

STRATEGIC POSITIONING IN UNCERTAIN TIMES

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Vulnerabilities to Continued Prosperity

- Increased supplies from productivity and acreage increases
- Slowdown in demand growth (exports and biofuels)
- Cost increases – locked in higher cost structure on land
- Higher interest rates
- Margin compression
- Asset value declines

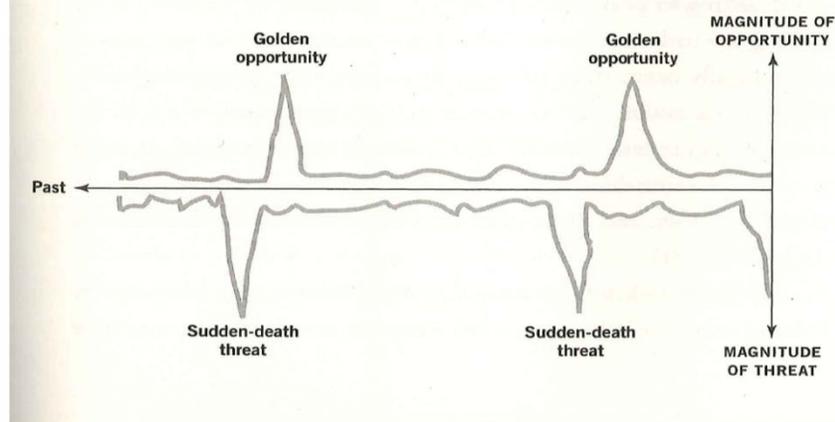


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Vulnerabilities to Continued Prosperity (con't.)

- Weak working capital positions
- Excess and/or poorly structured debt
- Availability of credit
- Increased tax burdens/reduced preferences

FIGURE 2.4 The Inverse Power Law of Opportunities



The Paradox of Uncertainty

- Uncertainty Creates Risk (Loss Exposures)
- BUT**
- Uncertainty Creates Opportunities

THE FUNDAMENTAL CHALLENGE

- Minimize the Downside
- Capture the Upside

Sources of Absorption/Resiliency

- Size – can downsize if necessary
- Diversified in business activity or geography
- Strong financials – cash/liquidity and balance sheet
- Unique tangible resource-not easily replicated
- Unique intangibles-reputation, brand
- Some slack/underutilized capacity (machinery, workforce)

Sources of Absorption/Resiliency (con't.)

- Powerful partners (buyers, suppliers, lenders, landlords) who need us/want us to succeed
- Customers who can't easily replace us
- Buffered from competition-surrounded by a moat
- Low fixed costs-can better weather the storm

Sources of Agility

- Accurate real time data
- Early recognition of market changes
- An integrated management system-everyone informed/understands
- Clear objectives/goals
- Key performance indicators (KPI's)-not too many
- Entrepreneurial managers

Sources of Agility (con't.)

- Sense of urgency-no complacency
- Willingness to change or exit
- Systematically reallocate resources
- Seize opportunities when they arise

Strategic Positioning

Focus
vs.
Flexibility

Strategic Focus – Best In Class

- Intense Cost Control
- Margin Management
- Execution
 - SOPs
 - timely operations
 - details/details/details

- Buying Right
 - procurement mentality
 - sets your cost structure

- Logistics Management
 - flow scheduling
 - 24/7 operations

- Manage Operating Risks
 - technology
 - marketing
 - insurance

- Data Management
 - how to measure/collect
 - insights
 - who to share with

- Debt Management
 - sources (dealer financing)
 - leasing
 - interest rates
 - repayment terms
 - collateral
 - covenants
 - relationships

- Simplification/Automation
- Do Fewer Things Better
- Return to the Basics

Strategic Flexibility

- Anticipate
 - what to watch
 - preempt rather than react

- Contingency Planning
 - scenario analysis
 - plan for the tails
 - triple based budgeting

- Options Thinking
 - beta testing
 - avoid “Big Bets”
 - value of waiting

- Incremental Changes

- Discovery Driven Planning

- Systematic Learning
 - learning by doing
 - learning by listening
 - a learning log

- Position for the Opportunity
 - financial liquidity (cash or borrowing base)
 - slack resources (managerial and equipment)

- Downsizing/Exit
 - shrink to survive
 - exit smart

- Position to Grow
 - buy distressed assets
 - sprint ahead when others pull back

Taleb's Barbell Strategy

- Never make an investment where the option is to lose everything
- Move a portion to the left side to preserve what you have, rather than doubling down what you have on the "right" side.
- Need to strive to be anti-fragile and preserve what we have from fragility
- Don't make single big bets, put small amounts in numerous big bets so you catch the positive black swans
- Do everything you can to option the big bet – options thinking

Taleb - Antifragile

Can't Accurately Predict, So
Position for the Uncertainty