

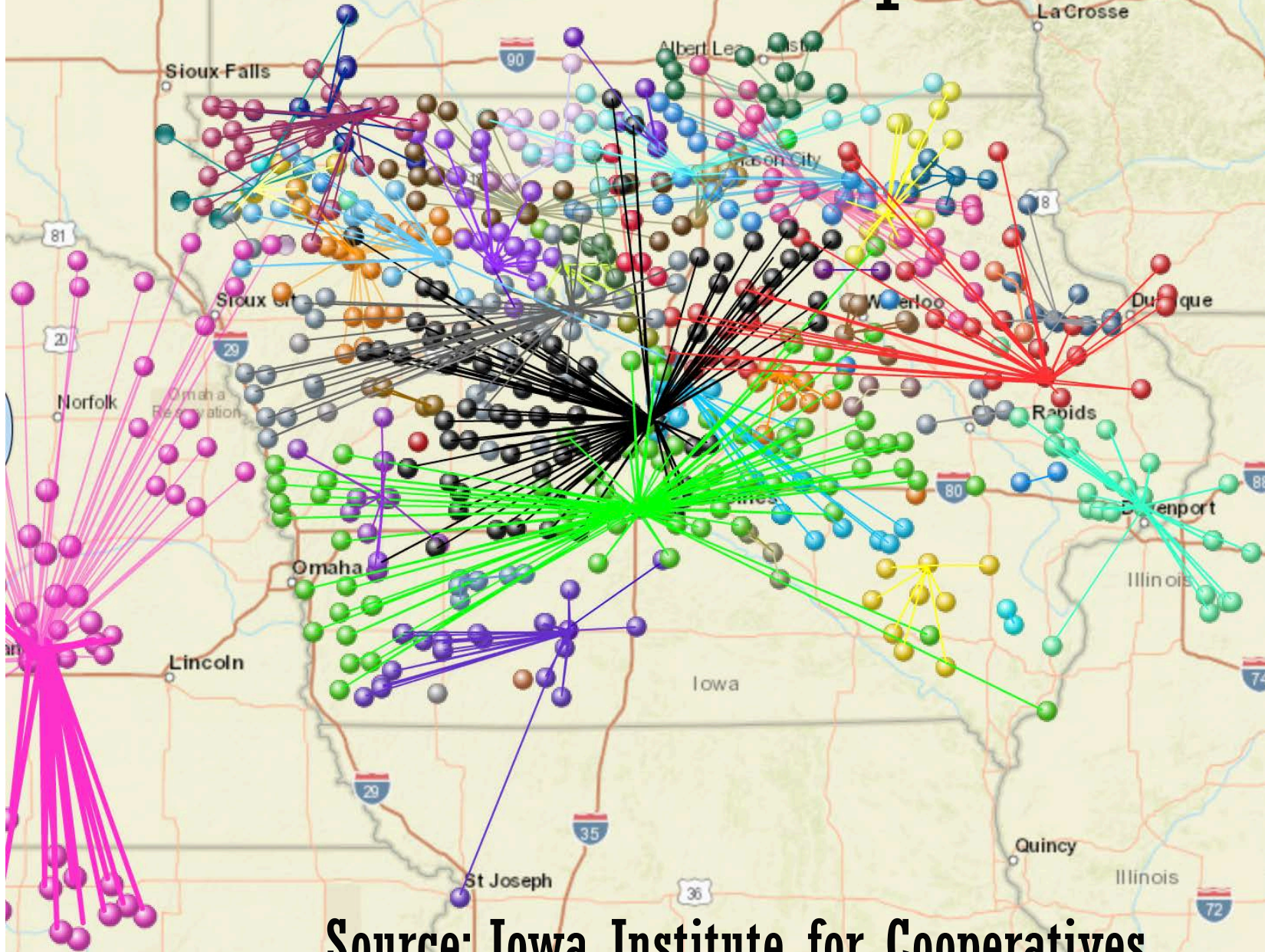
DOVETAILING MEMBER VALUE AND EXPECTATIONS WITH STRATEGIC FINANCIAL MANAGEMENT

**Minnesota Grain and Feed
Association Annual Convention**



**Keri Jacobs, Asst. Professor of Economics
Iowa State University**

