How to Think Like a CEO

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Responsibilities of a CEO

• Creating and communicating the company’s overall mission.
• Creating and implementing the strategic plan that guides the direction of the business.
• Monitoring the performance to plan.
• Directing and evaluating the work of departments of the business.
Responsibilities of a CEO

• Soliciting advice and guidance from the board of directors or advisory board
• Evaluating the success of the organization.
• Knowledge of the external environment such as competitive landscape, opportunities for expansion, and new industry developments.
Responsibilities of a CEO

• Demonstrating the leadership needed to make the organization's mission a success. This leadership includes creating a culture and environment for employees of the business to be successful.
Objective

Define the Industry model and characteristics that would have the best ability to withstand volatility, uncertainty, and shocks for both revenue and expense of the business.
The Business Model Definition

How a business generates profits and how it carries out its day to day operations:

- components
- functions
- revenues
- expenses
Preferred Model

A dairy operation that has structured its business as “integrated from the cow down.” An operation that controls the management and inputs for:

• Dairy production
• Crop and Feed
• Replacement Heifers
Ownership & Business Structure

Multi generation tightly held family with disciplined approach to utilizing business practices:

• Organizational chart – defined roles and responsibilities
• Formal process with contractual agreements
  • operating
  • rental
  • purchase contracts
  • employment
  • buy-sell
  • etc.
Ownership & Business Structure

• Demonstrated ability to delegate and empower the team for the benefit of the business, owners and employees

• Non related partnerships or entities that subscribe to the same business organizational elements.
Human Resources

Accomplished skill and commitment to human resource and labor management.

- Formal job training programs
- Employee expectations and code of ethics
- Performance reviews
- Compliance smart – environmental, immigration, OSHA, wage, and tax regulations
Feed, Nutrient & Environmental Management

- Established land base with owned or leased acres
  - adequate to produce corn silage and a portion of the hay/haylage needs

- Control of acres is strategic as they can use nutrient credits from the farm's own manure
  - utilized by growing crops that will lower input costs, improve nutrient uptake by the crop and in turn lower the farms cost of production
Technology & Efficiency

• Full utilization of capital investments to maximize profit potential

• Adopt proven technologies when practical and profitable
  – BST, sexed semen, GMO crop hybrids, LPCV barns, genetic testing, etc.
Best Management Practices

• Cow comfort with animal welfare a “priority”
  – Sand bedding, heat abatement, ventilation and cooling systems, stocking rate

• Intense forage production and nutrition programs: transition management (dry, pre-fresh, post fresh) herd health, components

• Reproduction — sync, timed, visual, vendor provided

• Parlor Management – Productivity of labor, efficiency, milk quality
Best Management Practices

• Commitment to employee training and internal communications

• Use of production management systems and tools – dairy comp, tracking, monitoring, scales, etc.

• Encourage employee philanthropy

• Maintain a sense of humor
Facilities

• Priority on production efficiency
  – cow comfort, labor efficiency, cost effective automation, and technology

• Facilities that maximize milk production and quality at the lowest cost possible

• Efficiency and economies of scale
  – Parlor size, housing, feed and nutrients storage in a fashion that captures both efficiency and scale
Financial Management

• Accrual accounting with quarterly close outs.

• Preparation and monitoring of annual budget

• CAPEX - will it increase efficiency, increase production or lower cost

• Financial aptitude
  – Working capital, cash flows, capital management and the need for long term growth for equity in the business
Financial Management

• Understand what influences breakeven price and cost-of-production

• Implement a risk management program that considers both revenue and expenses

• Utilize consulting resources in the area of production, finance, business, marketing, tax and intergenerational transfer planning
Character

• Demonstrates trust, integrity, honesty and ethics in the manner in which the individuals, partners and owners conduct their business activities

• Accomplished history of proven financial performance

• Motivated by financial achievement and management intensity are necessary values
Why Think Like A CEO?

• To achieve the next level of operational and financial success
• Promote financial growth through the judicious use of “Capital” and the application of “Best Management Practices”
• Sustainable success will come from working “on” the business rather than “in” the business
Why Think Like A CEO?

• Well managed, adequately capitalized, highly organized, and proactive businesses do well regardless of the overall economic business climate.
Land Values

• AgStar doesn’t believe we are on the verge of a real estate bubble. There will likely be a correction at some point but we don’t know when or how much. We consistently monitor certain metrics to signal if a bubble is on the horizon, which could increase the chance of correction.
Land Values

• Some of these metrics include:
  – Farm debt to asset ratio
  – Availability of export markets
  – The existence of a farm safety net (e.g. government payments and crop insurance)
  – Increasing interest rate environment
  – Land not being rented and cash rents not being paid
Land Values

• Every situation is unique, AgStar has developed an approach to land values based on a formula which uses an analysis of historical data from several sources in order to project a value we believe can be sustained throughout agricultural cycles. We have developed our point-of-view, based on the following long term assumptions:
• $10.50 beans, $4.50 corn. Land values should equal approximately 25 times the rental value.

• Additionally, the long term assumption is that rental rates should be about 34% of gross revenues.

• Due to the variability in land quality and make-up (tillable/irrigation etc.), a set dollar per acre is not an appropriate, long-term approach to real estate lending.
Land Values

• AgStar has developed a tool that allows you to see the historic land prices for your area, The Land Summary tool is available at www.agstar.com and allows you to choose your state, county and date range to find out about recent land sales.
Questions??