



By Dave Pratt

# Ranching For Profit

*Healthy Land, Happy Families & Profitable Businesses*

## **The Empty Prairie**

There's an article in this month's National Geographic called "The Emptied Prairie." It has a few striking but stark pictures of abandoned houses on the high plains. It offers statistics describing the demise of communities like Corinth: Population 75 in the 1940's, population 6 now. Epping, North Dakota, down from its hay day of 200 people is only 80 now. As the people go, the schools close, businesses close and communities become memories of better days for those who stay. One person quoted in the article said, "Things happen so slowly you don't really notice at first, and you wake up one day and wonder what happened here."

What happened, and continues to happen there and in other parts of rural North America is a perfect storm of issues making agriculture a tough profession. The first factor is the climate. The High Plains is well known for long, harsh, cold winters.

The second factor is the belief in the failed agricultural paradigm that profit is a function of production and prices. Basing their business model on that belief, North American producers have become the most productive and least profitable in the world. Strategies used to increase production usually rely on adding inputs. It isn't the cost of the input so much as the cost of inputting it. Adding infrastructure and labor to deliver the inputs increases capital costs and raises overheads. High capital, high overhead businesses rely on high productivity and high prices to make a profit, which is why they rarely make an economic profit more than three years in ten. Faced with high overheads, farmers and ranchers adopted a "get bigger" strategy to try to cover the higher overheads with greater volume. As a result, people are working harder and harder just to stay even. Many have only been able to stay on the land because they have been willing to subsidize their farms and ranches by under-paying themselves and finding off-farm income to make ends meet.

The third ingredient in the demise of farms and ranches has been the demise of neighboring farms and ranches. On one hand the loss of a neighbor creates an opportunity for some to expand. But as there are fewer farmers and ranchers, the businesses that support farming and ranching disappear too, making it harder and harder to make a profit farming and ranching. As the businesses disappear, schools and communities disappear. As businesses, schools, and communities disappear the downward spiral intensifies.

## **Hitting Rock Bottom**

I was listening to Allan Greenspan this morning talk about the mortgage crisis. He said that any government action that would prevent free markets from functioning would only slow the descent to rock bottom, prolonging the pain. He favored getting to rock bottom fast so that the recovery can begin.

It's hard to know where rock bottom is for agriculture. Certainly, by any measure, agriculture has been in a state of decline for decades. There are fewer farmers and ranchers. There are fewer young people getting into agriculture. Soil organic matter is a fraction of what it was prior to cultivation and "managed" grazing on most farm and range lands. But it is hard to feel the bottom as long as people are willing to subsidize their farms and ranches with outside income. And, unlike Greenspan's forecast for the nation's economy it may not be necessary to hit the bottom before we can recover.

Unfortunately, the recovery probably involves the displacement and replacement of the current rural population with a new, more open-minded population. The current population on the land seems intent to ride the failed paradigm of price and production as far down as it will go. They tend to blame their situation on the weather, prices, and government policy.

### **The 3 Steps To Recovery**

Just as there are three factors that have led to the demise of farms and ranches and rural communities, there are three steps to recovery. The first is an understanding that profit is not a function of production and prices, it is a function of the three secrets you learned in the Ranching For Profit School:

1. Lowering Overhead Costs
2. Improving Gross Margin Per Unit
3. Increasing Turnover

The second step is increasing turnover by operating each enterprise at economies of scale and capitalizing or concessionizing unutilized or underutilized assets. Capitalizing means to sell the unused portion of an asset. Concessionizing means to create an on-going income stream from the asset.

The third step is to turn your farm or ranch into an actual business. Most farms and ranches are not businesses. How often have you heard someone say, "I really ought to manage this *as though* it were a business?" That highlights the fact that it isn't a business, and pretending something is what it isn't is not a sustainable way to behave. There is as much resistance to this concept in agriculture as there is to any I've ever presented. There seems to be an assumption by many that the mere fact that something is a business makes it harder, more time consuming, and more difficult, when just the opposite is true.

If most farms and ranches aren't businesses, what are they? They are our jobs. They keep us busy. We work for them. (They should be working for us.) I've listed this transition from owning your job to owning and running a business as the third factor, but it is prerequisite to implementing the first two.

### **Making The Transition**

At recent workshops I've been using a dozen examples of Executive Link members who have applied the three secrets and have capitalized or concessionized assets to find a breakthrough. At the end I ask what all these people had in common (other than being in the Executive Link). In my opinion, the answer is that they all changed their paradigm about their farms and ranches and themselves. They saw their farms and ranches as businesses and themselves as business owners in addition to being employees of their businesses. As employees it is unlikely they could have imagined the changes they made, let alone implemented the changes.