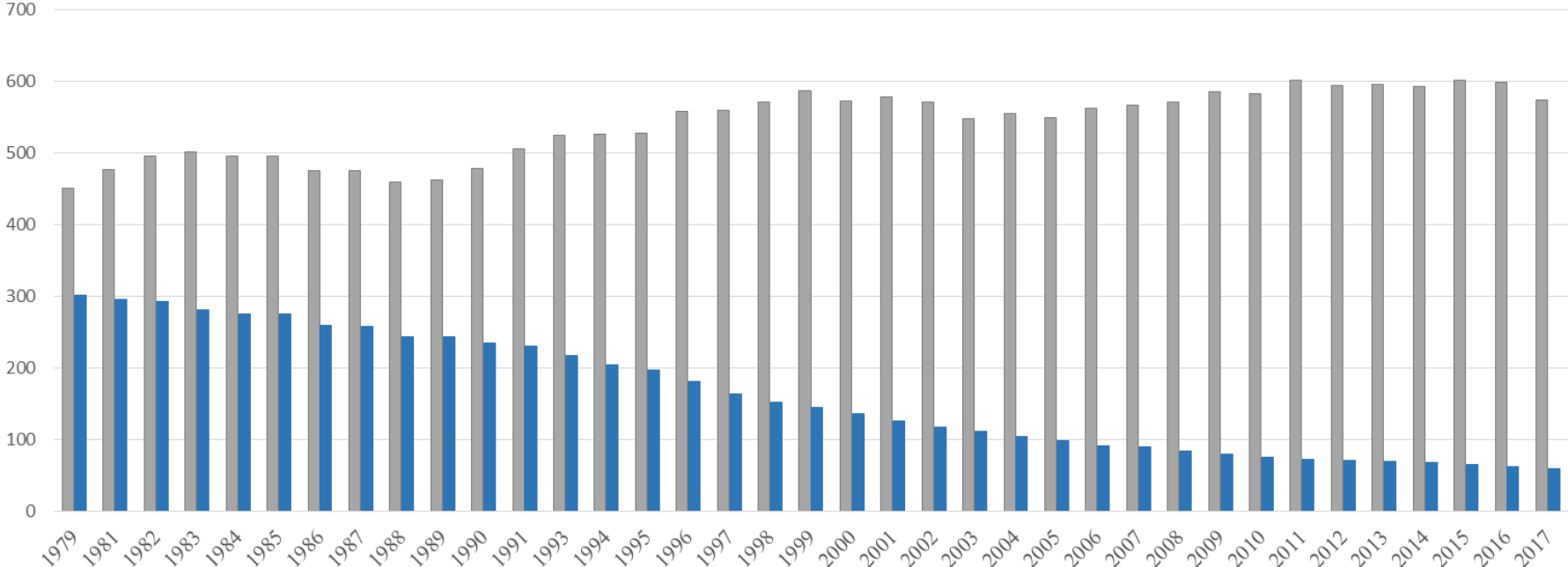
Iowa G&FS Co-ops



Source: Iowa Institute for Cooperatives



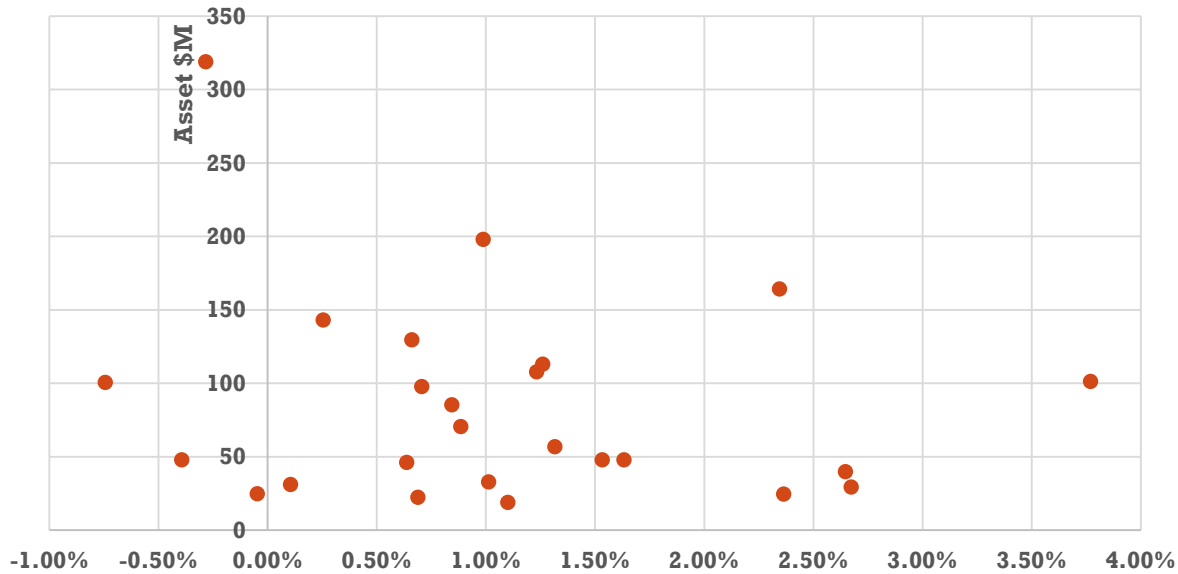
Consolidation of Iowa's Grain & Farm Supply Cooperatives 1979 - 2017



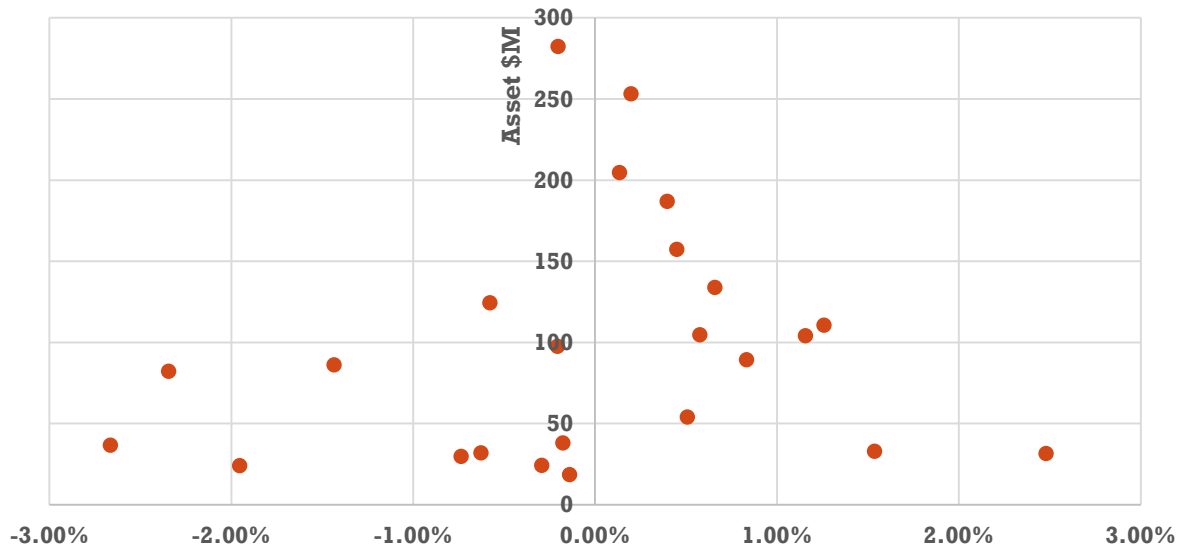
■ Locations ■ Cooperatives



Local Return on Sales, 2015 Q3



Local Return on Sales, 2017 Q3



**IS BIGGER
BETTER?**

Performance
metrics
suggest
not—better
is better.



STRATEGIC FINANCIAL MANAGEMENT (SFM)

Investopedia says...

