

TRANSFORMING A BLACK SWAN TO A PHOENIX IN THE GLOBAL DAIRY INDUSTRY

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Macro Clinic Video Blog: www.compeer.com/education
Road Warrior of Agriculture: www.comandsoybeandigest.com
Ag Globe Trotter: www.northwestfcs.com
Dave's GPS & Dashboard Indicators: www.farmermac.com

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Views From Cyberville for 2020 & Beyond

- a black swan usually occurs each decade with two babies
- a black swan accelerates change for consumers, society, and businesses
- black swans are disruptors and challenging but they also create opportunities
- the COVID -19 black swan accelerated the economic and financial divide for the decade of the 2020s



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Black Swan Progression - Dirty Bird



Dirty Bird or Phase I – Splash (March 1 to May 1, 2020)

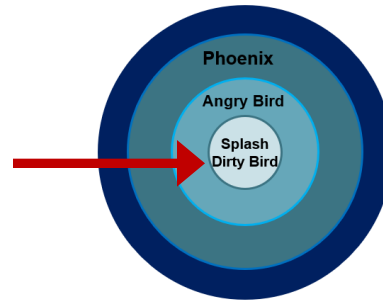
- job losses
- preventative health
- consumer shutdown, back to the basics
- 40% consumer based economy
 - 0-25% of sales
- global economy on life support

Needs:

- time to absorb information
- reality check

Business & Personal:

- shock
- numbness
- anxiety



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Black Swan Progression - Angry Bird



Angry Bird or Phase II – Ripple (May 1 to December 31, 2020)

- recovery plan nationally/globally
- realization of job loss
- business failures
- systems of health surveillance
- deglobalization discussions
- trade issues
- volatility based on headlines

Needs:

- support
- okay to feel a loss
- collaboration
- critical thinking
- unintended consequences

Personal/Society/Government:

- revenge
- blame
- confusion
- frustration



More baby black swans?



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Black Swan Progression - Phoenix “Mythical Bird”



Phoenix or Phase III – Ripple

(January 1, 2021 - 2022 & Beyond)

- commitment to move forward driven by young leadership
- new business models
- question of consolidation:
 - big business vs. small business
- accelerated deglobalization
- AI & privacy balance
- accelerated innovation in health systems
- TSA all the time

Personal:

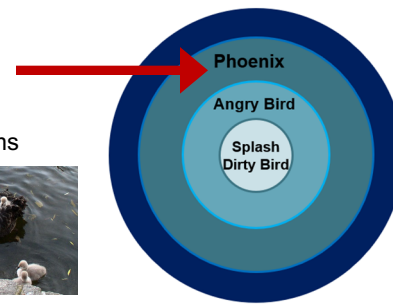
- more energy
- commitment to move forward
- adjustment & focus



More baby black swans?

Needs:

- creative leadership
- innovation
- adaptation
- new models for success



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Global Macro Economic Risk (1)

- globalization vs. deglobalization
 - 1995-2017 purchasing power parity, hyperglobalization
 - emerging nations 2x plus
 - rich nations 44%
 - 1990-2008 global trade share of GDP 39% increase to 61%
 - 2009-2017 global trade share down 9%
 - financial crisis
 - governments, businesses and consumers agendas
- (ISI) import substitution industrialization strategy
 - supply & marketing chains
 - made in China 2025
 - India, Europe, & U.S. more self reliant
 - concentration vs. diversification

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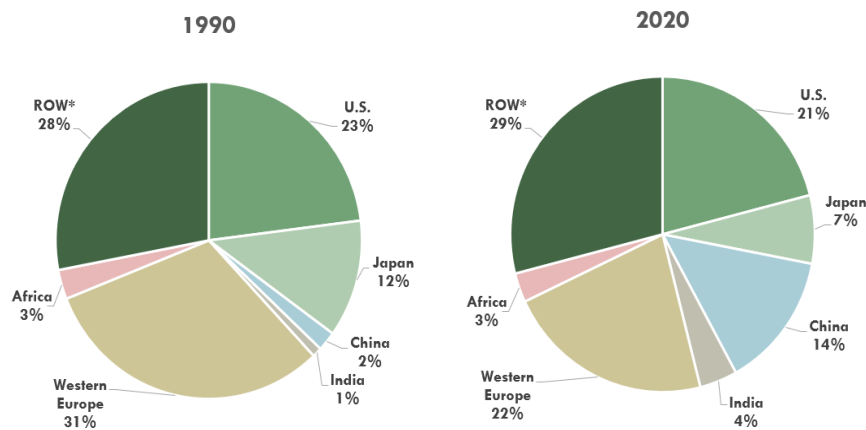
Global Macro Economic Risk (2)

