



HOW DO YOU WIN IN TOUGH TIMES?

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The Fundamental Premise

 **Be Best In Class!** 

- Well beyond being a low cost producer
- What is your class/your strategy



What is Your Strategy?

- Low cost – your job every day in a commodity industry
- Customer centric – ask what your buyer wants. Services?
- Innovator/first mover – new products/markets/services/business models



Elements of Best in Class

1. Intense Cost Control

- efficiency/productivity is critical
- know your cost components per unit sold

2. Margin Management

- know your costs of production
- know your margins
 - contribution margin – revenue above operating costs
 - profit margin - revenue above all costs
- protect positive margins



Elements of Best in Class

3. Execution

- Use SOP's (standard operating procedures)
- Timely operations
- Details, details, details



Elements of Best in Class

4. **Buying Right**

- Procurement mentality
- Compare supplier offers
- Use a bid sheet
- Sets your cost structure
- Don't pay premiums for control
- Consider repairing rather than replacing



Elements of Best in Class

5. Logistics Management

- Machinery scheduling
- Input flow scheduling
- Product flow scheduling
- 24/7 operations when possible



Elements of Best in Class

6. Managing Operating Risk

- Technology performance – pest control, fertility effectiveness/loss, seed selection
- Marketing/pricing of inputs and products
- Government program and crop insurance participation
- Casualty and liability insurance



Elements of Best in Class

7. Debt/Capital Management

- Maintain working capital
- Sources of debt (dealer financing)
- Buy vs. lease
- Lengthen payment terms
- Fix interest rates
- Deleverage
- Reduce capital expenditures
- Don't surprise your lender

Elements of Best in Class

8. Simplification/Automation

- Complexity creates confusion/errors/mistakes
- Systemize work activities/processes
- Adopt user-friendly automation technology (people make mistakes)

9. Do Fewer Things Better

- What is your hedge hog – what you do better than anyone else?
- Focus and intensify
- Outsource

10. Data Management

- Collect efficiently
- Aggregate but share carefully
- Capture the insights
- Think carefully – false signals, confirmation bias



Best In Class Is Not New

- Return to the basics
- Dust off the old playbook

How Do We Win in Tough Times?

-Resiliency


- absorptive capacity
- protect your position
- “defense”


-Agility

- capture the upside
- “offense”

Absorptive Capacity

1. A war chest of cash
2. Low fixed costs
3. Diversified cash flow
4. Unique hard assets
5. Size – ability to downsize
6. Moderate and properly structure debt

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7. Resource Reserves – financial, personnel, inventory, machinery/equipment
 8. Patient/powerful supplier – capital, landowner
 9. Unique product/service – buyer can't switch

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10. Brand value/reputation
 11. Protected core market-- barriers to entry
 12. Preferred supplier arrangements

Agility

Strategic

- Strong balance sheet and cash/resource reserves
- Rapid response governance structure
- Long-term view by management
- Anticipate market changes
- Willingness/ability to exit
- Start-up/new venture mentality
- Regular experimentation

Agility

Portfolio

- Diversified
- Deep/flexible management team
- Willingness and ability to reallocate resources
- Regular and unbiased evaluation of options
- Structured process for exits and/or downsizing

Agility

Operational

- Clear performance goals
- Credible real-time data on performance and market conditions
- Focused priorities (not spread too thin)
- Workforce held accountable and adequately rewarded
- Acceptance/willingness to experiment and take calculated risks

The Bottom Line

You can't accurately predict the future, so position for the challenges and opportunities.

Recovery from Mistakes/Bad Outcomes

- Good decisions can result in bad outcomes – can't control the future
- Critical to experiment/explore prior to a full commitment
- Adopt options thinking – position to minimize the risk (downside) and capture the opportunity (upside)
- Use benchmarks and timelines to improve discipline
- Make smart exit decisions – capture residual value – don't wait to exit because of sunk cost bias

A Disengagement Plan

- Honestly discuss the shut down/exit with stakeholders
- Create value from a mistake through learning to inform future decisions
- Capture what you learn with a learning log

A Learning Log – Key Assumptions

1. Business Model	<ul style="list-style-type: none">➤ Cost, revenue, timing➤ Obstacles and breaking through them
2. Market	<ul style="list-style-type: none">➤ Who will buy and why: quantity, frequency➤ Behavior of different segments (penetration rates)➤ Market growth rate➤ Cost and time to achieve market share and volume targets➤ Distribution channels and access to them➤ Price, product, functionality, service, marketing strategy
3. Development of product/service	<ul style="list-style-type: none">➤ Time and costs➤ Functional characteristics related to market need

A Learning Log – Key Assumptions

4. Competition	<ul style="list-style-type: none">➤ Advantage compared to competitive products➤ Duration of advantages➤ Type of competition faced➤ Likely competitor response
5. Manufacturing and production	<ul style="list-style-type: none">➤ Ability to control costs/quality➤ Service requirements and costs➤ Ability to produce at scale➤ Availability of people with required skills/knowledge
6. Financial	<ul style="list-style-type: none">➤ Development time/cost➤ Cash required to reach breakeven➤ Investment required to reach profit goal➤ Cost/profit/loss at different volume levels