Ranching For Profit

Healthy Land, Happy Families & Profitable Businesses

Seminars with Don Jonovic, Bud Williams, Gerald Fry and Joel Salatin

We invite you and other Ranching for Profit School alumni and their families to attend seminars conducted by these outstanding speakers this fall. Each of these seminars is part of the continuing education program for Executive Link. We are opening this portion of the program to all of our alumni. The cost of each of these programs to non-EL members is $150 ($200 Can.) and includes lunch. Here's the run down:

Don Jonovic: Management Succession *High Plains Executive Link, Billings MT*
9:00 a.m.-1:30 p .m. (including lunch) Oct. 27, 2003

Don has been advising business owners since 1973 and specializes in management succession in family owned businesses. Don will make you laugh, cry and see your business from several unique and important perspectives. Whether or not your business is currently facing transition issues, you will enjoy and benefit from this workshop.

Gerald Fry: Grass Based Genetics *Far West Executive Link, Boise, ID*
9:00 a.m.-1:30 p .m. (including lunch) Nov. 3, 2003

Gerald has written frequently for the Stockman Grass Farmer. Gerald says his goal is to assist ranchers in creating dynamic bulls capable of reproducing superior traits in their progeny and cow herds that are functional on grass with the end product being both tender and tasty with high retail output. The BSE situation in Canada highlights the risk of relying on the commodity beef business to market all of your beef. Gerald will discuss other options and the genetic principles required to make quality beef from grass. His concepts are winning lots of fans among commercial cattle producers and ruffling a lot of feathers in the purebred industry.

Bud Williams: "Bud Unplugged" *Colorado Executive Link, Colorado Springs, CO*
9:00 a.m.-1:30 p .m. (including lunch) Nov. 10, 2003

If you have ever attended a Bud Williams program to find breakthroughs on livestock handling or marketing, you know that there's a lot more wisdom inside the man than handling and marketing. I've asked Bud to share his thoughts about grass, cows, people, money and his philosophy about success in life and in business, not necessarily in that order.

Joel Salatin: Building A Sustainable Ranch *Alberta Executive Link, Calgary, AB*
9:00 a.m.-1:30 p .m. (including lunch) Nov. 17, 2003

Joel Salatin will address the Alberta Chapter in November. Joel's farm consists of several enterprises, any one of which could be a thriving business. BSE has highlighted the risk inherent in "one-dimensional" businesses. Joel will discuss concepts that increase profit and reduce risk by creating multiple profit centers.

Seating is limited for each of these programs and RSVP's are required. To RSVP please e-mail (rmc@ranchmanagement.com) or call us (707-429-2292) and let us know which program you will be attending and how many people from your business will join you.

Land v. Livestock

At the Ranching for Profit School we discuss separating the land business from the livestock business and other surface enterprises. One of the things that drives Return on Assets (ROA) in the livestock business is the high investment most ranchers have in fixed assets. Of course the biggest fixed asset for most ranchers is the ranch itself. Perhaps we'd be better off if we dropped the word "rancher" from our vocabulary and instead thought of ourselves as graziers, cattle producers or better yet, business men and women.

Semantics aside, it is ironic that most fixed assets by which our culture measures wealth (e.g. expensive cars, equipment and facilities) are huge constraints to creating wealth. They are constraints because of the costs required to maintain these things. They constrain us further because when our money is tied up in these things it means we have less money available to invest in the things we mean to sell. This is one of the biggest problems in agriculture. It is why many ranchers are enormously wealthy but dirt poor.

The Land Business

Land is the biggest fixed asset for most ranchers. The return from land is usually pretty low when it's compared to other uses for capital. With the best management in the world, the return from most farm and ranch land will be in the single digits – and that includes the opportunity rent as well as appreciation. Compare that to the benchmark of 30% gross margin that we place on adding an additional breeding animal to our herd.

Does this mean ranchers should not own land? No, not necessarily. It makes sense that an individual with very little capital would rent rather than buy. It also makes sense that a well-established business with plenty of working capital would have a diversified portfolio that might include land.

There are often compelling, non-economic reasons for buying land. Perhaps it helps consolidate holdings, simplifies the operation or provides security, protecting the rest of the property. These are all good reasons to consider the purchase, but let's not kid ourselves. The price of land is often well above the value of the grass.

PROBLEM: High Value Land

There are two ways to capture the value of a fixed asset. One way is to create an on-going income stream (e.g. an annual payment for a power line easement). The other way is to sell the asset itself, or at least part of the asset. Our initial reaction to selling our land, or at least part of our land, is to think of selling a certain section or so many acres, but it is also possible to sell certain values associated with the land; the minerals under it, the wind blowing over it, the water running through it and the scenery around it. One example is a conservation easement.

An important RMC tenet is to take control of your business and the idea of conservation easements sometimes seems contrary to this idea. But according to the American Farmland Trust, 11% of all prime ranchland in the Rocky Mountain west is threatened by conversion to low density residential development. For many ranch families this is simply the worst possible option. They want to stay on the land and continue to make a profit farming or ranching it.

