

# *AGRICULTURE TODAY: IT IS WHAT IT IS... WHAT SHOULD WE DO ABOUT IT?*

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Macro Clinic Video Blog: [www.compeer.com/education](http://www.compeer.com/education)

Road Warrior of Agriculture: [www.cornandsoybeandigest.com](http://www.cornandsoybeandigest.com)

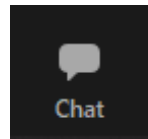
Ag Globe Trotter: [www.northwestfcs.com](http://www.northwestfcs.com)

Dave's GPS & Dashboard Indicators: [www.farmermac.com](http://www.farmermac.com)

# Chat Question 1



## Where are you located?



To: All panelists and attendees ▾

Type message here...

Click on the Chat button at the bottom of the Zoom window.

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# ***2020s- The Decade of Economic & Financial Divide***

- economic volatility in extremes
- manage the controllables & manage around the uncontrollables
- adapt, innovate, focus & follow the process
- decade of management transition
- decade of the agri-entrepreneur

# *Global Macro Economic Risk*

(1)

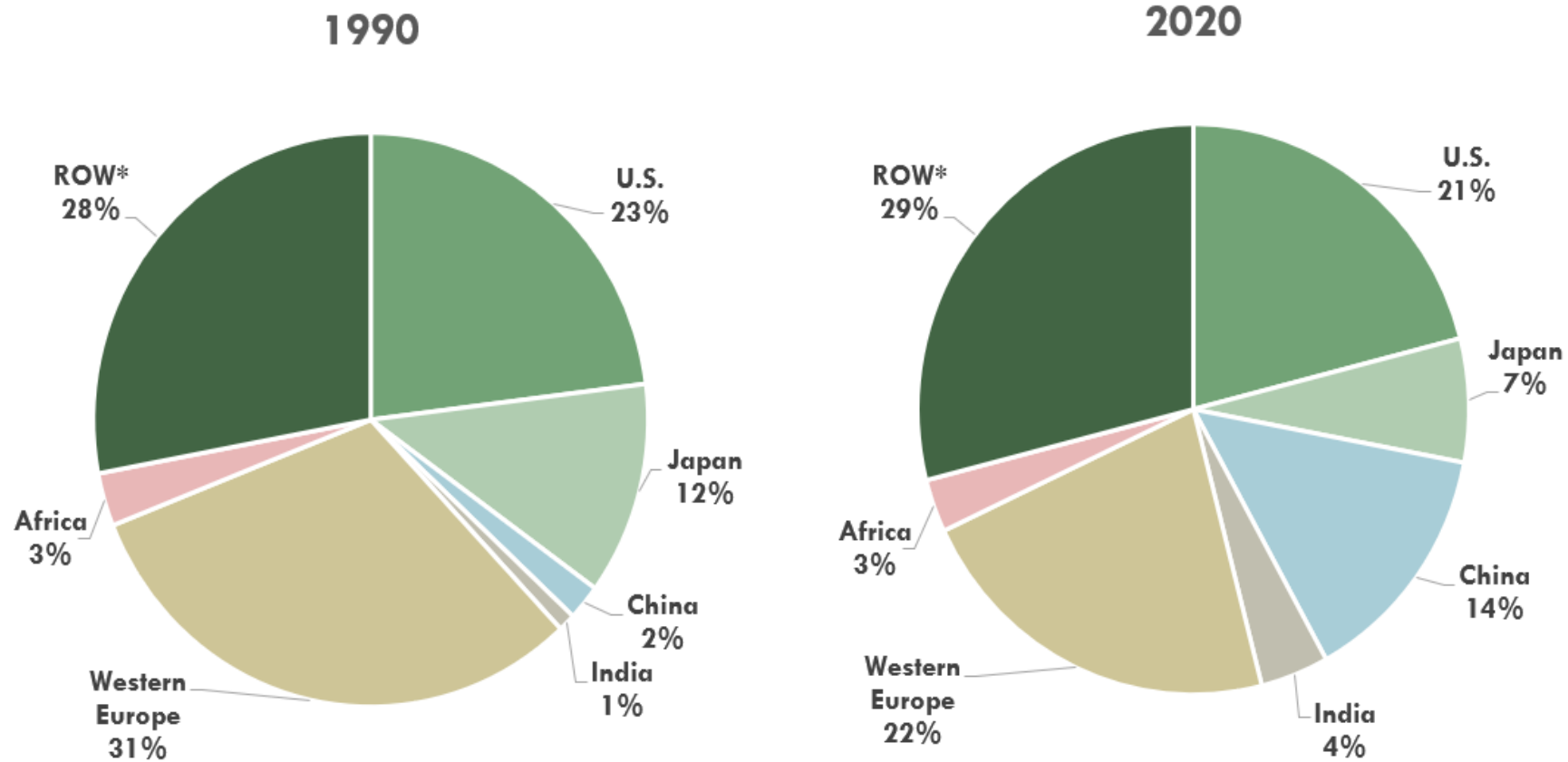
- globalization vs. deglobalization
  - 1995-2017 purchasing power parity, hyperglobalization
    - emerging nations 2x plus
    - rich nations 44%
  - 1990-2008 global trade share of GDP 39% increase to 61%
  - 2009-2017 global trade share down 9%
    - financial crisis
    - governments, businesses and consumers agendas
  - (ISI) import substitution industrialization strategy
    - supply & marketing chains
    - made in China 2025
    - India, Europe, & U.S. more self reliant
    - concentration vs. diversification

