

Sonoma County Winegrowers

Succession Series Workshop #3

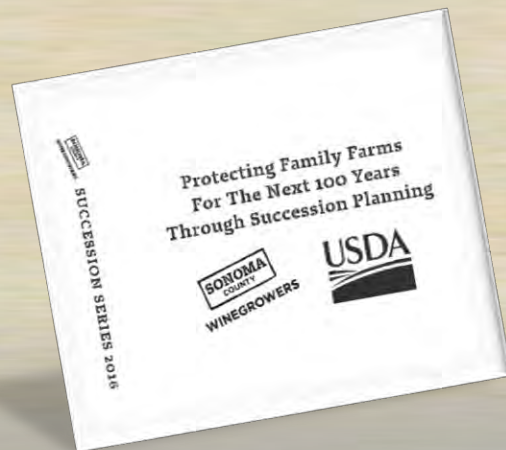
February 13, 2017



Succession Series Overview



1. November 3: Insurance to Manage Risk
2. December 14: Family Dynamics (am/pm session)
3. **February 13: Strategic Planning for Farm Operations**
4. **March 23: Core & Best Practices I: Employee Retention**
5. **April 14: Core & Best Practices II: Operational Compliance**
6. **June 12: Synthesis & Achieving Success**

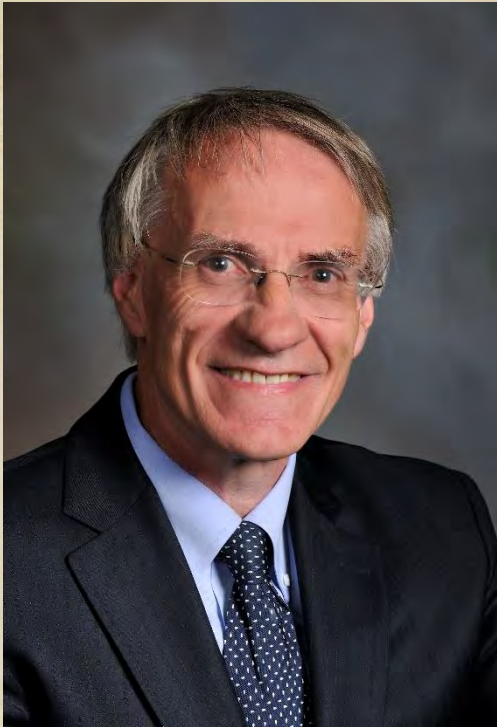


- ✓ Attend all sessions
- ✓ Bring your family members or key personnel



Strategic Planning for Farm Operations

Dr. David Kohl



- M.S. and Ph.D. degrees in Agricultural Economics from Cornell University.
- Professor of Agricultural Finance and Small Business Management and Entrepreneurship at Virginia Tech for 25 years.
- Conducted more than 6,000 workshops for agricultural groups (bankers, Farm Credit, FSA, and regulators, producers and agribusiness groups).
- Has published four books and over 1,500 articles on financial and business-related topics

ECONOMICS & MEGA TRENDS IMPACTING STRATEGIC PLANNING

Dr. David M. Kohl

Professor Emeritus, Agricultural and Applied Economics
Virginia Tech, Blacksburg, VA



(540) 961-2094 (Alicia Morris) | (540) 719-0752 (Angela Meadows) | sullylab@vt.edu

February 13, 2017

Macro Clinic Video Blog: <http://agstar.com/edge/>

Road Warrior of Agriculture: www.cornandsoybeandigest.com

Ag Globe Trotter: www.northwestfcs.com

Dave's GPS & Dashboard Indicators: www.farmermac.com

Pulse of the Global Economy

The View from 30,000 Miles Up



NASA Photo

State of the U.S. Economy

- 90 months of expansion
- 106/120 months
- coastal vs. fly over states
- Republicans/recession
- velocity of money
- stock market

