


# FUTURE-PROOFING THE BUSINESS



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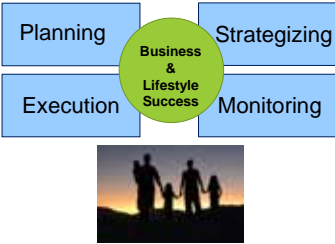


## Future-Proofing the Business

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### Four Cornerstones of Success




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### Goal Setting

- 80-16-4 Rule
- Six degrees of goal setting
- Short term- 1 year or less
- Long term- 3-5 years
- Goals should be S.M.A.R.T.
- Business, family & personal
- Mental, physical & spiritual
- 20% of top producers have written goals
- Developing written goals: earn 4 times as much in lifetime



*"Goals provide focus in a cluttered world."*

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### 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, 5, 7, 8, 14  
 Strategic/Business Adapting Turnaround may receive 4 points for #2, 8, 11, 12  
 (100% of 2007 Progressive and Attempting Turnaround)

**Score Overall Analysis**  
 35-50 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

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### 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:

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

### Financial Liquidity & Cash: The Bridge

- Shock absorber- cash flow, profits
- Preserve wealth or liquidity fallback
- Proactive positioning – opportunity capital



"Cash is queen on a chessboard".

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### Working Capital by the Numbers

- Working capital to expenses
- >25% green light
- 10-25% yellow light
- <10% red light

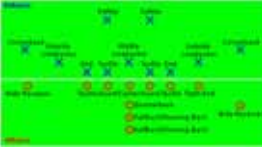


"44/11: where do you stand?"

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### Playing Defense vs. Risk

- Defensive Line = Cash Flow & Profits
- Linebackers = Working Capital
- Pre-Safeties = Equity
- Safety = Collateral




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### Projected Cash Flow (Financial Sensitivity Analysis)

- Best, average & worst case scenarios "best of the best"
- Monitor more than annually- "variance analysis"
- 10-10-5 financial sensitivity




*Cash flow & financial sensitivity analysis are the "financial guardrails".*

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### Profitability

- 60-30-10 profit plan
- Term debt to EBITDA
  - <3:1 Green (moderate agility/resiliency)
  - 3:1 to 6:1 Yellow (some resiliency, little agility)
  - >6:1 Red (low agility/resiliency)
- Earnings & turns
  - Margin X capital turnover = ROA



*"Profit is the oxygen of the business."*


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### Business Succession Planning

ESTATE PLAN vs TRANSITION PLAN

- The transfer of assets & equity
- The transfer & evolution of management & culture



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### Two Business Turnarounds - The Rest of the Story...

- Weekly & monthly cash flow projections & monitoring
- Mini victories ripple through the organization
- Get better before you get bigger
  - Enterprise analysis
  - KISS (Simplify, simplify, simplify!)
  - Duplication of the processes
- Toxic people = toxic environment
- Capital, expertise bridge & commitment
- Three actions of being a five percenter
- Board member from outside the industry
- Best, average, worst case financial scenarios – financial guardrails
- Best of the best scenario for internal challenge
- 80% of business is existing customers (Keep the fox out of the hen house!)
- Low hanging fruit – new markets, pricing strategy, ahead of inflation
- Relationship lender with expertise

*What Got Us Here Won't Get Us There!*

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### The Five-Percenter Assessment

"Being a little better in many areas encourages prosperity."

**5<sup>th</sup>**

Checklist	Yes	No	High Level Benchmarks
1. Do you have written goals for business, family & personal life?			28%
2. Do you develop and monitor a cash flow?			49%
3. Is your working capital at least 25% of expenses?			44%
4. Is cash or near cash at least 25% of working capital?			N/A
5. Do you know your cost of production & breakeven points?			42%
6. Did you complete a Business IQ assessment?			32%
7. Do you have written core values, mission & vision?			45%
8. Is your business' history written?			38%
9. Do you have a marketing management plan that is executed and monitored?			42%
10. Do you have a risk management plan that is executed and monitored?			55%
11. Do you have an estate plan for transfer of assets?			60%
12. Do you have a management transition plan?			24%
13. Do you have an advisory team that meets periodically?			38%
14. Do you have a deliberate education plan to attend 5 seminars & read or listen to 10 podcasts or books annually?			N/A
15. Have you completed a personality assessment?			80%
<b>TOTAL SCORE</b>			

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### The Five-Percenter Assessment

"Being a little better in many areas encourages prosperity."

**5<sup>th</sup>**

Score	Rating	Overall Analysis
>12 Yes	Green	A little better in many components of your operation.
9-12 Yes	Yellow	A little better in many components of your operation, but aim for a few more.
5-7 Yes	Orange	A little better in some areas of your operation, but work on other areas.
<5 Yes	Red	A little better in a few areas of your operation, but work on many other areas.


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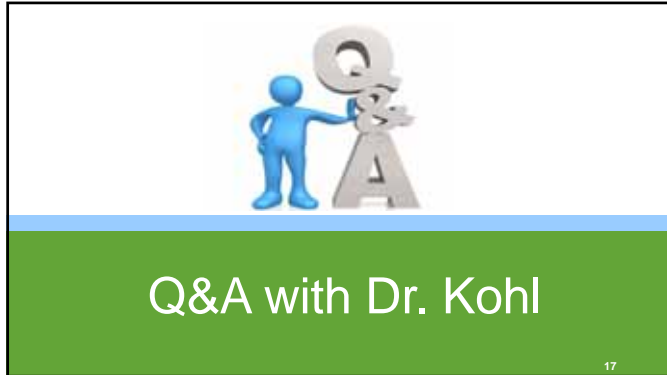
### Future-Proofing Your Business & Life for Success

- There is no culture without success in agriculture.
- If it grows too fast, it's a weed.
- You are no better than the people you know and interact with.
- Net worth in financials & quality of life is = to your network of people.
- There are no traffic jams in the extra mile!
- Success is often measured by dollar signs. Significance is giving back and making a difference in people's lives.
- Write a handwritten letter to three people annually that are important in your journey of business and life.



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<b>Office:</b> (540) 961-2094 Alicia Morris	<ul style="list-style-type: none"><li>▪ Farm Progress Weekly Article: <a href="https://www.farmprogress.com/author/david-kohl">https://www.farmprogress.com/author/david-kohl</a></li><li>▪ Ag Trends &amp; Insights Videos <a href="https://agwestfc.com/education-and-resources/industry-and-economic-insights/economic-updates/agricultural-trends">https://agwestfc.com/education-and-resources/industry-and-economic-insights/economic-updates/agricultural-trends</a></li><li>▪ Dave's GPS &amp; Dashboard Indicators <a href="https://www.farmermac.com/news-events/daves-gps/">https://www.farmermac.com/news-events/daves-gps/</a></li></ul>	18

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