IBM founder Tom Watson, once said "*I realized that for IBM to become a great company, it would have to act like a great company, long before it ever became one.*" Of course IBM is a great BIG company, but any business that pays a fair wage, improves the health of the environment, supports the local community, makes owners and employees happy and makes a decent return on capital *is* a GREAT business.

### **WOTB Is The Key**

Holding effective WOTB meetings on a regular basis may be the single most important thing Ranching For Profit School alumni can do to overcome constraints, achieve their goals and take control of their businesses. It also seems to be the most difficult thing for them to do.

The Executive Link program's effectiveness has steadily increased, but this year we think it will take a quantum leap forward. We have completely revamped the Executive Link curriculum. As part of that curriculum we have prepared templates for ten WOTB meetings to help members make the transition to a sustainable business. These templates include the objectives for the meeting, assignments to

prepare for the meeting, an agenda for the meeting itself, and post-meeting implementation assignments. It also provides the resources Executive Link members need to do the assignments.

**WOTB 1: WOTB Policy & Mission**

Determine your business's purpose and core values.

**WOTB 2: Stop The Bleeding**

Project gross margin, cash flow and profit or loss. Identify and take steps to mitigate losses.

**WOTB 3: Shared Vision and Action Planning**

Create a shared vision for the future and establish an action plan with long and short term goals.

**WOTB 4: Organization Chart**

Identify and assign effectiveness areas and create objective, measurable performance targets. Develop an organization chart.

**WOTB 5: Create an Effective Work Space**

Establish a properly equipped, organized office.

**WOTB 6: Budget Review**

Check progress to date relative to the budget. Address overspending or production issues. Make necessary changes in the forecast.

**WOTB 7: Business Summary & Critical Information List**

Write a one page business summary and prepare a critical information list for use when you are away or in case of emergency.

**WOTB 8: Profit Plan**

Create a plan for profit.

**WOTB 9: Biological Planning**

Estimate carrying capacity and create a dormant season grazing plan. Establish your stock days per acre/1" rain benchmark and photo points.

**WOTB 10: Next Year's Plan**

Develop next year's operating plan by projecting your stock flow, cash flow, enterprise gross margins, and profit or loss.

I invite you to attend one of our upcoming EL meetings. At the meeting, you'll participate on a board. The results of having a board are a little like achieving herd effect with a group of cattle. You can't get much impact with one animal. Similarly, there is synergism on an effective EL board. On a board, one plus one doesn't equal two. It might equal 2,000.

Attending the meeting does not obligate you to join the EL. We expect people who attend to be seriously considering membership, but we know that it is difficult to appreciate the potential impact the program can have on your business until you experience it. Whether you join or not, we will give you the WOTB meeting templates.

There is prework for the upcoming EL meetings so RSVP's are required. If you are interested in attending one of the sessions (see dates and locations on page 4) please call Executive Link Coordinator Sally Silvia: 707-429-2292.

**We Are Holding 7 Habits of Highly Effective People Courses in Colorado Springs & Boise**

Feed back on our 7 Habits of Highly Effective People course this fall was so overwhelmingly positive that we've scheduled a class in Colorado Springs January 21-23 and in Boise January 28-30. We are licensed by the Franklin-Covey organization to offer the course to all Ranching For Profit School alumni. If personal organization and time management are holding you back this is the course for you. Registration forms are available on the RMC web page.

**UPCOMING RANCHING FOR PROFIT EVENTS****7 Habits For Highly Effective People Course**

Colorado Springs, CO ? Jan. 21-23, 2008

Boise, ID ? Jan. 28-30, 2008

**Workshops**

Albuquerque NM, Quivira Coalition Conference, January 17, 2008

**Ranching For Profit Schools****Isn't it time you repeated the school?***It is only \$300 US (\$400 CAN) to repeat the school (Tuition now includes the meal package).*

Colorado Springs, Colorado ? Jan. 6 - 12, 2008

Billings, Montana ? Jan. 20 - 26, 2008

Edmonton, Alberta ? Jan. 13 - 19, 2008

Abilene, Texas ? Feb. 10 - 16, 2008

**Executive Link Meetings**

Colorado Chapter ? Feb. 11-13, 2008, Colorado Springs, CO ? New Member training Feb. 10

Canada West Chapter ? Feb 18-20, 2008, Edmonton, AB ? New Member training Feb. 17

Far West Chapter ? Feb. 21-23 2008, Boise, ID ? New Member training Feb. 20

High Plains Chapter ? Feb. 28 – March 1, 2008, Billings, MT ? New Member training Feb. 27

Central Canada Chapter ? March 3-5, 2008, Regina, SK ? New Member training March 2

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

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