Global Economics: Europe

- Brexit
- immigration issues
- next year's elections
- break up of euro
- other



Global Economics: China

- TPP: China's role
- water, soil, & air issues
- asset bubbles:
 - stock
 - real estate
 - other
- military buildup
- South China Sea



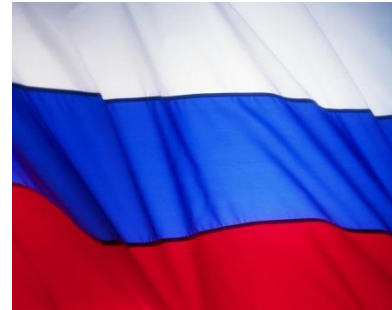
Global Economics: Japan

- leader in support of TPP
- aging population
- Central Bank's stimulus
- military
- shrinking economy



Global Economics: Russia, Brazil & Others

- Oceania
- political disconnect
- economic challenges
- currency valuation
- weather
- other



New Administration

- international trade
- banking regulations
- health care
- immigration
- taxation
- trillion dollar infrastructure spending


Federal Reserve's Interest Rate Barometer

- Three increases in 2017!

Indicator	Status
Unemployment	5.0%
GDP Growth	3.0%
Inflation	2.5%
Consumer Sentiment	>90%

- stock market/real estate wealth effect
- copper prices

U.S. Economic Dashboard

- LEI/Diffusion Index
 - positive
 -  three months rule
 - diffusion index
- PMI
 - > 50 expansion
 - <50 contraction
 - <41 recession
- Housing Starts
 - >1.5 million green light
 - 800,000 to 1.5 million yellow light
 - <800,000 red light
- Consumer Confidence
 - >90 green light
 - 80-90 yellow light
 - <80 red light
- GDP
 - 3-4% green light
 - 1-2% yellow light
 - negative = real recession

Mega Trends 2017-2025



Mega Trends 2017-2025: Global Economy

- moderating economies in emerging nations
- agriculture is “point dog” in political, military, and social actions
- geopolitical trade risk - biggest risk to agriculture
- creates tremendous opportunities and opportunities for failure

***“Business planning scenarios,
execution and monitoring”***



Mega Trends 2017-2025: Consumer Trends

- splintered marketplace
- local, natural, & organic
- GMO vs. non-GMO
- food expenses
- traits to plate
- ethnic group linkage

"20/20 foresight: perceptual acuity"



Mega Trends 2017-2025: Innovation & Technology

- convergence of technology
 - bio
 - engineering
 - big data
- higher level of talent
 - employees, suppliers & advisors
- systems/replicate
- too connected

“Hear the silence.”



Mega Trends 2017-2025: The Millennials

- group exceeds baby boomers in size
- will be on forefront on consumer, social, and political trends, changes & issues
- 75% of workforce by 2025
- 40-20-40 Rule
- feedback and recognition are important
- balance of work and lifestyle
- innovation/technology with “old time” work habits

***“Financial self worth equates to
network of people.”***



What do Millennials Look for in an Employer? (1)

- millennials want to work where they can grow with their employer
 - offer the technology, accessibility and transparency the today's connected customer wants
 - open environment where lower-ranked employees can walk into the office of a higher-ranked employee to ask a question
 - define a clear path where a teller can become an officer
- the intangibles offered by the employer
 - entrepreneurial spirit
 - willingness to be flexible and collaborative (flexible work hours, PTO)
 - ability to change jobs within the organization

What do Millennials Look for in an Employer? (2)