- disjointed U.S. & global recovery
 - 90% economy
 - 50-75% economy
 - 125% economy
- trade agreement uncertainty
 - Australia vs. China
 - rich nations vs. China
 - Belt & Road Initiative, medical innovation path
- central banks/government supports for ag
 - U.S./global support \$2 billion per day
 - duration of support & global competitiveness
 - government encroachment, taxes, regulations, other

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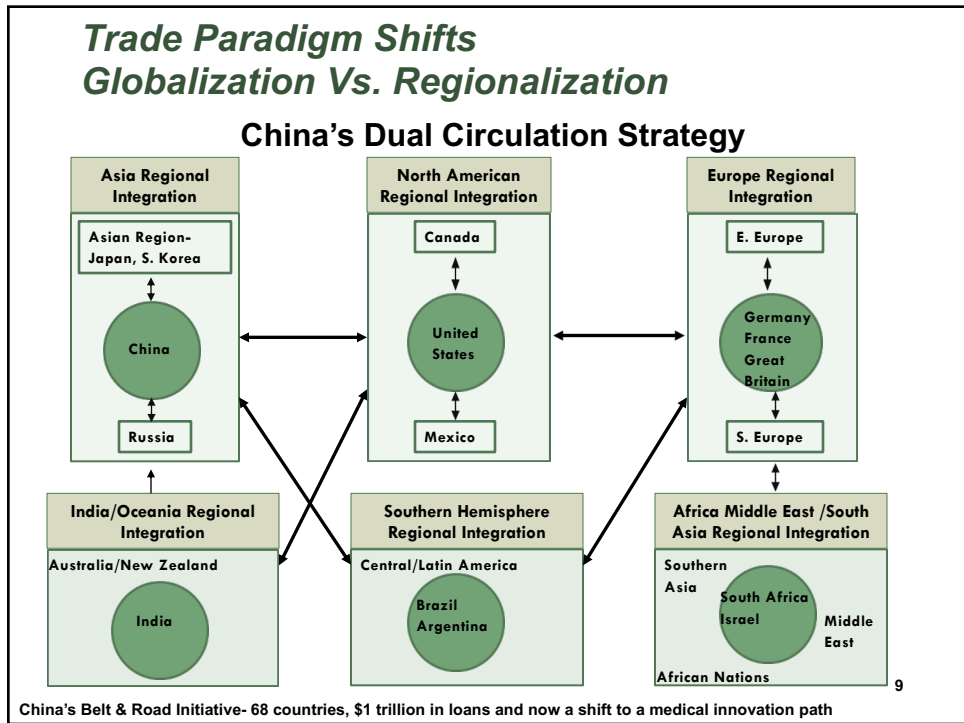
Rising of Asia



* ROW- Rest of World
Source: Global Insights, August 2018

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Global Trade Perspectives

Trade Agreement	# Countries	Population	GDP	Trade Value
RCEP ¹	15	2.7 Billion	\$25.8 Trillion	\$12.5 Trillion
CPTPP ²	11	508 Million	\$11.1 Trillion	\$7.6 Trillion
USMCA ³	3	493 Million	\$24.4 Trillion	\$7.8 Trillion

¹RCEP- Regional Comprehensive Economic Partnership (15 Asian Countries)
²CPTPP- Comprehensive & Progressive Agreement for Trans-Pacific Partnership (Canada & 10 countries in the Asia-Pacific region).
³USMCA- United States-Mexico-Canada Agreement (North America)

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Grain Industry Radar Screen for U.S. & Abroad

- economic health of protein sector
- economic health of trading partners
- weather
- value of the dollar
- consumer trends
- trade issues
- ethanol



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Livestock & Other

- access to markets & marketing changes
- concentration, cannibalization
- competitive products
 - non-meat alternatives
 - non-dairy alternatives
- regulation
- labor, immigration
- health of the U.S. economy



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U.S. Economy

2020 Pandemic

- sudden impact/shock disruption
- economic behavioral changes/basics
- no pattern of corrective action- health
- three D's: Depth, Diffusion & Duration
- Nike swoosh shaped recession with a jagged tail "w"
 - size 6 or size 14-18?
- deeper global recession?
- re-emerging bio shocks / cyber attacks
- southern hemisphere bio shocks



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Mega Trends on the Radar Screen Production/Consumer Paradigms