# *Global Macro Economic Risk*

(2)

- disjointed U.S. & global recovery
  - 90% economy
  - 50-75% economy
  - 125% economy
- trade agreement uncertainty
  - Australia vs. China
  - rich nations vs. China
  - Belt & Road Initiative, medical innovation path
- central banks/government supports for ag
  - U.S./global support \$2 billion per day
  - duration of support & global competitiveness
  - government encroachment, taxes, regulations, other

# *Rising of Asia*



\* ROW- Rest of World

Source: Global Insights, August 2018

# Global Trade Perspectives

<u>Trade Agreement</u>	<u># Countries</u>	<u>Population</u>	<u>GDP</u>	<u>Trade Value</u>
RCEP <sup>1</sup>	15	2.7 Billion	\$25.8 Trillion	\$12.5 Trillion
CPTPP <sup>2</sup>	11	508 Million	\$11.1 Trillion	\$7.6 Trillion
USMCA <sup>3</sup>	3	493 Million	\$24.4 Trillion	\$7.8 Trillion

<sup>1</sup>**RCEP**- Regional Comprehensive Economic Partnership (15 Asian Countries)

<sup>2</sup>**CPTPP**- Comprehensive & Progressive Agreement for Trans-Pacific Partnership  
(Canada & 10 countries in the Asia-Pacific region).

<sup>3</sup>**USMCA**- United States-Mexico-Canada Agreement (North America)

# *Radar Screen for 2021*

- minimum wage
  - automation
  - business consolidation
- oil & energy complex
  - supply & demand
  - technology, electric, etc.
- taxes
  - income taxes
  - wealth tax
- deurbanization
  - commercial real estate values
  - rural renaissance
  - broadband internet
- regulation
  - swagger in existing regulations
  - environmental
  - labor
  - banking





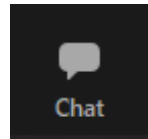
# ***Radar Screen for Short to Long Term Management***

- one off income
  - build working capital
  - paydown debt
  - build efficiency
  - capital expense maintenance
  - major expansion
- Mexico
  - value of the dollar
  - Mexican economy
- interest rates/inflation
- value of land
- carbon payments acceleration mid decade
- non meat, non dairy alternatives
- information and big data predictive analytics

# Chat Question 2



**What is one positive about working in the agricultural industry?**



To: All panelists and attendees ▾

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# *Advice & Wisdom for Young Farmers*