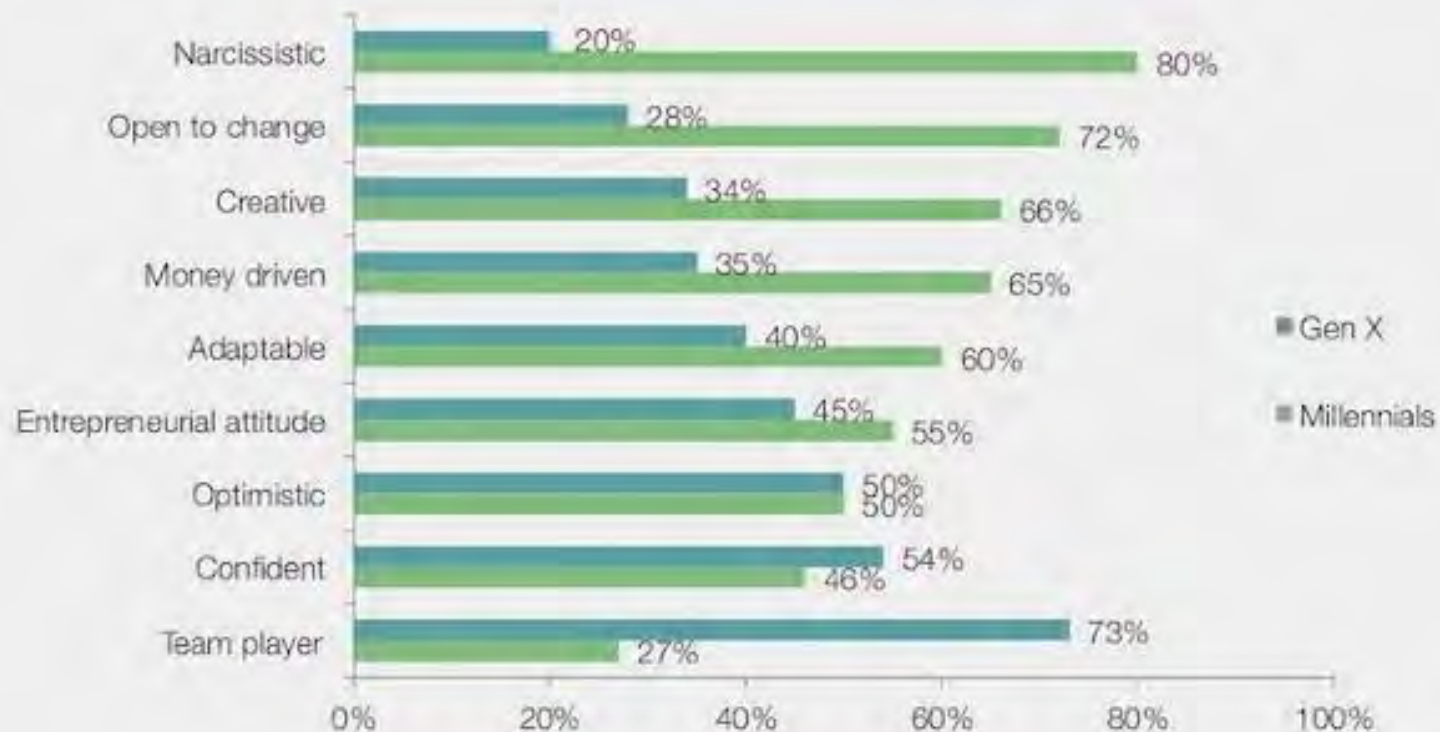
- opportunity to make an impact
 - work should have a purpose
 - give them ownership of a project (branch of the future)
- constant recognition

Source: Siya Vansia, “What Millennials Want in an Employer,” American Banker, April 30, 2015

Watch: Millennials in the Workplace Training Video – YouTube
Millennials: We Suck and We’re Sorry - YouTube

How do hiring managers see millennials vs the prior generation? More adaptable and creative

Qualities each generation is seen as more likely to possess
(according to hiring managers)



Hiring Managers Survey - Q: Please look at this list of personality attributes. Do you think Millennials (21-32) or the previous generation (aged 33-55) are more likely to possess each. n = 200

Mega Trends 2017-2025: The Disconnect

- by 2050- 70% of world population will be urban
- 85% of Americans are 2 generations away from farm
- political power disappearing
- less government support levels
- extreme groups
- social media

“Connectivity strategy- sixth sense”



Mega Trends 2017-2025: Non-Government Organizations

- biosecurity
- open pens
- antibiotic free
- organic/natural
- animal welfare



Mega Trends 2017-2025: People & Lifelong Learning

- people skills
- life long learning
- 3 to 5 educational venues annually
- aptitude vs. emotional intelligence
- internships
- 3,000/500/2,500 hour Rule

“If you are going to lead, then you must read.”