- soil & water health
- plant, animal & human environment
- air quality & pandemic
- weather in extremes



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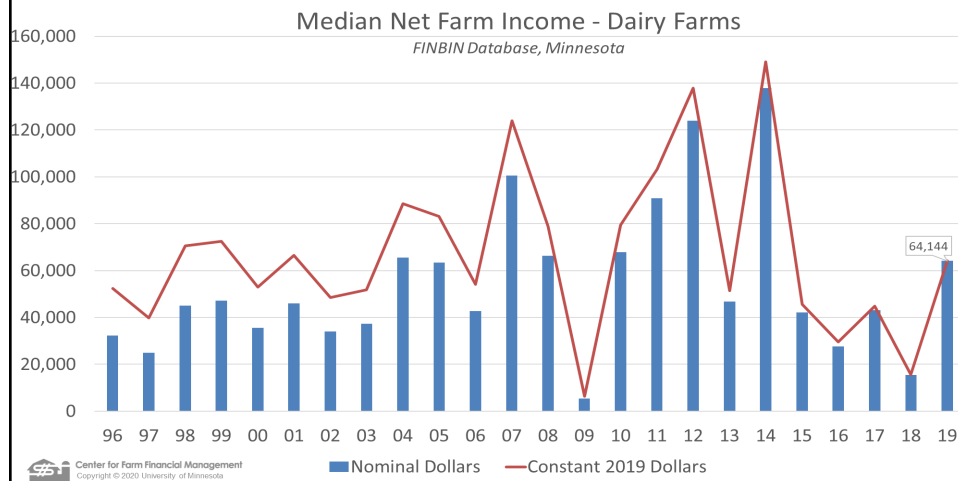
COVID-19 The Black Swan Disruptor- Positives for Agriculture

- importance of a diversified safe food, fiber & fuel source- basics of life
- reassurance of transparency in where food is produced, processed & distributed
- healthy soil & water
 - plants, humans, animals & environment
- niche markets, U.S. & globally
- repositioning of the image of agriculture

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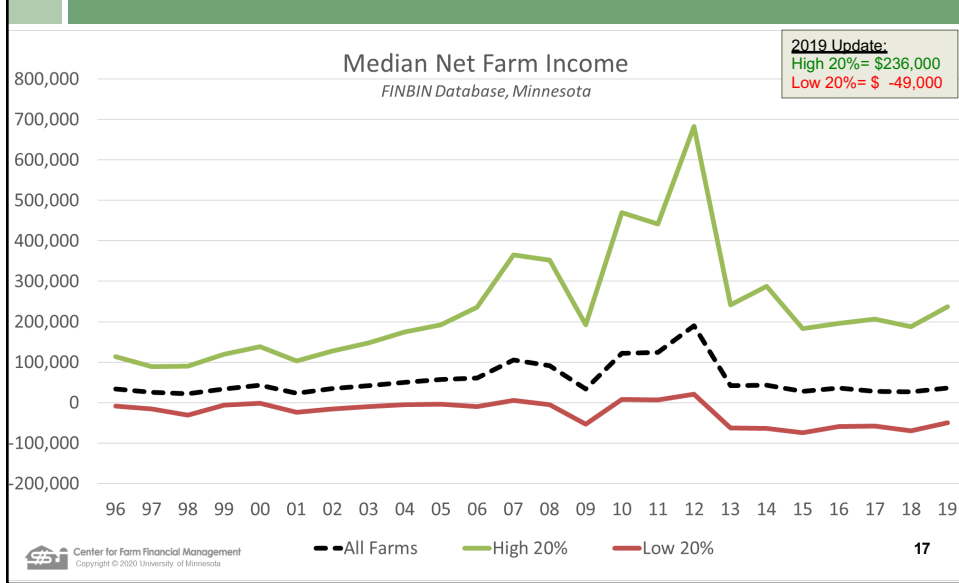
Median Net Farm Income- Dairy



