Business Planning for a Successful Project

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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
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 re-investment in the business
• Difficult to do planning without historical performance data
• Budgets are a key management tool utilized to improve the decision making process