15 minute break

STRATEGIES FOR A BETTER BUSINESS

Dr. David M. Kohl

Professor Emeritus, Agricultural and Applied Economics
Virginia Tech, Blacksburg, VA



(540) 961-2094 (Alicia Morris) | (540) 719-0752 (Angela Meadows) | sullylab@vt.edu

February 13, 2017

Macro Clinic Video Blog: <http://agstar.com/edge/>

Road Warrior of Agriculture: www.cornandsoybeandigest.com

Ag Globe Trotter: www.northwestfcs.com

Dave's GPS & Dashboard Indicators: www.farmermac.com

Steps of Business Planning

- mission
- goals & actions
- SWOT analysis
- marketing risk management plan
- operational plan
- transition management plan
- exit plan



Why Develop a Business Plan?

- volatility, equal opportunity/failure
- undisciplined pursuit of more
- “If it grows too fast, then it’s a weed.”
- HUT principle
- work and life balance
- disciplined goal setting
- 40-20-40 Rule of people business culture
- internal business communications
- communication with outside alliances
- communication with lenders (relationship lenders)

Bringing Business Planning to Life

- utilize monthly & quarterly variance analysis
- deviations
 - macro/micro strategies
 - actions for improvement
- goals & actions timelines
- update annually after planning meeting
- utilize peers for ideas
- exit and transitional planning
- utilization at the monthly & quarterly meetings
- tool for communications to suppliers, lenders, etc.

