

# How to Think Like a CEO

**Greg Steele, Vice President-Agribusiness Capital,  
AgStar Financial Services**

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# Responsibilities of a CEO

- **Creating and communicating the companies 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.**

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# 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:**

# Land Values

- **\$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](http://www.agstar.com) and allows you to choose your state, county and date range to find out about recent land sales.**

# Questions??

