

### **Great Conference**

Over 200 Ranching for Profit School alumni from 5 countries and 26 states and provinces participated in what, by all accounts, was “a great conference.” We extend a big “Thank You” to Mara Kolter, Gordon & Elaine Young, Bruce Cochrane, Kelly Forrell, Roger Ingram, Irv Bard, Dwayne Rice, Peter McBride and Peter Ferrell for facilitating the EL meetings and for their tremendous support throughout the program. Special thanks to Peter McBride who was an outstanding moderator with our distinguished “Breakthrough Thinking In Ranching” panel, which included Harlan Hughes, Allan Nation, Burke Teichert and Stan Parsons. We owe a special thanks to Burke who pinch-hit with literally a moments notice. We are grateful to Pete Ferrell and the crew at the Ferrell Ranch who went above and beyond in hosting the field tour and barbecue. Thanks also to Charlie Orchard for his Land EKG session in the field and to Wes Jackson, our keynote speaker. I also want to acknowledge the extra effort our Administrative Assistant, Renee Rose and my wife Kathy gave to keep things running smoothly. Finally, several participants commented about the high energy level and wondered how we could possibly surpass, let alone equal, this program at future conferences. As long as we have energetic, forward-thinking alumni it will be a cinch. In our eyes it was the participants themselves that created the energy that made the program a success. Thank you.

### **Layers of Value**

Remember when you first attended the Ranching for Profit School? In the first half hour of the first morning Stan Parsons or Peter McBride or I asked you if there was a difference between being in the land business and being in the livestock business. If you owned land we challenged you to consider the implications of being in the “Land” business to your bottom line. We probably don’t spend enough time getting into this critical issue.

It was brought to my attention again a few months ago when an RFP alumnus from Kansas told me he was thinking about buying a section of land adjacent to his ranch. The price was \$300/acre. He figured the carrying capacity was about 10 acres/cow. He asked me if I thought he should buy it.

The rule of thumb Stan Parsons taught me is that grass is worth the value of the animal that it supports. For example, if it takes about 10 acres of that land in Kansas to support a cow and that cow were worth \$800, then the productive value of the land for *grazing* would be about \$80/acre for grazing (\$800 cow/10 acres = \$80/acre purchase price).

When I worked this out with that Kansas grazier, he shook his head and grumbled that the land was over-priced. I disagreed. If you believe in capitalism and a free market and if someone will pay \$300/acre then, by definition, that is what the land is worth...to that buyer. The other \$220 of value must come from values other than the ability to support a cow. If he’s willing to build his business to capture some of those values, it might make a lot of sense to buy that land. If he’s not willing to harvest the other values, buying the land is probably not a good business decision (although it might be a good lifestyle choice).

Of course there may be reasons other than the immediate economic return for buying this land. Perhaps it helps consolidate his holdings, allows him to simplify his operation or provides security, protecting the rest of his property. These are all good reasons to consider the purchase, but let's not kid ourselves. He can't expect the cows to pay for that section if he's really Ranching for Profit.

Some hear this as bad news. Others see it as a breakthrough. It was a breakthrough for Pete Ferrell to realize that there are "layers of values" on the land. There may be minerals below it, wind blowing above it, sunlight falling on it, water flowing through it and scenery when we look across it. Pete told me he intends to find ways to sustainably harvest the multitude of values his land produces. Once in a brainstorming exercise we identified over two dozen ideas for "*concessionizing*" or "*capitalizing*" these and other values attached to the land.

Jim Winder was the first person I heard use the terms "concessionize" and "capitalize" as the two possibilities for harvesting the value of a resource. Capitalizing is selling the asset itself. Concessionizing would be creating an on-going income stream from the asset. In essence, leasing the asset.