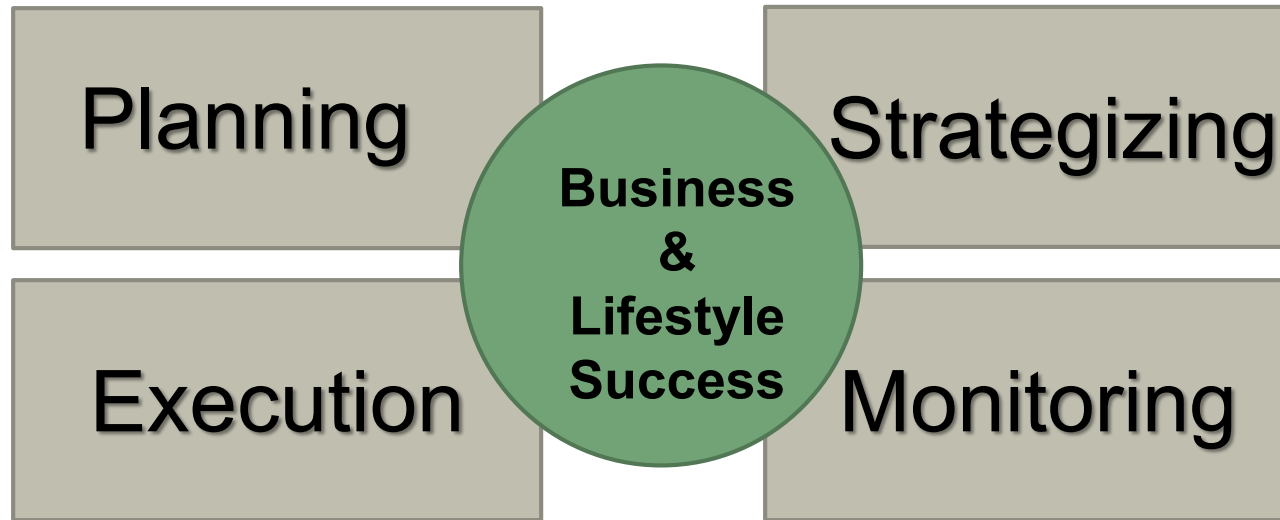


Ten Mistakes in Strategic Meetings

- no agenda
- no minutes
- no review of previous minutes
- failure to assign deadlines and responsibilities
- not predetermining meeting dates
- not utilizing a board of advisors/facilitator
- meeting length more than four hours
- holding meeting at the place of business
- use of cell phones, BlackBerries, and texting during the meeting



Four Cornerstones of Success



Ten Steps to be a Better Business

1

- S.M.A.R.T. goals for short & long run
- accurate balance sheet
- up to date cash flow projection
- variance analysis / financial analysis
- modest family living costs \$60,000 difference



Ten Steps to be a Better Business

2

- burn rate working capital & debt service payments
- burn rate collateral analysis with earnings loss &/or asset drop in value
- $P=O+C+L+M^2$ Bus Rule
- no magic silver bullet
- the best crop you will ever raise will be.....



Goal Setting

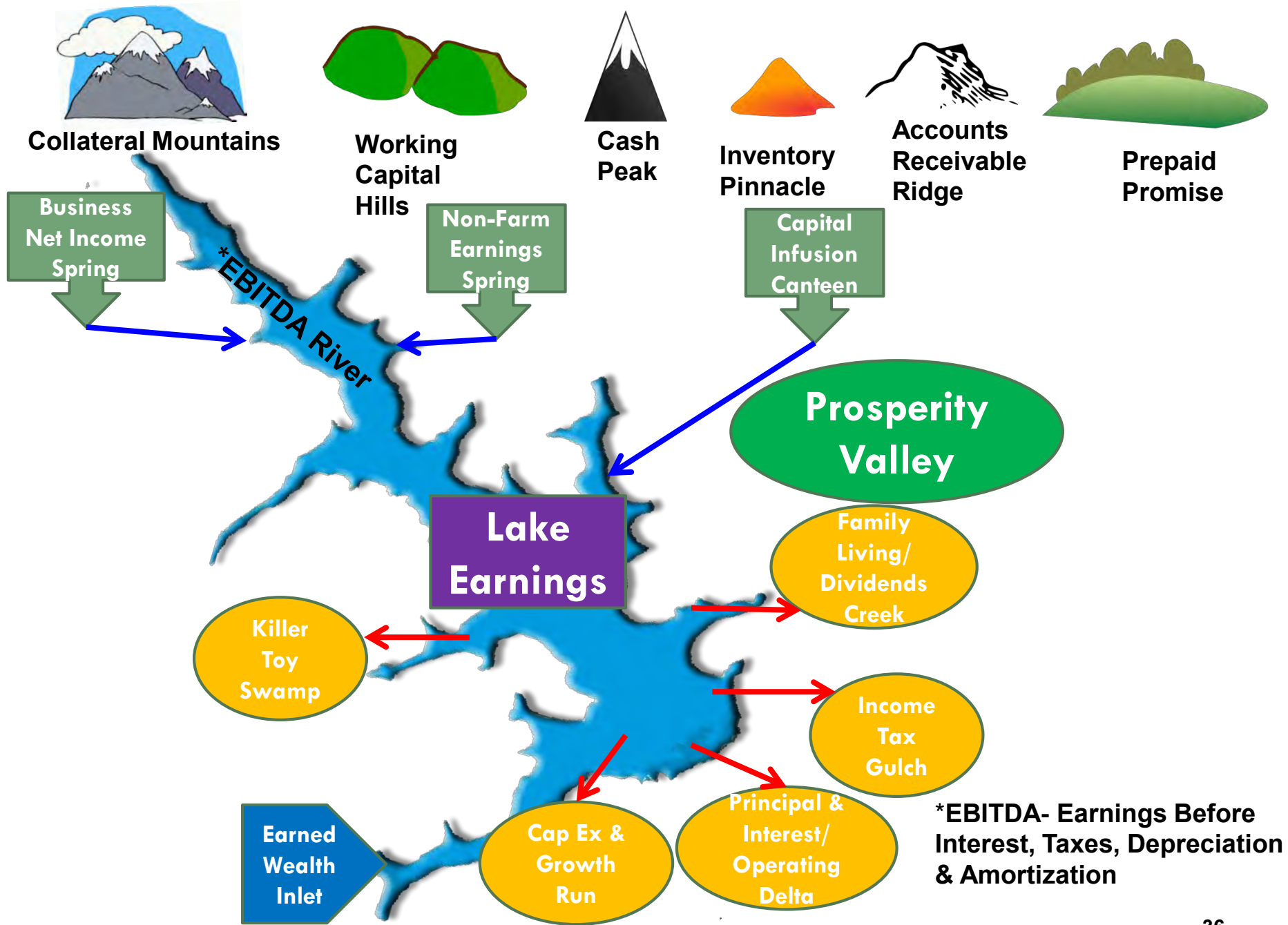
- establish or update
- family, business, personal
- six degrees of goal setting
- 80-16-4 Rule
- S.M.A.R.T. goals