- establish goals
  - six degrees of goal setting
  - 80-16-4 rule
  - 20% rule
- complete a projected cash flow
  - 80% of business plan
  - best, average, and worst case scenarios
  - projected vs. actual variance analysis
- use a family living budget
  - monthly
  - 25% rule
  - separate, no comingling
- live modestly- invest in productive assets
- have good mentors & advisory team members

## *Management Mindsets for the 2020s*



# *Aligning with Mindsets*

## **Producer A**

- How do I compare?
- What are others doing?
- think longer term & what is on the horizon

## **Producer B**

- Will a lender finance me?
- Will I survive for another year?
- often a know it all or victim

## **School vs. Real World Perspective:**

In school, you get the lesson first, then the test.

In the real world, you get the test first, then the lesson.

# Management Assessment

## Greens

- adaptive to a situation- proactive
- 5% rule
- get efficient before getting bigger
- sweat the small stuff
- plan, strategize, execute & monitor
- process oriented
- advisory teams

## Yellows

- success because of equity & history vs. profitability & cash flow
- preparing the next generation
- bigger before better, examine human horse power
- magic bullet- the next big thing

## Reds

- waiting for prices & markets to save them
- excuse game, not my fault
- lose money, equity keeps them going
- 80/20 rule is alive & well

# Business IQ: Management Factors

## Critical Questions for Crucial Conversations

Farmer Checklist	Your Score	Green (3 points or 4*)	Yellow (2 points)	Red (1 point)
1. Knows cost of production		Written	In head	No idea
2. Knows cost of production by enterprise		Written*	In head	No idea
3. Goals - business, family, & personal		Written*	In head	No idea
4. Record keeping system		Accrual	Schedule F (one & done)	No idea
5. Projected cash flow		Written*	In head	No idea
6. Financial sensitivity analysis		Written*	In head	No idea
7. Understand financial ratios, break evens		Written*	In head	No idea
8. Work with advisory team and lender		Yes*	Sometimes	Never
9. Marketing plan written and executed		Yes	Sometimes	Never
10. Risk management plan executed		Yes	Sometimes	Never
11. Modest lifestyle habits, family living budget		Yes*	Sometimes	Non existent
12. Written plan for improvement executed & strong people management		Yes*	Sometimes	Non existent
13. Transition plan/Business Owner plan		Yes	Working on plan	Non existent/controversy
14. Educational seminars/courses		Yes*	Sometimes	Never attend
15. Attitude		Proactive	Reactive	Indifferent

### \*Extra Points:

- **Progressive Business** may receive 4 points for #2,6,7,8,14  
 - **Struggling Business Attempting Turnaround** may receive 4 points for #3,5,8,11,12  
 (See pg. 2 for Progressive and Attempting Turnaround)

### Score

### Overall Analysis

35-54

Strong management rating, strong potential for resiliency & agility

24-34

Moderate management rating, potential issues in resiliency & agility

<24

Weak management rating, potential major issues in resiliency & agility

# ***Business IQ Exercise***

After completing the Business IQ: Management Factors Scorecard, what are three areas/points in your business that you will continue and three areas/points for improvement?

Three areas/points to continue:

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

Three areas/points to improve:

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_



# *How Can Team Members Use Business IQ as a Tool for Producers?*

- screener for attitude to improve
- each family member, business partner, spouse complete the Business IQ separately
- assists in prioritizing improvements
- communication tool- internal and external to team of advisors
- customer develops plan for improvement to improve or buy in
- objective way to measure management
- monitoring tool, year over year

# Business IQ Summary: Areas to Continue/Improve

## HUSBAND – BUS IQ: 53

### 3 Areas to Continue

- 1 Irrigation/manure mgt
- 2 Intense office management
- 3 Improve crop/livestock efficiency

### 3 Areas for Improvement

- 1 Office management using CFO's talent
- 2 More efficient labor
- 3 Executing the marketing plan