“...specific planning of the **usage and management of a company's financial resources to attain its objectives** as a business concern and return maximum value to **shareholders.**”



SFM APPLICATIONS

- Mergers / acquisitions
- Capital Expenditures (shuttle train, feed mill, technology)
- Profit and Equity Tools
 - Qualified and non-qualified allocations
 - Allocation of regional equity
 - Redemption programs



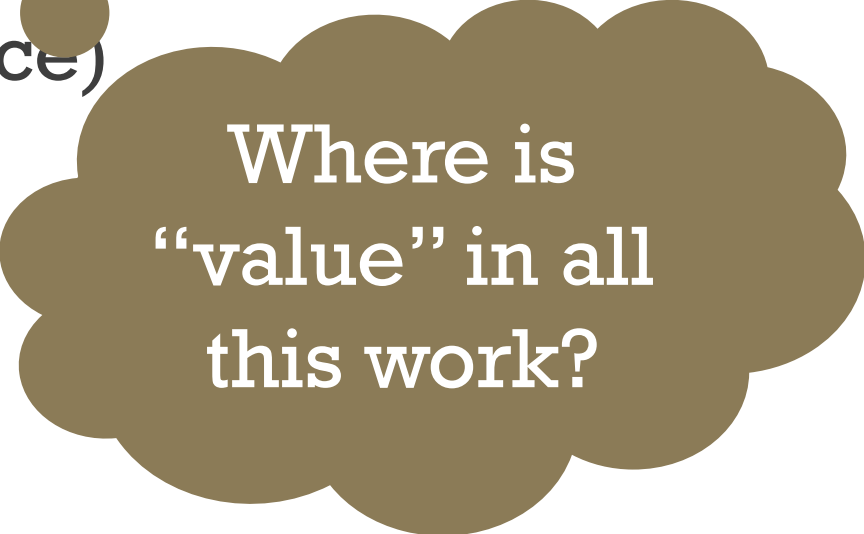
BASIC SFM PROCESS

- Define your co-op's objective(s)
 - ✓ What does your mission/vision statement suggest?
- Identify (quantify) the resources available to you
- Devise a plan to utilize financial options
 - ✓ What additional resources are needed?
- Do something
- Collect and analyze data/metrics that indicate progress
 - ✓ Analyze the variance between budgeted and actual results
- Adjust



THE BOARD'S MANDATE

1. Represent the membership
 2. Protect the financial health and sustainability of the co-op
- Duty of care (diligence)
 - Duty of loyalty
 - Duty of obedience
 - Duty of oversight



Where is
“value” in all
this work?



"VALUE" IS HARD TO PIN DOWN

THEN

Farmers are a homogeneous group

- Farm ops look the same
- Farmers share a common geography
- Farmers agree on what they need

Managing the co-op is easy

- Co-op governance is inclusive
- Co-op benefits are derived and shared proportional use, and this feels 'equal'
- Funding is proportional, too, and roughly match benefits

NOW

Farmers are heterogeneous

- Farm ops are diverse – size, enterprises, use of technology, etc.
- Farmer-members have different production geographies (no more "local" commonality)
- Farmers struggle to agree on the role of the co-op

Managing the co-op requires balance

- Co-op governance feels exclusive
- Co-op benefits are disproportionate across use and disproportionate to funding



DO YOU KNOW WHAT MEMBERS **VALUE**, AND WILL THE STRATEGY YOU SET DOWN SUPPORT THAT?

Co-op as an extension of my farm



Co-op is an independent business I own

Successful co-ops form and execute strategy mindful of how members define value. And successful farmers align themselves with firms that create on-farm value and protect their interests in the marketplace.



THE CRUX, IMHO

- “The co-op is just another big business.”
- “It’s not my co-op anymore.”

The member-level frictions—in business and culture—created through strategy not formed with “value” at its core have significant financial implications.



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WHAT CO-OPS NEED TO FIGURE OUT

- Is our strategy aligned with members' expectations and ideas of how value is generated?
- Is our strategy moving us closer or further from being “an extension of the farm”?
- How does heterogeneity of our members impact the co-op's value proposition and what can be done about it?
- How do we ensure that all members benefit from the joint provision of value in a perceived and real way?



SOLUTION-ISH

A re-alignment of farmer expectations with board / management strategy development.

Stop talking narrowly about 'value'

Education: Is your co-op—and are your members—losing sight of THE most important function of their cooperative?



THANK YOU!



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