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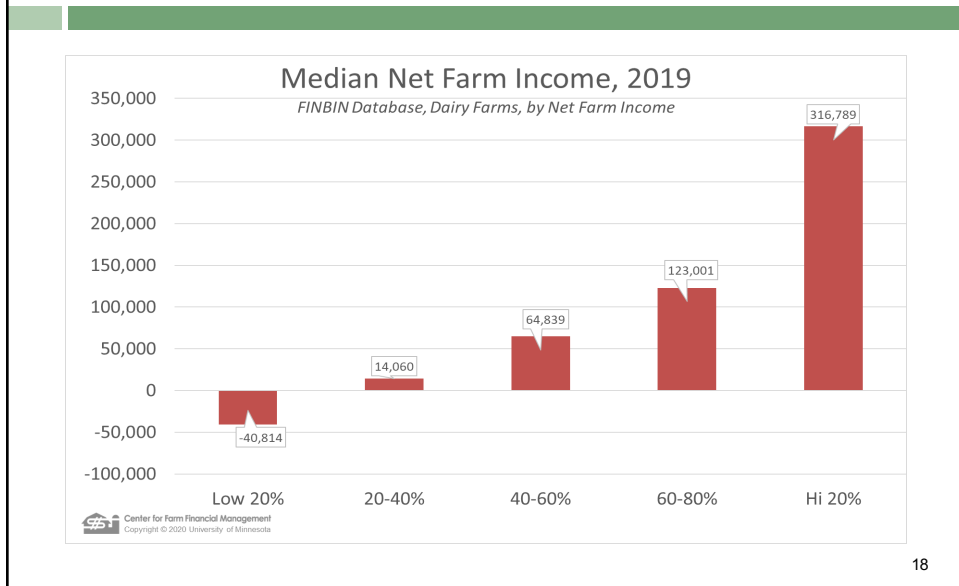
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Median Net Farm Income- All, High 20% and Low 20%

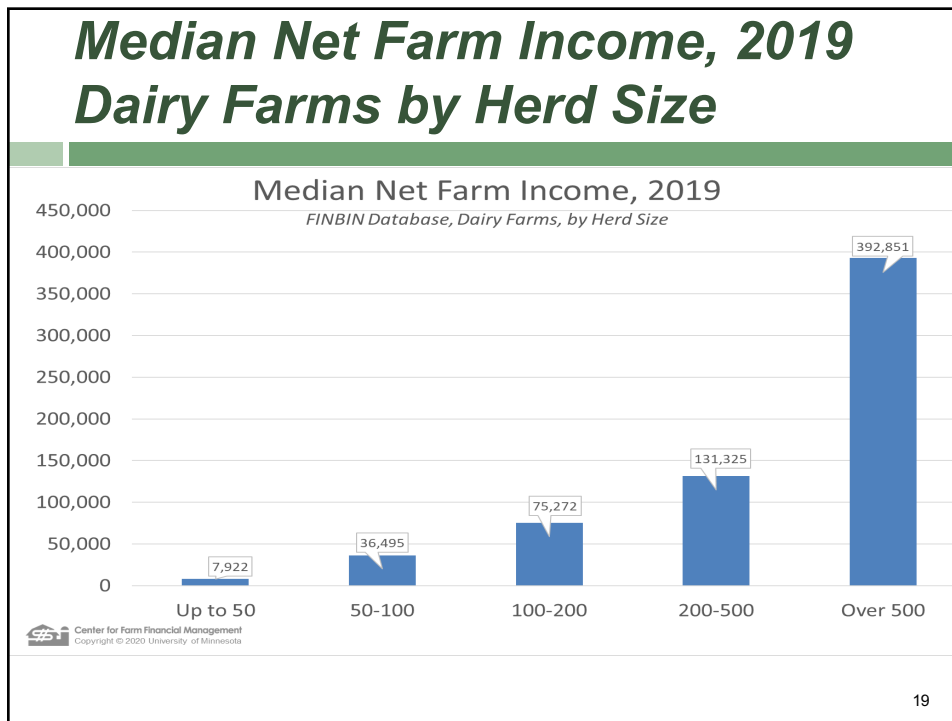


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Median Net Farm Income-2019 Dairy Farms




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High 20% Characteristics

- moderate financial leverage
- high Business IQ
- strong working capital
- strong production and operational efficiency
- strong earns and turns



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Low 20% Characteristics

- higher equity
- refinanced, restructured financial leverage
- high government payments to net income
- weak production and operational efficiency
- lower Business IQ
- lower liquidity



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Management Mindsets for the 2020s



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Aligning with Mindsets

Producer A

- How do I compare?
- What are others doing?
- think longer term & what is on the horizon

Producer B

- Will a lender finance me?
- Will I survive for another year?
- often a know it all or victim

School vs. Real World Perspective:

In school, you get the lesson first, then the test.
In the real world, you get the test first, then the lesson.