Sixth C Question Checklist



<u>Question</u>	<u>Vulnerable</u>	<u>Resilience & Growth</u>
	<u>NO</u>	<u>YES</u>
Do you know cost of production?		
Do you know cost of production by enterprise?		
Do you have modest family living expenses?		
Have you shed non-productive or non-economical assets?		
Do you have a written improvement plan?		
Do you practice four corners of business success? Plan, Strategize, Execute, Monitor		
Do you execute a marketing plan?		
Do you have a handle on record keeping?		
Do you sweat the small stuff?		
Are you preparing for the next generation?		35



Credit Score – Credit Report

- 700 Rule
- check credit report
- spouse & partners
- steps to improve



Family Living Budget

- \$65,000 to \$90,000 average
- high & low - \$60,000 competitive edge
- non-farm capital expenditures
- Family Living Rule
- Corvette Rule



Side by Side Analysis

Financial Dashboard

Summary

Practice:	Vulnerable	Recovery	Resilience & Growth	2016	Goal
1 Working Capital Sufficiency	< 10 %	10 – 33 %	> 33 %	21%	
Formula: (Current Assets – Current Liabilities) / Operating Expenses (1,407,861-1,003,383) / 1,963,000					
2 Cash to Current Assets	< 5 %	5 – 15 %	> 15 %	22%	
Formula: Cash / Total Current Assets 305,956 / 1,407,861					
3 WC Burn Rate: Debt Service	< 1:1	1:1 – 5: 1	> 5:1	0.66	
Formula: Working Capital / Term Debt Payments 404,478 / 612,000					
4 Equity to Asset Ratio:	< 40 %	40 – 70 %	> 70 %	55%	
Formula: Total Equity / Total Assets 4,712,998 / 8,510,867					
5 Core Equity Burn Rate	< 2:1	2:1 – 5: 1	> 5:1	EBITDA > Demand	
Formula: Excess Reserves / (EBITDA - FL - Interest - Debt payments)					
	<u>Assets</u>	<u>Market Value</u>	<u>Loan Max</u>	<u>Borrowing Capacity</u>	<u>Existing Debt</u>
	Breeding Livestock	1,500,000	60%	900,000	245,000
	Machinery & equipment	2,141,385	60%	1,284,831	822,122
*	Real Estate & Buildings	3,414,500	70%	2,390,150	1,727,364
* Real estate is primary core asset in todays economy.					
6 Debt Efficiency	> 7:1	3:1 – 7:1	< 3:1	2.99	
Formula: Term Debt / EBITDA 2,794,486 / 934,801					

