



# Ranching For Profit

Healthy Land, Happy Families & Profitable Businesses

## PLANNING FOR PROFIT

In just a few weeks it will be time to build your operating plan with a cash flow forecast for 2005. There is nothing more effective at putting you in control of your business and relieving stress than completing this planning process, yet too many RFP alumni don't do it.

The second time I took the Ranching for Profit School, Harold Hunt, a grazer from Humboldt county California and an alumnus of one of the first Ranching For Profit Schools, was visiting the class. That day we were talking about grazing. I asked Harold what the most important aspect of grazing management was. His answer? *"Managing cashflow."* I told him that I didn't think he understood my question and repeated myself. He gave me the same answer...two more times, until I figured he just didn't understand. I was half right. One of us didn't understand, but it wasn't Harold.

An alumnus recently repeating the school described it this way to his class mates: *"It was like I was in the back seat of a car going out of control. Preparing the cash flow budget and managing cash flow took me out of the back seat and put me behind the wheel, in control."* Someone spoke up saying, *"Back seat, shoot, I've been bound and gagged in the trunk!"* Back seat or trunk, working through the economic process will put you behind the wheel where you belong.

There are a lot of reasons we avoid planning, or if we do plan our plans are ineffective. Here are some of the more common excuses and reasons to avoid them:

### ***"I can't make accurate predictions for the coming year."***

Join the club. We need to accept that a precise forecast is not possible. But, your estimates don't have to be 100% precise to be useful. Don't get hung up on getting costs down to the nearest dollar. Depending on the magnitude of the budget, ballpark figures within a few hundred or even a few thousand dollars are probably adequate. If a few hundred dollars turns the budget from a winner to a loser, you are mistaken—it was never a winner to begin with. Remember the goal here is ranching for **PROFIT**, not ranching to break even or ranching to lose less.

### ***"I'll just adjust last year's figures."***

Avoid the temptation to reconstruct last year or to begin this year's plan by adjusting last year's numbers. It will deprive you of the fresh thought you'll need to find new opportunities.

### The Economic/Financial Planning Process

1. **Breeding Herd Statistics Chart:** estimates reproductive performance and culling rates.
2. **Stock Flow Plan:** projects sales, purchases & closing inventory.
3. **Livestock Valuation:** puts values on opening & closing inventories.
4. **Trading Account:** calculates the value of production.
5. **Gross Margin:** measures the economic efficiency of each enterprise.
6. **Cash Flow Forecast:** shows movement of cash into and out of the business.
7. **Profit or Loss Account:** projects profit or loss for the year.

Unless you have supernatural powers, you can't do much about what you did last year. But you can control what you are going to do this year. So, rather than spend time reconstructing something you can't do anything about, I recommend projecting the coming year without the bias of last year's figures. Once you've drafted out the plan, it might be useful to check it against last year's actuals. Glancing in the rear view mirror while driving is a good idea. But spend the majority of your time looking forward.

***"I don't have confidence in my figures."***

Remember: *the thought involved in putting the plan together is far more important than the plan itself.* Thoughtful estimates will be accurate enough to get the management information you need.

A few years ago a student at one of the schools was working well into the night on his numbers and seemed stressed. He said that his calculations showed that changing the calving season and eliminating the farming enterprises would be a much more profitable way of running his business, but he questioned the accuracy of his income and cost estimates. I asked him if they were off by 100%. He said they were closer than that. "50%?" I asked. He was sure they were better than that. "20%?" I asked. He thought there was a chance he could be off by as much as 20%. So the question became, *"If your figures were off by 20% would it change your decision?"* Even if the numbers had been off by 50%, his new strategy was a more profitable way to go! (The end of the story is that he implemented the change, his estimates had been spot on, and the business was dramatically better for it.)

**The End Is The Beginning**

Most people work through the economic planning process from beginning to end, completing the breeding herd statistics chart; then projecting their stock flow; valuing the livestock in their opening and closing inventories, constructing trading accounts, forecasting their cash flow; projecting enterprise gross margins; and summarizing all of these projections in a profit or loss statement. The profit or loss statement will project the anticipated profit or loss from our efforts for the coming year. I challenge you to start at the end, rather than the beginning. In other words, rather than working the process through to see what you will get, start with a profit target you'd like to achieve. Then work through the process, challenging the enterprises you operate and structuring of each of those enterprises until you find a way to reach that target.

Are you a little rusty on how to build a stock flow, use a trading account, project gross margins and build a profit or loss statement? Our new on-line coaching clinics will help you become more comfortable with the economic planning process.

**ON-LINE COACHING CLINICS**

We are developing a series of live, on-line coaching clinics to help you with your economic planning and other important WOTB work. These clinics will help alumni complete the 12 Grad Link Assignments. These assignments, when completed, result in a personalized business report that includes your mission and vision statements, an executive summary and an organization chart. The organization chart includes effectiveness areas which are key to assigning responsibility and holding people accountable. It also includes performance targets for each effectiveness area. The report has a balance sheet, gross margin projections for your ranch, a summarized cash flow forecast, and projected profit or loss.

We are testing the program this fall with some recent alumni of the school and anticipate making the program available to all alumni in January. The first coaching clinic is on stock flow planning and will be free to any alumnus. After you've tried it on for size you can make a decision on enrolling in the entire series. We are still working out some of the details, but keep your ear to the ground for what I think will be a very helpful series of coaching clinics.



If you have friends and neighbors you think would benefit from the school drop us an e-mail or give us a call. We'd be happy to send them our new information packet.

<b>UPCOMING RANCHING FOR PROFIT EVENTS</b>	
<b>Seminars/Presentations</b>	Do you know someone who would benefit from the Ranching For Profit School? A seminar is a great introduction to the program. Tell a friend.
10/19 Turtleford, SK: (Duane Hill 306-665-7356)	11/10 Kremmling, CO: (Doug Gillham: 970-725-6219)
10/20 Beechy, SK: (Duane Hill 306-665-7356)	11/11 Meeker, CO: (Doug Gillham: 970-725-6219)
10/21 Yorkton, SK: (Duane Hill 306-665-7356)	11/29 Westlock, AB (Mike Hittinger: 780-939-4321)
10/22 Lanigan, SK: (Duane Hill 306-665-7356)	11/30 Vegreville, AB (Mike Hittinger: 780-939-4321)
10/23 Tisdale, SK: (Duane Hill 306-665-7356)	12/1 Chauvin, AB (Mike Hittinger: 780-939-4321)
10/28 Choteau, MT: (Dave Hanna: 406-466-3661)	1/6-7 Dillon, MT (Margo Heberling: 406-683-7537)
<b>Ranching For Profit Schools</b>	It is still only \$100 (\$200 CAN) to repeat the Ranching For Profit School. The second time is even better.
Regina, SK Nov. 28 - Dec. 4, 2004	Calgary, AB Jan. 16 - 22, 2005
Boise, ID Dec. 5 -11, 2004	Billings, MT Jan. 23 - 29, 2005
Colorado Springs, CO Jan. 9 -15, 2005	Waco, TX March 13 -19, 2005
<b>Executive Link Meetings</b>	
High Plains, Billings, MT Oct. 25 - 27	Alberta, Calgary, AB Nov. 15 -17
Far West, Boise, ID Nov. 4 - 6	Colorado, Colorado Springs, CO Nov. 8 -10

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*We are in the business of putting profit into agriculture!*