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Management Assessment

Greens

- adaptive to a situation- proactive
- 5% rule
- get efficient before getting bigger
- sweat the small stuff
- plan, strategize, execute & monitor
- process oriented
- advisory teams

Yellows

- success because of equity & history vs. profitability & cash flow
- preparing the next generation
- bigger before better, examine human horse power
- magic bullet- the next big thing

Reds

- waiting for prices & markets to save them
- excuse game, not my fault
- lose money, equity keeps them going
- 80/20 rule is alive & well

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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
Total				

Score	Overall Analysis
35-50	Strong management rating & viability
20-34	Moderate risk & viability; will most likely show previous refinancing
<20	High risk & lack of long term viability

***Extra Points:**
 - Progressive Business may receive 4 points for #2,6,7,8,14
 - Struggling Business Attempting Turnaround may receive 4 points for #3,5,8,11,12

Developed by: Dr. David M. Kohl, Professor Emeritus, Ag & Applied Economics, Virginia Tech

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Business IQ Summary: Areas to Continue/Improve

<p>HUSBAND – BUS IQ: 53</p> <p><u>3 Areas to Continue</u></p> <p>1 Irrigation/manure mgt</p> <p>2 Intense office management</p> <p>3 Improve crop/livestock efficiency</p>	<p><u>3 Areas for Improvement</u></p> <p>1 Office management using CFO's talent</p> <p>2 More efficient labor</p> <p>3 Executing the marketing plan</p>	<p>LENDER – BUS IQ: 35</p> <p><u>3 Areas to Continue</u></p> <p>1 Crop production KPIs</p> <p>2 Using equipment longer before trading</p> <p>3 Getting outside advice</p>	<p><u>3 Areas for Improvement</u></p> <p>1 Cash flow - extending current loan terms</p> <p>2 Comparison of budget to actual</p> <p>3 Crop/livestock inventory</p>
<p>WIFE – BUS IQ: 39</p> <p><u>3 Areas to Continue</u></p> <p>1 Record keeping- ratios, B/E</p> <p>2 Cost of production (livestock)</p> <p>3 Productivity of crops & livestock</p>	<p><u>3 Areas for Improvement</u></p> <p>1 Financing without high interest rate</p> <p>2 More seminars on ratios/break-even</p> <p>3 Communications & employees' knowledge of how the business works</p>		
<p>DAUGHTER – BUS IQ: 38</p> <p><u>3 Areas to Continue</u></p> <p>1 Researching cost effective crop/livestock mgt practices</p> <p>2 Diversifying the farm in livestock</p> <p>3 Searching for a new ag lender with better rates</p>	<p><u>3 Areas for Improvement</u></p> <p>1 Employee handbook with written guidelines & perf. evaluation</p> <p>2 Lease equipment to avoid high repair bills and subscription fees</p> <p>3 Crop/livestock KPIs</p>		
<p>CFO – BUS IQ: 40</p> <p><u>3 Areas to Continue</u></p> <p>1 Crop Production</p> <p>2 Custom Hire</p> <p>3 Diversifying in livestock</p>	<p><u>3 Areas for Improvement</u></p> <p>1 Debt restructuring-reduce interest expense-improve cash flow</p> <p>2 Lease versus buy equipment</p> <p>3 Pay invoices within terms to avoid finance charges & get cash discounts</p>		



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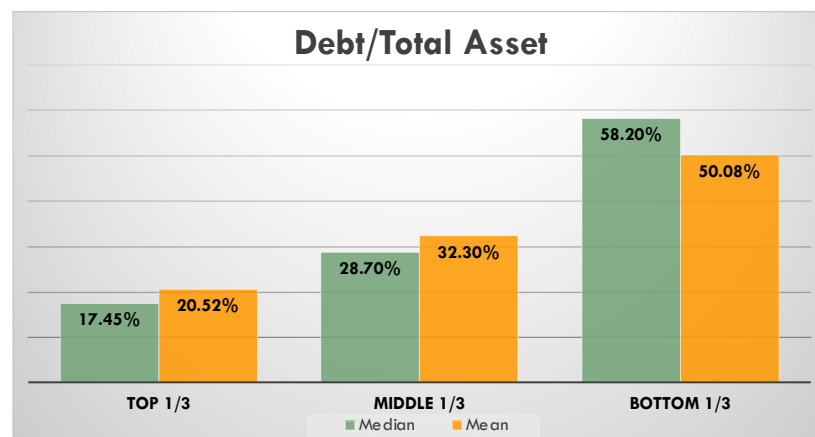
How Can Team Members Use Business IQ as a Tool for Producers?