Side by Side Analysis

Financial Dashboard

Summary

Practice:		Vulnerable	Recovery	Resilience & Growth	2016	Goal
1	Working Capital Sufficiency	< 10 %	10 – 33 %	> 33 %	21%	
Formula: $\frac{\text{Current Assets} - \text{Current Liabilities}}{\text{EBITDA}} / \text{Operating Expenses}$ $\frac{1,794,486 - 1,003,383}{934,801} / 1,963,000$						
2	EBITDA Efficiency	< 10 %	10 – 15 %	> 15 %	32.3%	
Formula: $\frac{\text{EBITDA}}{\text{Total Current Assets}}$ $\frac{305,956}{934,801} / \frac{1,407,861}{2,897,801}$						
3	WC Burn Rate - Debt Service	< 30 %	30 – 50 %	> 50 %	34.6%	
Formula: $\frac{\text{Working Capital}}{\text{Revenue}} / \frac{\text{Term Debt Payments}}{\text{Total Assets}}$ $\frac{404,478}{2,897,801} / \frac{613,000}{8,510,867}$						
4	Equity to Asset Ratio	< 40 %	40 – 70 %	> 70 %	55%	
Formula: $\frac{\text{EBITDA} - \text{FL}}{\text{Total Assets}}$ $\frac{4,712,898}{934,801} / \frac{8,510,867}{8,510,867}$						
5	Core Equity Burn Rate - Family Living Withdrawals	< 25 %	25 – 50 %	> 50 %	EBITDA > Demand	
Formula: $\frac{\text{Excess Reserves}}{\text{FL}} / \frac{\text{EBITDA}}{\text{EBITDA}}$ $\frac{92,000}{934,801}$						

92,000 / 934,801			Borrowing		
Assets	Market Value	Loan Max	Capacity	Existing Debt	Excess Reserve
Breeding Livestock	1,500,000	60%	900,000	245,000	655,000
Machinery & equipment	2,141,385	60%	1,284,831	822,122	462,709
* Real Estate & Buildings	3,414,500	70%	2,390,150	1,727,364	662,786
* Real estate is primary core asset in todays economy.					

6	Debt Efficiency	> 7:1	3:1 – 7:1	< 3:1	2.99	
Formula: $\frac{\text{Term Debt}}{\text{EBITDA}}$ $\frac{2,794,486}{934,801}$						
7	EBITDA Efficiency	< 10 %	10 – 25 %	> 25 %	32.3%	40

Business Equation for Success

$$P=O+C+L+M^2$$

- P=people, profits, & plans
- O=overhead cost control
- C=costs- know thy cost
- L=liquidity-cash is king
- M^2 =marketing & management = margin



The Burn Rate – Working Capital

Revenue	\$2,000,000	Current Assets	\$1,000,000
Expenses	<u>2,200,000</u>	Current Liabilities	<u>500,000</u>
Loss	\$200,000	Net Working Capital	\$500,000

Net Working Capital \$500,000 = 2.5 Years

Projected Loss \$200,000

Green >3.0 Years

Yellow 1.0-3.0 Years

Red <1.0 Year

The Burn Rate – Debt Service Payments

Revenue	\$2,000,000	Current Assets	\$1,000,000
Expenses	<u>1,800,000</u>	Current Liabilities	<u>500,000</u>
Profit	\$200,000	Net Working Capital	\$500,000
Debt Service Payments = \$100,000			

Net Working Capital \$500,000 = 5.0 Years
Debt Service Payments \$100,000

Green >5.0 Years

Yellow 2.5-5.0 Years

Red <2.5 Years

Burn Rate on Core Equity

(Assume \$150,000 Earnings Loss)