## WIFE – BUS IQ: 39

### 3 Areas to Continue

- 1 Record keeping- ratios, B/E
- 2 Cost of production (livestock)
- 3 Productivity of crops & livestock

### 3 Areas for Improvement

- 1 Financing without high interest rate
- 2 More seminars on ratios/break-even
- 3 Communications & employees' knowledge of how the business works

## DAUGHTER – BUS IQ: 38

### 3 Areas to Continue

- 1 Researching cost effective crop/livestock mgt practices
- 2 Diversifying the farm in livestock
- 3 Searching for a new ag lender with better rates

### 3 Areas for Improvement

- 1 Employee handbook with written guidelines & perf. evaluation
- 2 Lease equipment to avoid high repair bills and subscription fees
- 3 Crop/livestock KPIs

## CFO – BUS IQ: 40

### 3 Areas to Continue

- 1 Crop Production
- 2 Custom Hire
- 3 Diversifying in livestock

### 3 Areas for Improvement

- 1 Debt restructuring-reduce interest expense-improve cash flow
- 2 Lease versus buy equipment
- 3 Pay invoices within terms to avoid finance charges & get cash discounts

## LENDER – BUS IQ: 35

### 3 Areas to Continue

- 1 Crop production KPIs
- 2 Using equipment longer before trading
- 3 Getting outside advice

### 3 Areas for Improvement

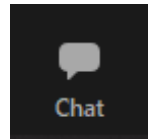
- 1 Cash flow - extending current loan terms
- 2 Comparison of budget to actual
- 3 Crop/livestock inventory



# Chat Question 3



**What is one valuable piece of advice that you have learned from a mentor, teacher, parent or peer?**



To: All panelists and attendees ▾

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# ***The Feisty Fifteen: Problems Your Business Should Have***

(1)

- Your business pays lots of taxes.
  - find sweet spot of paying taxes vs. deductions
- Your lender wants to loan you money.
  - strong profits/cash flow
  - war chest for working capital - greater than 25% of operating expenses
- You have growth frustrations, just can't grow fast enough.
  - overestimate capital and time by 25%
  - term debt to EBITDA < 5 to 1
  - working capital to debt service > 5 to 1
  - human horsepower & management acumen
- Everyone wants to work for you.
  - attract & retain the right people, including family members
  - be a work culture magnet
  - over compensate productive people

# ***The Feisty Fifteen: Problems Your Business Should Have***

(2)

- Your business has excess cash sitting around.
  - cash is queen
  - blocking capital in adversity
  - opportunity capital for purchases or acquisitions
- In a family business, the older generation suddenly wants to exit, and they have at least 50% of retirement income generated outside the business.
- You have time for family & friends when neighboring businesses don't.
  - 2,500/500 hour rule
- You could walk away from the business for one month and it functions fine without you.
- You left money on the table when marketing this year's crop or livestock.
- The younger generation spends too much time in the office on the computer and in the books.
- You must spend money for a facilitator and team of advisors for your transition/estate plan.

# ***The Feisty Fifteen: Problems Your Business Should Have***

(3)

- Your neighbor comments that you spend too much time at seminars and conferences, and you have heard it all before.
- Even though you are financially successful you still spend time refining your written business plan.
- You don't have to bring your personal checkbook to the business board meeting.
- Mom & Dad, Grandma & Grandpa are upset about those tough questions that you are asking in developing the business plan.

# *Wisdom for Leadership Across Generations*

- Michael Jordan & Richard Petty rules
- if you lead, you must read
- sweat the small stuff- 5% rule
- 50-25-50 children's finance rule
- hire for attitude first , aptitude second
- business success = balance head (numbers) with your heart (passion)
- network of people = self worth + financial net worth
- six degrees of goal setting
- “Watch how people in positions of power treat the front line people.” - Coach Tom Murphy, Hall of Fame Basketball coach
- D.A.I.R.Y. of Life



## *Q&A With Dr. David Kohl*