Gregg Simonds, who was scheduled to speak at our conference, but couldn't make it due to an employee's serious accident, has a lot to contribute on this subject. He recently wrote:

Future success in managing lands for profit (short and long-term) will be realized by ranchers who understand that one can only be self serving through their service to others. This means that one needs to know who the customers for land values are, know what they want and help create ways to deliver these values to them. Ranchers have a comparative advantage in delivering qualities but not quantities. Customers are crying out for qualities like having safe and healthy food that's tasty and convenient and produced in a way that preserves or enhances other biological values (i.e. clean water, wildlife). Producing beef in a way that preserves or enhances qualities of the product as well as the production system is the future of ranching. The possibilities in supplying qualities while balancing them with quantities is endless. We are in a unique business that can supply quality of life values and in the future those that do will be rewarded.

In addition to producing livestock in a way that enhances these values, we should look for ways consistent with our personal values in which these non-livestock assets can be harvested.

### ***A Message From Hazel Parsons***

"A very big "Thank You" to the wonderful community of RMC clients who so kindly donated to Streets Ahead\*. I am overwhelmed by the generosity of RMC and its clients and friends and want you to know that your funds will be used with discretion and care.

It has long been my wish to have a fund that I can use directly for individuals who are in need; a blanket in winter for someone who sleeps in an alley, a piece of cooked chicken for a teenage boy who has not eaten anything but bread for a month, fees for dental work for a child with an abscessed tooth and money to assist an orphaned child buy a coffin to bury one of her siblings who was a victim of AIDS. All of the above are real examples of how your money will be spent.

Very sincere thanks from me and my street kids in Harare, Zimbabwe.

\*Streets Ahead is a non-profit organization in Zimbabwe dedicated to helping and educating orphaned children forced to live on the streets. Hazel Parsons is Chairman of the Board of Streets Ahead

## 2002 ProfitProbe™ Observations

This year we began a benchmarking program developed by our Australian colleagues to measure Key Performance Indicators (KPI's) in client businesses. The program will enable us to help clients chart changes through time and compare their businesses to other businesses in similar environments and to industry standards.

We compared the KPI's of "EL Veterans" (ranchers who have been in the Executive Link Program for  $\geq 3$  years) to KPI's of "Non-EL" members. The Non-EL KPI's came from first year EL members. The data they submitted represents the year before they joined the Executive Link program. We looked at the averages and the benchmarks (the average of the top 20% in the group) for several economic indicators for both EL Veterans and Non-EL groups.

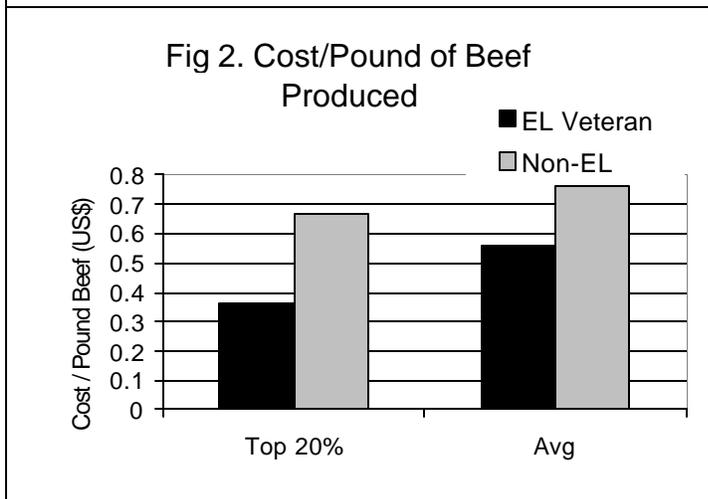
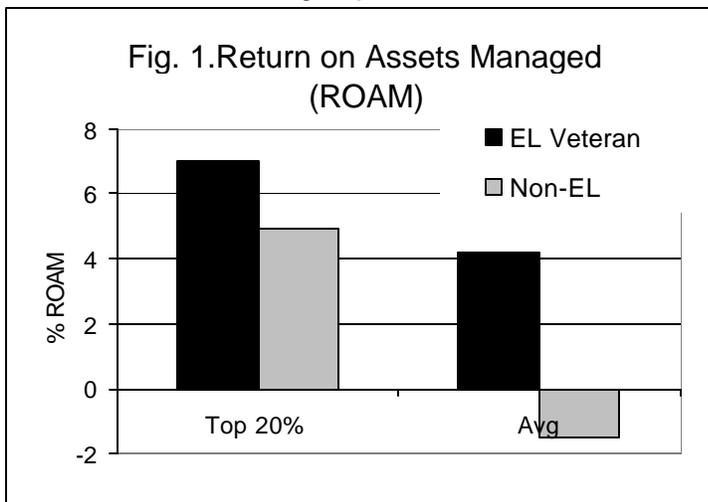
According to **ProfitProbe™** the EL Veterans' Return on Assets Managed (ROAM) benchmark was 7.8% (figure 1). At 4.2%, the average for the EL Veterans was nearly as high as the benchmark for the Non-EL group (4.9%). The average for the Non-EL group was -1.5%.