Assets-Market Value	Estimated Value	Loan Maximum	Collateral Position	Remaining Principal	Equity Excess Reserves
1. Long Term	\$2,000,000	X 70%	=\$1,400,000	- \$700,000	= \$700,000
2. Intermediate	\$1,000,000	X 60%	=\$600,000	- \$300,000	= \$300,000
3. Current	\$1,650,000	X 80%	=\$1,320,000	- \$860,000	= \$460,000

Burn Rate: Land & Long Term Equity Reserves= $\frac{\text{Excess Reserves}}{\text{Earnings Loss}^1} = \frac{\$700,000}{\$150,000} = 4.67 \text{ Years}$

Burn Rate: Intermediate Term Equity Reserves= $\frac{\text{Excess Reserves}}{\text{Earnings Loss}^1} = \frac{\$300,000}{\$150,000} = 2.0 \text{ Years}$

¹ Assume Earnings Loss of \$150,000

Burn Rate on Core Equity

(Assume \$150,000 Earnings Loss & 20% land value decline)

Assets- Market Value	Estimated Value	Loan Maximum	Collateral Position	Remaining Principal	Equity Excess Reserves
1. Long Term (20% Decline on Land)	\$2,000,000 \$1,600,000	X 70% X 70%	= \$1,400,000 = \$1,120,000	- \$700,000 - \$700,000	= \$700,000 = \$420,000
2. Intermediate	\$1,000,000	X 60%	=\$600,000	- \$300,000	= \$300,000
3. Current	\$1,650,000	X 80%	=\$1,320,000	- \$860,000	= \$460,000

$$\text{Burn Rate: Land \& Long Term Equity Reserves} = \frac{\text{Excess Reserves}}{\text{Earnings Loss}^1} = \frac{\$420,000}{\$150,000} = 2.8 \text{ Years}$$

¹ Assume Earnings Loss of \$150,000

Management Practices Dashboard

1

<u>Practice</u>	<u>Vulnerable</u>	<u>Recovery</u>	<u>Resilience & Growth</u>	<u>Strategy</u>
1. Product/Service Marketing Plan	None	Written	Written & Executed	
2. Cost of Production By Enterprise	None	In Your Mind	Written Budgets	
3. Business Plan	None	In Your Mind	Written & Used	
4. Succession Plan for Assets & Management	None	Written	Written & Executed	
5. Advisory Team	None	Developing	Established & Used	
6. Risk Management Plan	None	Developing	Written	

Management Practices Dashboard

2

<u>Practice</u>	<u>Vulnerable</u>	<u>Recovery</u>	<u>Resilience & Growth</u>	<u>Strategy</u>
7. Lifelong Learning/Training	None	Developing	Definite Plan for Management & Employees	
8. Goal Setting	None	Developing	Written & Executed	
9. Environmental Conservation Plan	None	Developing	Written	
10. Financial Plan	None	Plan in Your Mind & Executed	Written Financial/Investment Plan, Executed & Monitored	
*Business Principles Defined	None	Working on 7 Steps	7 Steps Written & Posted	

Top Ten Success Tips for Spouses/Partners

Practice	Yes	No
1. Do you utilize the time management 3,000/500 hour rule?		
2. Do you have clarity on financial obligations?		
3. Do you have a written monthly living budget?		
4. Do you take time off to decompress to hear the silence?		
5. Are you investing 5% to 10% of net earnings outside the business?		
6. Do you have 3 to 6 months of living expenses in a cash reserve for emergencies?		
7. Are all documents/electronic files in a safe, secure location?		
8. Do you and your spouse/partner meet with the lender/financial institution together at least once per year?		
9. If you have children, are you following the 50-25-25 investing rule?		
10. Have you and your family conducted the drop dead exercise?		
Total Score	_____	
< 4 Yes Answers = Vulnerable 4-7 Yes Answers = Recovery/Possible Success >7 Yes Answers = Resiliency/Growth		



Next Workshop: March 23rd 9am-12:30pm

Best Practices: Management Techniques & Employee Retention

Mike Saqui & Raul Calvo