

AN ACTION CHECKLIST FOR FARM OWNERS

Key steps you must take today to protect your operation and ensure your success

Donald J. Jonovic, Ph.D.

Achieving success as a business owner is like climbing Mt. Everest. Each achievement, every growth point, is more exhilarating than the last. The higher you go, the wider the horizon and more beautiful and stunning the view. With each successful day, however, the air gets thinner. Every stage of the ascent is a learning experience, something new. Each step is more critical, more treacherous. Changes in weather become more dangerous and unpredictable. With every vertical foot, another, new challenge looms ever larger. And lingering ominously in the back of our mind is the ultimate concern: How do I get down!?

For more than a quarter-century, I've been closely involved with growing businesses and have participated in countless board meetings. I've seen entrepreneurial geniuses functioning at their brilliant best, meeting challenges boldly, and, with them, I've hung from the edge of resulting, sometimes unexpected, precipices. It's on the edge of such terrifying drop-offs that the hard lessons are learned. The lessons may seem simple, as might the following action steps, but truth often is simple. Bear with me and read on. It cost lot of years and a lot of hard experience to distill these ideas:

STEP 1: BUILD AN EFFECTIVE ADVISOR TEAM

Anyone who's ever functioned as their own general contractor on a building or remodeling project learns, often painfully, the critical need to coordinate the "subs."

Your advisors—your accountant, lawyer, financial advisor, etc.—are subcontractors. They have great expertise and skill, but if they don't know each other and work together closely, you're sure to find yourself moving the new walls and cutting through freshly laid floors.

ACTION: Move your advisors away from hourly fees toward quoted projects and retainers. The problem is not that you're being overcharged. The problem is that hourly fees discourage you from calling on your professionals and using them when you really need them. (You know, it's that "ringing noise" in your ears. I call it the "Ch-ching" syndrome). An unused resource is a wasted resource.

ACTION: Meet with your advisors, as a group, on a regular basis. They need to know each other, to share information. They need to know you, your business, and your goals. Even if you're the world's most efficient communicator, there's no substitute for an environment where they can fill these needs themselves-and there's no better way to achieve the synergy that results.

STEP 2: DEFINE YOUR ROI GOALS

Businesses have one overriding purpose: to achieve an acceptable return on investment. Yet most of us pay more attention to the fluctuating value of a \$50 stock we bought on a hot tip, than we do the value of our own business. What complicates setting this value for business owners is the fact that we have more invested than just capital. We also get other returns besides profit (e.g., dividends, power). The more owners we have, the more definitions of "acceptable" return we have—and the more chance of internal warfare or complete paralysis.

Over **50** North American restaurant chains are now on board. Are you?

Nexera canola is setting a new global standard for heart-healthy vegetable oils with Omega-9 oil, the primary source of supply for over 25,000 restaurants. But Canadian canola growers need to contract Nexera canola now to satisfy this opportunity. Here's how we can win:

- Increased demand for Nexera canola provides greater assurance of more consistent delivery.
- Two new varieties – Nex 840 CL and Nex 845 CL – offer even more growing opportunities.
- Grow profitable Nexera canola and get a premium over commodity canola.
- Nexera canola produces Omega-9 oil – the next generation of healthier vegetable oils.

Healthy performance. Healthy returns. A healthy future for everyone.

**GLOBAL DEMAND
FOR NEXERA* CANOLA IS GAINING
MOMENTUM FAST.**

Don't get left behind.



ACCOMPLISH MORE. ON THE SAME ACRES. WITH DOW AGROSCIENCES. CALL THE SOLUTIONS CENTER AT
1.800.667.3852 OR VISIT DOWAGRO.CA.

*Trademark of Dow AgroSciences LLC
1102-0041



ACTION: Analyze your business and determine your actual “investment.” This will take some work with your accountant, maybe even an investment banker. The objective is to decide, exactly, on what you’re supposed to be achieving as a return. Is it book value? Is it adjusted book value? Is it total assets? Is it market value? You (that is, all the shareholders together), not your accountant, should make the final decision, but that decision requires a lot of financial “education” and accurate, meaningful information.

ACTION: Set goals for minimum and target returns. These will be used to carry out the next to action steps. They must be agreed to by all owners. More about these goals below.

STEP 3: USE ROI GOALS TO DRIVE A BUDGET

Relatively few closely held businesses operate from budgets. The rest usually blame their failure to do so on unpredictable markets. Where budgets are used, they’re based on expected improvements over prior year, and when those improvements prove difficult to achieve, the budget lands in the wastebasket. “What the heck. Last year wasn’t really so bad.”

None of this focuses on the real purpose of all those machines, acres, livestock, and people: return on investment. Budgets are not predictions. They should be definitions of expected returns.

ACTION: Budget from the bottom line up, with profit goals defined by TARGET ROI. With this approach, we have a budget with teeth, where we set sales and cost reduction goals based on shareholder expectations. If management doesn’t meet this budget, it sends a signal for analysis, reevaluation and remedial action. This investment, like any other, is not eternal. Shareholders can always take their investment elsewhere if the numbers show that a profitable business has evolved into an unprofitable hobby.

STEP 4: COMPENSATE “STRATEGICALLY”

If managers build value for owners, they should be able to build concurrent value for themselves. That’s Capitalism 101.

ACTION: Revise your incentive (bonus) compensation plan to focus on achieving TARGET ROI goals and building owner value.

ACTION: Explore, with your advisory team, the applicability to your business of long-term compensation options like phantom stock, ESOPs, and return-driven SERPs. This isn’t simply the right thing to do for committed, effective managers. Sharing equity in some way is what’s coming in private business compensation-it’ll soon be essential to compete for and keep good people.

STEP 5: OPEN YOUR BOOKS TO YOUR MANAGERS

This is mandated by the previous action steps. If the management team is to meet a budget and be compensated accordingly, they need to know the numbers.

ACTION: Work with your accountant and/or CFO to develop operating financial statements and reports you feel comfortable showing to key managers. Uncomfortable showing your salary or other pre-tax perks? Put them “below” the operating profit line. Worried about competitors getting your numbers? Don’t be. They barely know what to do with their own. In any event, the worst thing that might happen because you opened your books is better than what will not happen if you don’t.

STEP 6: DIVERSIFY & PROTECT YOUR INVESTMENT

Commonly, ag producers have most of their net worth tied up in their businesses. This almost inevitably becomes a dangerous, claustrophobic, even crippling situation, where risk far outweighs any possible opportunity. Result? Panic, anxiety, indecision, and frustration.

ACTION: Work with financial advisors to develop a plan for using part of your business ROI for investments outside the operation. Sure, there’s no better investment than one you own and control. But look around. How much control do you really have in these days of international competition, GMO, consolidations, and environmental regulation? Establishing a little security unconnected to the business can greatly bolster entrepreneurial courage.

ACTION: Get your estate plan done at long last. Why give what you’ve built to the government? To people you don’t want to have it? Or to those who shouldn’t have it? Here is where your advisory team really earns its keep (assuming you’ve taken Action Step 1).

That’s it. Six key actions to preserve and enhance your successful farm or ranch operation. (They’ll probably help you sleep better at night, too.)

It might be stating the obvious, but there’s one other action required:

ACTION: Keep applying that genius and perseverance that got you where you are today.