

Welcome to the Age of Possibilities

Some people might think that, as a former banker and now as a finance and strategy consultant, I have had the opportunity to learn many lessons by observing and financing the most successful people. To some extent that is true. However, I have also come to realize that you learn a lot from spending time “in the trenches” with those prospects and clients who have had their plans interrupted by various events.

I have had the unique opportunity to play an instrumental role in 11 major financial turnarounds during the past seven years. Most of these were situations where there was only one way to go, and that was up. Some of them were characterized by banks attempting to collect upwards of \$6 million to \$10 million in distressed loans. At the same time, vendors were pushing to collect Accounts Payable of \$500,000 to over \$1,000,000. Frankly, some of these producers had no idea where to turn next.

That was the bad news. The good news is that in every case, we were able to turn them around successfully. Following some creative financing and numerous lengthy negotiations, we were able to get them back on track again. Nine of the eleven are still running profitable operations today. The other two made a decision to exit their industry after being restructured and positioned to do so (one at the peak of the market), leaving their owners with large sums of cash to retire on.

Each of these turnarounds simply took a period of two to three years to get them better “positioned.” Using many of the same tools, techniques and strategies that you will read about in the chapters that follow, we were able to develop a successful turnaround plan. Were there any bumps in the road? You better believe it! By persevering through these challenges, we finally reached our goal, some sooner than others.

The dairy industry, and agriculture as a whole, is ripe with an abundance of opportunities. We are going through a time of great change. I do not expect that to alter anytime soon. The only change on the horizon that I see coming is the pace at which we experience change. Today, it seems to be coming at us with alarming speed. Believe it or not, the rate of future change will probably be at an even faster pace.

The following passage may serve as an example for you. Find yourself in this story:

It is 2:50 a.m. on a weekday morning, and you find yourself unable to sleep, hoping that the thoughts running through your mind are simply part of a horrible nightmare. In between your concern that these thoughts may indeed be reality and your hope that you truly are just having a huge nightmare following that glass of Merlot last night, you decide to complete another review of the day’s happenings. You fathom that if you can rationalize these events one more time in your mind, you just might not be

exhausted when the school tour group arrives at your farm at 10:00 a.m. or when your bankers land at 1:00 p.m.

First, the dairy: Your herdsman approached you earlier today about an offer he has received. He has been approached about taking his 200 cows and 140 heifers (about 20% of your total herd) and moving them to another dairy where the owner is getting up in years and would like to take on a partner in an effort to fill his new facility. While your herdsman is not anxious to leave, this represents a positive opportunity for him. He will make considerably more money and will immediately become a partner in both the herd and the land & facility at the new place.

He has been a great herd manager for you. He has been a solid team player, loyal and conscientious. You wonder if you could even find an equal replacement. You are adamant in your statement to him that “this is just not the way things work around here.” You really hate to see him go, particularly since your cash flow seems quite tight. However, he has offered to stay, but only if you provide him with a \$45,000 retention bonus so that he can purchase a new home not far from your operation. He feels that will help compensate him for the “proposed” ownership plan that you started talking about 15 years ago...

You rationalize that you could simply borrow the \$45,000 on your herd loan, but it's the principle of the matter, you reason. Perhaps you can discuss this with your banker when he (or they) arrives later today.

3:10 a.m. To divert your mind from this, you start thinking about the value of your ranch or farm. It is a great place to operate, you reason, one where you hope to continue your business for a long time. After all, you do have two sons who are in Junior High now and whom have expressed an interest in continuing the operation.

However, you are hearing rumors of many changes in the neighboring regions. There are new homes being built just nine miles east of you. While these developments are planned to go only eastward from where they currently are, the winds from your farm location could create a problem for these residents. You and one of your neighbors had resisted establishing an “agricultural zone” 10 years ago, thinking that might prevent your land from being bought for development in the future. Now, he is in financial trouble with his bank and has his place on the market for \$500,000 less than you paid for yours four years ago.

3:30 a.m. The dairy again: You have had some inquiries or you haven't had them... The most successful A.I. firm in your area has inquired about your availability. Either way, you worry that if you leave now, what will that mean for the future of your sons in this business? If you hold out, will you be leaving a lot of money on the table? Could this industry implode if you hold on? Will your sons really want to come home after five and six years of school, respectively, plus another four years of college? How could they possibly even know at this point? After all, they are only 14 and 13 years of age. You try to go back to sleep.

3:50 a.m. Your banker has been calling to follow up on a letter that was sent to all of his borrowers. The “directive” you received by mail two weeks ago sits like a rock in your stomach. They expect you to come with up with five-year goals for your dairy, along with a five-year plan for achieving them. You have been told that you will need to provide marketing plans for your milk, an outline of feed needs and potential contracts, an overview of labor laws and your compliance with them, and a Nutrient Management Plan and any plans for future business growth or an exit strategy.

While this all may not seem like such an unbearable task, they have informed you that their new Division Director (since being acquired by another Super-Regional Bank) will be reviewing your quarterly results to determine if you are staying on plan. Unfortunately, you are already familiar with this Director. In fact, you have had a “run in” with her at your prior lender six years ago. You recall that she seems to have had an unrelenting memory for most of your earlier discussions.

4:00 a.m. The dairy once more: The EPA has been in your area and already stopped by unannounced twice. Fortunately or unfortunately, you have been gone both times. In any event, you don’t expect that their stops represent good news, although you have not received anything from them by mail.

Sadly, you did hear that they were forcing another one of your neighbors to invest about \$500,000 in an effort to “upgrade” his facility for air quality and water management. Are you next? With your considerable farming operation, could your dust be even worse? What about water quality?

You have been reviewing an expensive contract offered to you by a local vendor for equipment to better manage your nutrient water and possibly generate a revenue stream from energy creation. Is the proposal sound? Have you “turned over each and every stone?” What if it doesn’t work effectively? What if the EPA doesn’t like it? Will your banker approve the necessary financing?

4:15 a.m. Maybe there is something downstairs that will help you sleep or should you just start the coffee? After all, you are only 45 minutes away from when you usually get up.

Did you find yourself anywhere in the story above? If not, you are leading a charmed life. Most of us as dairymen, however, will be able to relate to at least one segment of the story. These are changing times, and we are all being faced with new challenges. The demands of today’s regulatory agencies and other governing bodies have a huge task in front of them with a large audience to whom they must respond. At times, this can make your life slightly less than comfortable. Do not despair.

While we all long for order in this world, often our reality is much different than what we hope for. As authors Jim Taylor and Watts Wacker state in their book The 500

Year Delta,¹ “This is the world we have arrived at today: one in which the principles driving change are no longer reason but chaos, no longer causal relationships but disharmonious conjunctions.” This reality may cause us some discomfort and anxiety, but we must continue to deal with it.

The hope of this book and its author is that, using the principles outlined in the chapters that follow, you will be afforded an opportunity to enjoy a safer journey to your ultimate business destination, wherever that might be.

“Courage is not the absence of fear. It is acting in spite of it.”

Mark Twain