Their land ethic is incompatible with developing it, but then so is locking in decisions that will limit management options for the next generation. If you are in an area that is being assaulted by these kinds of real estate pressures, it may be worthwhile to rethink the idea of limited development and conservation values.

David Parsons And Conservation Developments

We recently met with David Parsons who has started a new enterprise called Conservation Properties, Inc. (CPI) to help landowners create “conservation developments.” Conservation Developments consist of carefully planned, limited development, balanced with restrictions placed on the property so that it remains a viable agricultural operation. According to the CPI brochure, *“The attraction to the buyer of a conservation property is that the landscape is left in its natural condition. Birds, wildlife, gravel roads and privacy are all amenities that are marketed.”* The working ranch itself is an amenity that can be marketed and added to the price of an acre of land. The retiring baby boomer generation fuels this market.

According to David, the key is to draft the right plan that will sell a few strategically placed lots to the public, but more importantly, leave the ranchers with the values they want, whether it’s an intact working ranch, tax savings, debt reduction, extra income, retained privacy, enhanced wildlife values, etc. It’s not the perfect arrangement for everyone, but it could be a tool for those who want to stay in the ranching business amidst development pressures. Anyone interested in exploring the possibilities can reach David Parsons by phoning 888-828-9122 or by email at info@conservationpropertiesinc.com. You can also visit his web page at www.conservationpropertiesinc.com.

Enterprises That Will Take Your Business To A Third Dimension By Owen Nelsen

When most of us look at a paddock we see it horizontally. In other words we see grass. I recently attended the California Browsing Academy, a 3-day workshop put on by UC Extension Advisor Roger Ingram and An Pesichel of Goats Unlimited, where I was shown how to see the landscape in its third dimension, vertically. Goats’ high preference for browsing combined with their ability to reach vertical heights make them a valuable tool that can be used to harvest non-productive layers within a property.

There are several similarities between successful goat enterprises and other livestock enterprises such as matching the rest period of the material being browsed to the growth rate of the plant, using the shortest graze period possible to increase animal performance, using large herd size to encourage herd effect, etc. Unlike responsible grazing with cattle or sheep, however, there may be times in which a site is intentionally temporarily overstocked to control a certain species. Also, since a goats eat much more browse than cattle, it is usually possible to increase the total stocking rate of a property with brush by having both cattle and goats. Electric fence can be effective for controlling goats on brush projects. Electric fence and guard dogs are usually required for effective predator control.

Having a goat enterprise offers an additional tool to improve the health and productivity of the land, encourage biodiversity and increase profit. Some Ranching For Profit alumni are already recognizing the advantages of a goat enterprise. This year’s ***Profit****Probe*™ results showed the highest average Gross Margin (per SAU) were goat enterprises at $214/SAU. To find out more information about the next California Browsing Academy contact Roger Ingram at (530) 889-7385.

How does Your Business Measure Up?

Profit*Probe*™ helped keep score for about 50 Executive Link businesses this year. For those completing a ***Profit****Probe*™ for the first time, it established a baseline from which the impact of future management decisions can be measured. For those completing their second probe, it has started to show the impact of changes and in some cases the cost of transition. In every case, it has contributed to a North American database, which is helping establish benchmarks for profit, cash flow, labor efficiency, and more.

Profit*Probe*™ calculates "Top 20%" statistics by picking the top 20% of businesses based on Return On Assets (ROA) and averaging "Key Performance Indicators" of these high performing businesses. *ROA is not profit*, but it is a good measure of profitability. It shows the economic efficiency of a business. It is calculated by dividing total income (cash and non-cash) by total closing assets. ROA can be increased by increasing income (return) or by reducing assets. Agricultural businesses owning assets valued for agricultural production have a distinct advantage over businesses owning assets valued beyond their production value. In calculating ROA, we have "leveled the playing field" for all EL members by valuing livestock inventories similarly, using set rates of depreciation on equipment and accounting for unpaid or under-paid labor in every business at predetermined wages.

Our intent in using ***Profit****Probe*™ is to study the impact of management on profitability. Since, in most cases, an individual's management has a negligible impact on land appreciation we decided to exclude the value of land appreciation from the ROA calculation. Furthermore, the value attributed to the business by appreciation is rarely realized until the business is sold. We appreciate the continuing discussion about this and the other assumptions we've made in our data collection and analysis. We know that there are valid differences of opinion on how businesses should be analyzed and that there is no one-size-fits-all analysis procedure. We think ***Profit****Probe*™ comes about as close as possible, providing the means for internal and group benchmarking for every business.

Top 20% & Productivity Groups

"Top 20%" are the performance levels achieved by the businesses with the highest ROA. Whether you want to maximize ROA or not, they are useful guideposts to identify strengths and weaknesses in your business.