- screener for attitude to improve
- each family member, business partner, spouse complete the Business IQ separately
- assists in prioritizing improvements
- communication tool- internal and external to team of advisors
- customer develops plan for improvement to improve or buy in
- objective way to measure management
- monitoring tool, year over year

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Financial Ratios Across Business IQ Percentiles

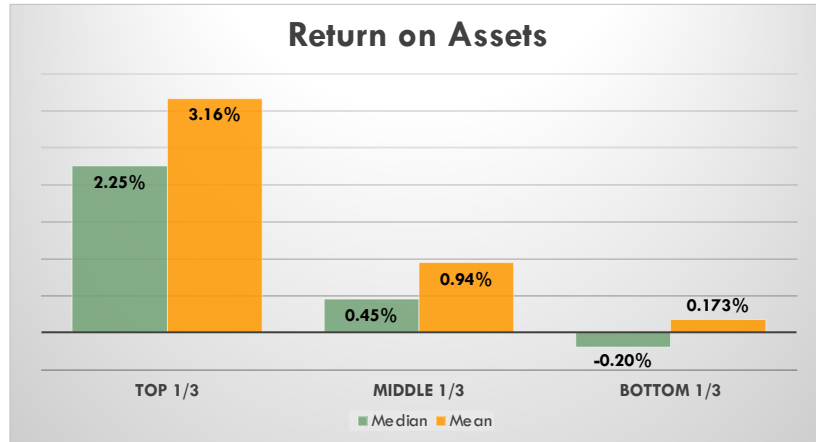


Preliminary Study of Kentucky Farm Business Management Association data - Ben Isaacs, Undergraduate Research Study at University of Kentucky

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Financial Ratios Across Business IQ Percentiles

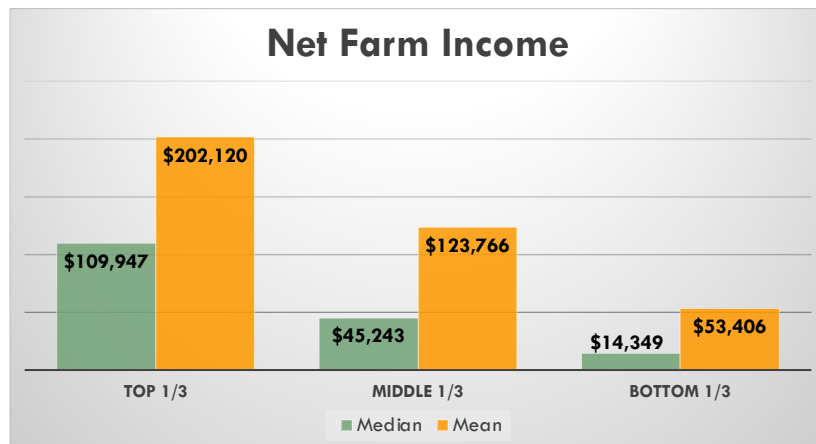


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Financial Ratios Across Business IQ Percentiles



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Four Pillars of the Business Model of the Future



Four Pillars:

Resilient

- know cost of production
- marketing & risk management program
- capital/equity borrowing capacity

Agile

- working capital
- market for product
- optimization/efficiency vs. diversification/resiliency

Entrepreneurial / Innovative

- “people first” business
 - invest in people
- align with rapidly changing marketplace
- quarterly sprints/journey of sustainability

Strong Business IQ

- high scores in all 15 areas
- plan, strategize, execute & monitor
- written plan for improvement
- dashboards

Which pillar is more important?

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Value Added Thoughts

1. time: commodity that is limited
2. trust: once violated, jeopardizes the relationship
3. attitude: “own it” or makes excuses
4. innovation: forward thinking
5. driving business: doer or manager, future data driven
6. collaboration: team of advisors
7. A&P’s of customer service:
 - available, amenable & attitude
 - persistent, patient & polite

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Perspectives for the 21st Century

- 20th century - one of physics, 21st century- one of biology & bioshocks
- meshing of bio engineering information “make the complex simple” – the napkin approach
- human health on your wrist make high tech more high touch
- 50% of world buying power will reside in the Asian Rim
- sterile households will create an environment for increased pandemic
- degrees will be replaced by a series of certificates of customized lifelong learning

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Quotes for the 2020s

- “Black swans accelerate changes and disruptions but also create opportunities.”
- “Success is about attitude, do you own it or make excuses?”
- “Execution requires the HUT principle - Hear, Understand and Take action.”
- “Your network of people will be equal to your self worth & financial net worth.”
- “Never equate your self worth to your net worth, it is only one of the pillars of success.”

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