

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 grazier 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 avoiding 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, ball park 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.

Ranching for Profit School & Executive Link Program Ranch Management Consultants, Inc. Phone: 707-429-2292 • Fax: 707-429-2100 • E-mail: rmc@ranchmanagement.com • web:www.ranchingforprofitcom 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.

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THE EL CONTINUING EDUCATION PROGRAM IS OPEN TO ALL ALUMNI

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 \$100 (\$150 CAN) and includes lunch. Call the RMC office to RSVP. Here's the run down:

Gregg Simonds: Profitable Ranch Management High Plains EL, Billings, MT Oct. 25, 2004 9:00 a.m.-1:30 p.m. (including lunch) Colorado EL, Colorado Springs, CO Nov 9, 2004 9:00 a.m.-1:30 p.m. (including lunch)

Gregg has consulted and managed ranches in the intermountain west since 1974. He has brought increased profit and environmental health to every property he's managed. I admire Gregg's talent for keeping his eye on the future while finding practical, profitable ways to get there now. Gregg will be discussing his thoughts about keys to profitable ranching now and in the future

Hubert Brown: Succession Planning in Family Owned Business Far West EL, Boise, ID 9:00 a.m.-1:30 p.m. (including lunch) Nov. 4, 2004

Hubert is a mediation and planning consultant with Kennedy & Coe, LLC., working out of their Wichita office. 89% of US businesses are family owned. Only 5% survive to the 4th generation. Hubert will address the keys to successfully transitioning from one generation to the next and offer tools to help separate the functions required by management, ownership and family, improving the effectiveness of all 3. Whether or not your business is currently facing transition issues, you will enjoy and benefit from this workshop.

Mark Keller: Grass Fed & Organic Beef Marketing

9:00 a.m.-1:30 p.m. (including lunch) Nov. 15, 2004

Mark is an organic meat marketing specialist who has worked with some of the largest and most successful ranches developing direct marketing programs for natural, grass-fed and organic

meats. Mark will discuss keys to developing a successful marketing program.

THANKS FOR THE KIT DAYS

A big thank you is due to Ted Alexander, Josh Donald, Paul Foley, Tom Krawiec, Gary Marshall, Merrit Moore, Brian Munger, and Brad & Rex Radtke for hosting KIT (*Keeping In Touch*) days this summer. Among a lot of other things, participants saw and provided feedback on a herd of 2,000 steers grazing under center pivots, cattle grazing knapweed and leafy spurge, pastured poultry and hog enterprises, innovative solutions to gully erosion, and the positive impact of having an effective drought plan. Most of all, it was exciting for everyone to be around forward-thinking alumni who are trying new things. Thanks also to all of you who attended. Feed back has been very positive. We plan on holding another round of KIT Days next spring and summer.

IF IT AIN'T BROKE...BREAK IT!

That's the advice of management consultant Robert Kriegel and it obviously goes against conventional wisdom. Kriegel's point for ranchers is that the best time to challenge the status quo is when we have good rain, plenty of grass and strong markets. Too often we wait for a crisis before we explore new options, but by then options are usually limited and more difficult and costly to implement.

I encourage you to follow Kriegel's advice and "break it" (whether your business is broken or not) by repeating the Ranching for Profit School this year. We will help you "break down" every aspect of your business and find "breakthroughs" to build a more secure future for you and your family. Repeating the school is still only \$100 (\$200 CAN).

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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.

UPCOMING RANCHING FOR PROFIT EVENTS		
Do you know someone who would benefit from the Ranching For Profit		
		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)
		(\$200 CAN) to repeat the Ranching For Profit School.
Ranching For Profit Schools	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
Executive Link Meetings		
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

Ranch Management Consultants Inc. 953 Linden Ave. Fairfield, CA 94533

We are in the business of putting profit into agriculture!