We often hear ranchers say that the biggest problem in ranching is low prices. But **ProfitProbe™** data showed that ranchers with highest ROAM had not received higher prices. In fact, EL Veterans actually received slightly lower prices than the Non-EL businesses.

EL Veterans produced more per unit of labor than Non-EL businesses. They also spent less to achieve that production than Non-EL businesses. Even the average EL Veterans' cost of production was substantially lower than the best Non-EL producers (figure 2). Cost per pound of beef produced for the top EL Veterans was less than half the cost of the average non-EL member.

The biggest difference in costs were the overheads. The average EL Veteran business had much lower overheads than the average Non-EL business. The largest savings were in labor related overheads. EL Veteran ranches carried about the same number of animal units as Non-EL members, but they used a lot less labor to do it. EL Veterans carried 30% more animal units (SAU) per employee than Non-EL members. The EL Veteran benchmark group carried twice as many SAU's per employee.

When you join the Executive Link should you expect this sort of result from the EL? No! The EL expects this kind of result from you! The EL offers insights, support and the accountability members need to make themselves more profitable. There are currently 5 Executive Link Chapters in North America. Your next opportunity to join will be in February 2003.



## Upcoming Ranching For Profit Events

### **RANCHING FOR PROFIT SCHOOLS**

Klamath Falls, OR	Nov. 10 –16, 2002
Kerrville, TX	Dec. 1 – 7, 2002
Colorado Springs, CO	Jan. 5 – 11, 2003
Calgary, AB	Jan. 12 – 18, 2003
Billings, MT	Jan. 26 –Feb. 1, 2003

### **EXECUTIVE LINK**

Chapter	Meeting Location	Meeting Dates
Rio Grande	Kerrville, TX	Oct. 9 – 11, 2002
High Plains	Billings, MT	Oct. 29 – 31, 2002
Far West	Klamath Falls, OR	Nov. 4-6, 2002
Colorado	Colorado Springs, CO	Nov. 11 – 13, 2002
Alberta	Calgary, AB	Nov. 18 – 20, 2002

### **SEMINARS**

*Take a quick refresher or introduce friends and neighbors to Ranching for Profit.*

Lakeview, OR	Oct. 1, 2002	South Valley Bank • 541-947-3200
Lewiston, ID	Oct. 2, 2002	Idaho Dept. of Lands • 208-476-4587
Dillon, MT	Oct. 28, 2002	Corp. for the Northern Rockies • 406-222-1290
Billings, MT	Nov. 1, 2002	Corp. for the Northern Rockies • 406-222-1290
Livingston, MT	Nov. 1, 2002	Corp. for the Northern Rockies • 406-222-1290
Logan, KS	Nov. 26, 2002	KSU Extension • 785-543-6845
Red Deer, AB	Dec. 4-7, 2002	Western Canada Grazing Conf. • 877-527-0772



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