DOVETAILING MEMBER VALUE AND EXPECTATIONS WITH STRATEGIC FINANCIAL MANAGEMENT

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Source: Iowa Institute for Cooperatives
Local Return on Sales, 2015 Q3

Local Return on Sales, 2017 Q3

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?
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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