



# THE BUSINESS OF DAIRYING

## Success in business planning requires discussion

### Who We Are

*Greg Squires manages DairyES and has consulted in business and financial planning for hundreds of dairy operations in over 30 states. Through this work and a strong background in production management consulting, Greg has cultivated significant relationships with dairy producers and other industry influencers across the U.S.*

### Resources for Today's Dairy Industry

*If you believe in managing change and are considering steps to improve the productivity and efficiency of your business, DairyES can help you meet your goals. To learn more about DairyES and how we can help lead your business through the process of managing change, please contact us.*

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Long-term business planning is a management function that not many dairy producers seem to enjoy. This is a conclusion I have drawn based on the few comprehensive business plans I have seen over my many years of work in the dairy industry. Too often when I see a good plan or someone reaches out to me for help, owners really want it for their banker and not themselves. One of the more extreme examples of this dynamic is illustrated by a phone call I received from a dairyman on a Monday morning several years ago that went something like this:

**DAIRYMAN :** Mr. Squires, my banker tells me you are a guy who can help me put together a business plan and one of those financial projections for a project I want to do... is that right?

**ME:** Yes, those are among the areas in which I consult.

**DAIRYMAN :** Great! Because I've got an excavator parked at the end of my driveway, and that \*\$% &^ banker of mine won't give me a loan for this project until I give him a business plan. Could you get one to me by this Friday?

Do you see my point? This individual was so driven to action that he obviously had not thought to discuss a possible expansion with his banker until a few days before the proposed groundbreaking.

Successful managers understand the value of long-term strategic planning. But the plan itself isn't necessarily what's so valuable to them, it is the discussions that result in the process. "The Plan" when complete becomes a big target that owners, employees and stakeholders can tangibly see and with which

they can identify. However, the unseen discussions to develop "The Plan" clarify the core values that owners, employees and stakeholders put on paper, but more importantly the ones they use as a day-to-day guiding light for long-term decision-making. These discussions must occur to position a dairy business to thrive in an increasingly competitive business environment.

**Critical Elements of "The Plan" to discuss: Purpose, Vision and Mission** The foundation of a truly meaningful business plan is a description of the business' purpose, vision and mission (PVM).

What's the difference between purpose, vision and mission? Think of purpose as the reason that the business exists, or why you are in business. Vision is a description of the key drivers of success – what drives excellence in your operation and what your core values are. Finally, mission is your call to action – your daily mandate.

Discussing these, as several of my clients have described them, are some of the "fluffy" parts of the process. Many times while leading clients down this path, I see expressions of cynicism. For some reason dairy producers have a hard time believing that something so soft and fuzzy could possibly have a profound effect on their operations. Here's how one of my clients described his takeaway, several months after I challenged him regarding purpose, vision and mission.

*"I think I get it now - the vision thing, core values, all that 'fuzzy' stuff as you call it. You thought I was just being a smart ?\*&*

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*but I truly did not make the connection. This has been an interesting winter in the dairy business, and those tools have helped. We have been preparing for this since last fall and the time I have spent explaining things to my staff has been very helpful. They understand what is at stake ... they understand why I am more willing to contract with a neighbor for tillage work as opposed to buying the 40' tillage machine; they accept a reduction in the workforce for cost control but understand the need to proceed on manure storage investments and more freestalls. They enjoy our 6:45 a.m. Monday meetings to discuss the week ahead. I think you might say I have done a better job of sharing my vision for the dairy and that makes moving forward less confusing to all of us."*

**Long-Term Objectives and Strategies** Never has there been a greater need for long-term business strategies and objectives by players in the dairy industry. Investment capital has become an increasingly valuable commodity. Every business has limited access to cost-effective capital – even Bill Gates and Microsoft – and today lenders are more constrained in how far they can support our need for capital. Add to this dynamic the total change in the rules by which the dairy industry now must play:

- Feed costs have more than doubled from a few years ago.
- We now export a greater portion of our production, adding to further volatility in farm-gate milk prices.
- Crop production has the potential to be significantly more profitable than in previous years.

Dairy producers need to identify and verbalize how they feel they can best accomplish their purpose, vision and missions and commit their conversations and strategies to paper. They should make plans to determine if they want or need to:

- Increase or decrease the size of their cropping operation
- Grow their operations over the next 10 years to meet their family ownership needs and goals
- Own and control more/less land
- Build a special needs facility
- Replace/expand/update a milking parlor
- Outsource or “insource” their replacement enterprise
- Or any number of other possible strategies

### **Annual Operating, CAPEX and Capital Reserve Budgets**

Investment capital, or capital expenses, represent another important planning function. Many dairy producers discovered in 2009 and early 2010 that although they may have continued timely debt service payments, their accounts were placed into their bank’s “special accounts” department because cows and dairy facilities values declined and their new “paper” values put them outside of their loan covenants. This write-down by

bank analysts along with heavy overall leverage (high debt-to-equity ratios) left many of these operations in a position of not having access to working capital.

This all ties into the capital expenditures discussion because most dairy operations are not going to be able to leverage their balances sheets in the future as heavily as before the 2008 U.S. bank collapse. In turn, as capital becomes harder to acquire, producers are going to have to more carefully plan how capital is to be allocated through long-term business plans.

**Comprehensive Long-Term Financial Projections** Clients who believe 12 months is too long to forecast constantly challenge me. Talking with them about projecting financial performance over seven to ten years – sometimes nearly impossible. However, long-term business plans should include these financial decisions as well as succession and marketing strategies. (An article in an upcoming issue will detail the necessary risk and succession elements of a business plan.)

The advantage of long-term forecasting is that farms can talk about, record and then see how factors like internal herd growth, expansion, capital expenditures, etc. collectively impact profitability and cash flow. These also become great tools to help give plans more refinement when used to complete “what-if” analysis. Don’t forget to make use of projected case, best-case and worst-case scenarios to improve your contingency planning.

**Communicate the Plan** This is both the final, as well as the first step to developing an effective business plan. It is the first step in the sense that owners talk among themselves regarding the various elements of the plan and how they want to do business together in the coming years. They should then communicate the planning process with their key employees and advisers to secure their input and insights. As the final step, the latest version of the printed business plan is communicated with those same groups of people to further engage their support and “ownership” in helping drive the success of your business.

The process of developing a business plan is rarely described as “a lot of fun.” I encourage and even challenge dairy producers to try it just once; put your full attention and resources toward developing “The Plan.” I am confident that a very high percentage of those who complete “The Plan” will walk away feeling positive about the experience. Here’s what one of my clients told me about theirs: “Discussing and preparing the business plan forced us to deal with problems we may have otherwise overlooked and challenged our family to ‘think outside the box’. We accomplished so more than crunching numbers; it challenged us to deal with problems and opportunities.” 