



# Business Planning for a Successful Project

Jason Karszes, Jeff Perry, Cathy Wickswat, Kyle Getty, Joan Petzen



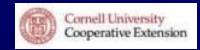


### Why Modernize?

- Today's focus is modernizing your dairy business
- Modernizing usually involves
  - New investment
  - Changes in how things are done
- Why do you want to modernize is critical in determining what plan is best for you





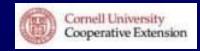


# Factors Driving Change on Dairy Farms

- Increasing input and output price variability
- Increasing profit variability
- Increasing capital investment levels
- Inflation impacts
- Processor/handler expectations
- Family expectations
- Management focus







# Changes Occurring on Farms to Offset These Factors

- Higher labor efficiency
- Higher milk production per cow
- Specialization
- Lower Costs
- Larger production units
- Value added
- All of these being pursued to maintain or increase the ability of the business to meet family goals and expectations



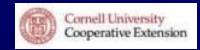




#### Current Farm Performance

- What is the current farm performance?
  - Milk production
  - Labor efficiency
  - Capital efficiency
- Is the farm generating enough profitability?
  - To maintain or improve ability to meet family goals
  - To build retirement for senior/current generation



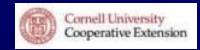


#### Current Farm Performance

- What does your business analysis say about your business?
  - Cornell Dairy Farm Business Summary
  - Farm Credit Large Herd or Dairy Profit Analyzer
  - Dehm & Associate's DairyDash Board
- Do you feel that there is profit un-captured due to current way of doing things?
- What does the business assessment indicate?







#### Long Term Farm Direction

- What is the mission/vision for the farm and the family?
- What are the current operator's plans for retirement?
  - Liquidate the business at retirement
  - Sell the business to a next generation and have the business continue?
- When does the current operator(s) want to retire?
- What is the long term strategic business plan for the business?







#### May Want to Modernize if:

- Leaving profit on the table
- Below industry standards on key benchmarks
- Not retiring for several years
- Transferring the business to the next generation







#### Resources

- Business Analysis Programs
  - Cornell Dairy Farm Business Summary
  - Farm Credit Dairy Business Analysis
  - Dehm & Associates Dairy Dashboard
  - Cornell Dairy Profit Monitor
  - Others
- Advisory Teams
- Business Consultants
- Agri-service representatives



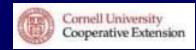


### Project Business Planning

- After making the decision to modernize –
   What is next? Key questions
  - What should be done?
  - In what order?
  - What is needed to complete?
- To help with these questions, develop a project business plan to serve as a blue print







# Why Develop A Project Business Plan?

- Organize your thinking!
- Convince yourself and your family that it is a good direction



 Ask the hard questions and make sure the dream can become reality!

A plan is a state of mind, not a document to collect dust!





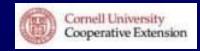


#### Key Questions to Answer

- What needs to be done?
- When will it be done?
- Who will be doing it?
- What needs to be accomplished first?
- What will the capital costs be?
- What impacts will there be on daily operations during the change?





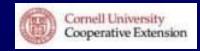


#### Key Questions to Answer

- What changes in operations need to be considered for when plan is complete?
- What external things can impact the ability of the business to complete the plan?
- What is the risk to the business if plan is not implemented successfully?
- What other resources are needed for the completion of the plan?







### Project Business Plan Key Reasons to Develop

- Convince yourself that the change is a good one
- Convince other family members to support effort
- Utilize to communicate to other parties to enlist their support for the change
  - Employees
  - Banker
  - Builders
  - Consultants
  - Agri-service personnel
  - Others





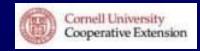
## 1. A "Formal" Business Plan Model 1. Executive summary

- 2. Current business description
- 3. Historical performance
- 4. Capital costs with formal bids
- 5. Transition year budgets
- 6. Budgets for when fully implemented
- 7. Sensitivity analysis
- 8. Other supporting documents
- 9. Summary







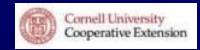


# Project Business Plan Utilizing with the Lender

- Most people not farming with money
- Lender is a key partner in successful modernization plans
- Preparing a business plan for the lender can help in the approval process







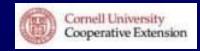
# The 5 C's of Credit Are Each Addressed in the Project Plan?

- Capacity
- Character
- Capital
- Collateral
- Conditions



• Can you answer every question they may have before they ask it?





#### Question

What is the easiest and quickest way to get an answer of NO from the lender for capital to modernize your business?

Answer: Not have any records nor have a plan!



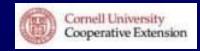


#### Budgets

- A key part of the project business plan is budgets
  - What you want to develop to help in the decision making process
  - What the lender will look at in evaluating the loan proposal







#### Question

 Who has developed a budget that was correct after the fact?

Answer: Budgets are almost always wrong.

If this is correct, than why develop budgets?



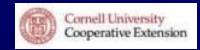


#### Budgets

- Are you asking all the right questions
- Your best estimates on what things will be
- Involvement from other parties in the development process
- Something to compare to once starting to make the change or after change is complete
- Focus management efforts on areas that are identified to being critical to the success of the business





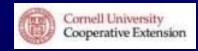


# Step 1 Cash Flow Projection

- Transition Year
  - − By month?
  - When will cash be going out?
  - When will you need borrow funds?
  - How much start-up or transition capital will you need in addition to the capital for the actual investment?







# Step 2 Cash Flow Projection Year 1

- By quarter or for the year
- What do things look like after transition is complete?
- What is the ability of the business to service the new debt?
- What other things need to be done once change is implemented?







# Step 3 Average Future Year

- What does the average future year look like?
  - Given you historical performance
  - Cash flow based, but looking at accrual revenue and expenses
  - Ability to generate a profit
    - Support family
    - Build net worth
  - Ability to service debt over time
  - Ability to re-invest
- Difficult to project the future need to make best estimates





# Step 4 Balance Sheet

- What is the asset and liability situation for the business?
- What will happen to net worth?
  - After transition year
  - After first full year
  - 2 or 3 more years down the road with average future year debt service taken into account





### Budgets Key Principles

- Based on the business historical performance
- Realistic and defendable changes in performance based on changes being made
- All assumptions noted
  - Can explain outcome
  - Can defend
- Sensitivity analysis
  - What is the impact if some key assumption is wrong
  - What are the key areas that need to be focused on





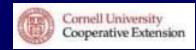


# Budgets Key Questions

- Is projected change in cash flow, earnings, and net worth sufficient to cover the risk?
- If it does not work, where does that leave the business?
- What ability does the business have to borrow additional funds if needed?







# Preparing Budgets Resources

- Your local Cornell Cooperative Extension Office
- www.agfinance.aem.cornell.edu/Tools
- www.nyfarmnet.org
- Business consultants
  - www.dehmassociates.com
  - www.farmcreditwny.com
  - www.firstpioneer.com
- Other







### Modernizing the Business

- Is a key management function
- Necessary to allow the business to meet the family's goals and expectations
- Planning is a key function for successful reinvestment in the business
- Difficult to do planning without historical performance data
- Budgets are a key management tool utilized to improve the decision making process

