everyone has reviewed the questions, discuss them one by one.
5. Answer each question with a yes or no.
6. Enter appropriate comments. There may be no comments if you have answered no to the question.
7. If corrective action is required (usually when the answer to the question was yes), decide among the family members what action is required and write it down.
8. Decide among the family members if all deal breaker issues have been identified and resolved and answer the final question appropriately. If the answer is no, stop the process and work to resolve whatever outstanding issues may exist.
9. If the answer to the last question is yes, move on to the next step in the transition planning process.



EXAMPLE: In this example, Rob and Faye Sample are in the process of transitioning the farm to John and Rebecca Sample. The farm had one full-time employee, Jim.

DEAL BREAKER ISSUES

Complexities

Are there succession complexities outstanding that have not been dealt with?

Comments: *Yes, but follow-up plans have been made.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Guiding Principles

Are there areas of major disagreement within the farm's guiding principles?

Comments: *No*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Conflict

Is there unresolved conflict (visible or hidden) between stakeholders? Will this conflict hamper the management team's ability to manage post implementation?

Comments: *No*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Strategic Direction

Can the risks identified be mitigated satisfactorily so as to not endanger the farm's future? Are all stakeholders committed to managing according to the agreed upon action plans and financial targets?

Comments: *The risk of management capacity can be developed to deal with farm growth. Yes stakeholders are committed to managing according to the action plans and financial targets.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Transition Options

Are all stakeholders satisfied with the proposed business structure and future management structure? Has there been any seriously negative feedback from professionals that cannot be incorporated into the plan?

Comments: *Yes stakeholders are satisfied and all feedback can be incorporated into the plan.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Human Resources

Are all stakeholders satisfied with their roles, responsibility and authority during transition? Is the training/skill set program content and timeline attainable? Are all stakeholders satisfied with the compensation policy and performance review process?

Comments: *John and Rebecca have agreed to the compensation plan but Rob and Faye feel they may not be being realistic about the income they will need as a full time farm family. They are worried John and Rebecca will come back asking for more money in a few years' time and the farm may or may not be able to provide this increase in wages.*

Corrective Action (if any): *Go back to the financial plan and increase wages to see if the farm can support this level of withdrawal.*

With corrective action can the plan proceed to Agreements and Implementation? *Yes. If the plan shows the farm cannot support higher income levels, Rebecca has agreed to work off the farm if necessary.*

Estate Plan Elements

Can all stakeholders accept the estate plan? Is there conflict/feeling of resentment associated with the estate plan that needs to be addressed?

Comments: *All stakeholders have agreed to the plan.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Are we ready to proceed to Implementation? *(YES)*

How does this apply?

This section is designed to put the transition planning process on hold briefly and encourage everyone to review aspects of the plan that have been discussed. It is an opportunity to look at things that may still be troubling some of the family members before the plan moves to implementation.



PLANNING POINTERS:

- Try to make sure that everyone has input into this discussion.
- Store the document for future reference in case someone in the family raises an issue in the future. You can point out that everyone had a clear opportunity to raise any concerns or objections.



EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Deal Breaker Issues exercise on pages 299-302.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress



Deal Breaker Issues

Challenges

Are there transition challenges outstanding that have not been dealt with?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Guiding Principles

Are there areas of major disagreement within the farm's guiding principles?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Conflict

Is there unresolved conflict (visible or hidden) between stakeholders? Will this conflict hamper the management team's ability to manage post implementation?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Strategic Direction and Risk Management

Can the risks identified be mitigated satisfactorily so they don't endanger the farm's future? Are all stakeholders committed to the goals and vision that have been established?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Transition Options

Are all stakeholders satisfied with the proposed business structure and future management structure? Has there been any significant negative feedback from professionals that cannot be incorporated into the plan?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Human Resources

Are all stakeholders satisfied with their roles, responsibility and authority during transition? Is the training/skill set program content and timeline attainable? Are all stakeholders satisfied with the compensation policy?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Estate Plan Elements

Can all stakeholders accept the estate plan? Is there conflict or feeling of resentment associated with the estate plan that needs to be addressed?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Are we ready to proceed to the next step (talking to professional advisors)? (YES/NO)