A healthy person in British Columbia will probably have similar vital signs (temperature, blood pressure, etc.) to a healthy person in Nebraska. Likewise, there are certain economic vital signs healthy businesses should achieve regardless of their location. If the indicators for a particular business are way out of line with the benchmarks it may be that the business structure doesn't fit the environment.

While some indicators shouldn't change from one environment to another, others, especially those related to productivity, will. The indicators on the follow page are the combined average for all productivity groups.

KEY PERFORMANCE INDICATORS

Indicators	*Top 20%*	*Average*	
PROFITABILITY			In benchmark businesses: 1. Overhead costs were 65% lower, 2. Turnover (total SAU's) was 60% higher, and 3. Gross Margins were 26% higher than average businesses.
ROA (%)	8.7	0.1	
Asset Turnover Ratio (%)	37.9	22.8	
Gross Margin Ratio (%)	60	50	
Overhead Ratio (%)	49	75	
EBIT ($/ac)	7.2	0.7	
PRODUCTIVITY			In benchmark businesses: 1. The difference in productivity per acre was not significant, 2. Direct Costs/SAU unit were 17% lower, 3. Price received per pound was lower, and 4. Gross product was similar than average businesses.
Beef Produced (lb/ac)	61.6	55.4	
Cost / lb beef ($)	0.7	0.78	
Cost / SAU ($/SAU)	179	215	
Direct Costs ($/SAU)	75.38	85.46	
Feed Costs ($/SAU)	60.7	67.82	
Meat Price ($/lbs)	0.59	0.65	
Gross Product ($/SAU)	170.88	167.78	
Gross Margin ($/SAU)	89.02	66.78	
Gross Margin ($/ac)	6.4	2.9	
PEOPLE			Labor in benchmark businesses: 1. Produced almost $90,000 more gross income/FTE 2. Handled 30% more animal units per worker, and 3. Took 25% more time off than labor in average businesses.
Gross Product ($/FTE)	231,723	140,856	
Labor Costs % of GP	21%	17%	
SAU Managed/FTE	715	552	
Farm Area (ac/FTE)	8,589	11,117	
Training (days/FTE)	7.9	7.4	
Holidays (days/FTE)	16.9	12.4	
PECUNIARY (finance)			Benchmark businesses had less money tied up in fixed assets and paid 62% less interest and finance charges than average businesses.
Finance Ratio (%)	3	8	
Expense Ratio (%)	78	114	
Plant:Income Ratio (%)	41.21	68.13	
PROPERTY			Benchmark businesses grew roughly 60% more grass per inch of rain that fell than average businesses.
SAU days/ac/ inch rain	11	7	
Avg. SAU managed	1,222	1,048	

*The data upon which these findings are based was supplied by Executive Link members. The accuracy of the report is dependant on the accuracy of the data submitted.

The Business School of Agriculture

Ranch Management Consultants will hold our first Business School of Agriculture focusing on economics, finance and strategic management issues in agriculture. Our target audience is mid-west farmers, but producers in any ag production enterprise would benefit from this 5-day program. The venue and dates have been changed. The school will be held February 2-6 in Bloomington, Illinois. Ranching for Profit School alumni are entitled to attend the farming school for the $100 ($200 Can.) repeat fee. There are also 6 Ranching For Profit schools scheduled this year, including three new locations: Regina, Saskatchewan, Boise, ID and Springfield, Missouri. The complete schedule is printed on the back of this page.

Electronic Newsletter

About 5% of our alumni have asked to receive their newsletters electronically rather than by snail mail. Sending newsletters electronically saves us resources, time and money. If you'd like to join this growing group of cyber-hip RFP alumni please e-mail us (rmc@ranchmanagement.com).

Tell A Friend

Let us know if you have friends, family or colleagues who may be interested in the school. We'll be happy to send them la brochure. You'll be doing them and us a favor.

UPCOMING RANCHING FOR PROFIT EVENTS

Ranching for Profit Schools	
Regina, SK Nov. 30 – Dec. 6, 2003	Calgary, AB Jan. 11 - 17, 2004
Boise, ID Dec. 7 - 13, 2003	Springfield, MO Jan. 18 - 24, 2004
Colorado Springs, CO Jan. 4 - 10, 2004	Billings, MT Jan. 25 – 31, 2004
Bloomington, IL Feb 2-6, 2004 (Business School of Agriculture)	
Executive Link Program	
Billings, MT Oct. 27– 29, 2003	Colorado Springs, CO Nov. 10-12, 2003
Boise, ID Nov. 3 - 5, 2003	Calgary, AB Nov. 17 - 19, 2003

Trade Shows *We'll have a booth at these trade shows. Please stop by and visit us.*
Oregon Cattlemen's Association Convention, November 6-8, Redmond, OR
Missouri Forage & Grassland Council Annual Conference, Nov. 17-18, Lake Ozark, MO
National Conference on Grazing Lands, Dec 7-10, Nashville, TN

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We are in the business of putting profit into agriculture!