



Thanks For A Great Conference!

Over 150 Ranching for Profit School alumni met in Calgary, Alberta for our 2003 Ranching for Profit Conference. The energy and enthusiasm of participants were awesome. Special thanks are due to John Cross for hosting us at the A7 ranch for the tour and barbeque. A big thanks also goes to Cam Gardner for helping with the field trip and coordinating our farewell dinner and show which featured his wife, rising country music star Gail Gardner and her band. Thanks also to Phil Rowland who helped with transportation on the A7 during the tour. The program's success was a real team effort and we extend a big "Thank You" to our team of Mara Kolter, Gordon & Elaine Young, Kelly Forell, Roger Ingram, Irv Bard, Russ Maytag, Peter McBride and Peter Ferrell who facilitated the EL meetings and provided us tremendous support throughout the program. Most of all thanks to all of the participants. It was your energy that made the conference a great success.

Who Knew One Cow Would Affect An Entire Industry?

In May one cow in northern Alberta tested positive for BSE. The US immediately closed its border to cattle movement. The Canadian government began slaughtering and testing hundreds of animals in dozens of herds. No additional infected animals have been found.

There's no more BSE in Canada than there is in the United States. Canadian beef is as safe and nutritious as beef in the US. In fact, the US Secretary of Agriculture, Ann Veneman, said that, based on the evidence, the border should be reopened. However, as of today, the border is still closed to trade. The official word is that Japan will stop importing US beef if the US opens its border to Canadian beef. With over 70% of their market in the US, many Canadian producers are feeling the financial and emotional stress. If the border isn't opened soon, several ranch businesses will fail.

The morning before our conference the Calgary Herald's 3-inch bold headline shouted, "BEEF INDUSTRY DYING." The article described the crash in the Canadian Cattle market. (Fed cattle were \$1.07 (C\$) the week before the positive finding. Last week they were less than \$0.40.) Most US conference attendees were surprised at the magnitude of the story in Canada because it's not front-page news in the US. Likewise, with their businesses on the line, the Canadian's were amazed that it wasn't a bigger story in the States.

A Big Deal

A few people say that the threat of BSE to human health is overblown, saying that there were far more deaths in the UK from food poisoning from e-coli and salmonella. Don't go there. While it's true that food poisoning causes more deaths, consumers can eliminate the risk from these pathogens by proper handling of their food. They can't with BSE. Most scientists now agree that BSE causes Creutzfeld-Jacob Disease (CJD) in humans. CJD results in a slow agonizing death for its victims and a nightmare for their families. Can you

think of anything more terrorizing than being uncertain that the food and water you and your children eat and drink is safe?

Canadian ranchers must immediately address the obvious question: "How can I generate enough cash flow to survive until the border reopens and prices rebound? There are long term questions to address as well that apply to both Canadian and American ranchers. If nothing else, this one cow has demonstrated how vulnerable any one-dimensional business is. I've written about capitalizing or concessionizing other values in your business in the past to increase the return on your assets. Today we see another vital reason: to create diversity and the financial stability that comes with it.

At the height of the BSE crisis in the UK many of our alumni talked about taking steps to protect their businesses from a BSE event. By the end of the UK crisis, over 170,000 infected animals had been detected by slaughtering and testing over 4,700,000 cattle! Over 1,000 animals continue to test positive for BSE every year in the UK. Tens of thousands of farms and farmers were affected. In most cases a farm had only one or two cows with BSE.

How close does BSE have to come to your farm before you take steps to protect yourself? What can you do?

1. We need a reserve of liquid assets to survive for at least 6 months of unanticipated lost income. The Canadian experience shows that we can't rely on cattle as a place to tie up all of our cash.
2. Shift to organic or natural production practices. Only the organic farms raising beef survived the UK's BSE problems, in fact they have thrived. According to Allan Nation, they have increased prices and have not been able to keep up with demand. Most commodity beef producers roll their eyes when they think about organics and other alternative production systems. They may be more accepting when they see these businesses survive a BSE crisis. There weren't any infected animals found on any organic farms.
3. Diversify to concessionize or capitalize other values in your business. Diversification by growing cattle *and* hay isn't really diversification, since the hay market will probably crash with the cattle market. Relying on custom grazing enterprises won't suffice either, since former clients won't be able to afford the grazing fees they have been paying.

After a visit to Africa when I saw a dozen different species grazing the savanna, I haven't been able to look at the North American prairie without questioning the ecological and economic impact of grazing just one critter. When most of us talk about biodiversity we tend to think about the diversity of plant species without paying enough attention to the diversity of wild and domestic animals. In basing our businesses on one animal, we create an unnatural and unstable situation. As long as our businesses produce only one product, marketed in a commodity market, where the production from our ranch or farm isn't differentiated from production from all of the other products reaching the consumer, our businesses will be vulnerable to a BSE type event.

Another form of diversification is to invest some of the profit from our businesses off the farm. This is a sound strategy for drought proofing and retirement planning too.

American ranchers may be less vulnerable to a BSE finding than their Canadian neighbors. After all, over 70% of Canadian beef is exported while only 10% of the beef produced in the

US is exported. During the crisis, Canadian consumer demand for beef has remained strong. Would consumers in the US respond as well? Americans eat more beef than people in most other industrialized countries. But people don't have to eat beef. Consumers have a lot of other food choices.

We have been advising our clients to address this risk for a long time. Since there's been no urgency, it's been easy to procrastinate on this important issue. I'm sure Canadian ranchers appreciate the importance of action. Unfortunately, some feel paralyzed by the uncertainty of the situation. I hope American alumni will learn from their Canadian neighbors and won't have to experience a disaster before they act as well.

Life is not about how fast you run or how high you climb, but how well you bounce.
Lee Pitts

Land & Livestock: Where's The Money

Gregg Simonds and Allan Nation received high marks for their comments about the land and livestock businesses. Allan told participants that the livestock portion of the ranching business is still a very good business. He said, it is still about capturing free solar energy in plants and converting it into a dense, high protein human food. What has dramatically changed is the real estate side of the equation." He said that the ranch land ownership is often a good investment vehicle for after-tax dollars, but it is normally a very poor vehicle for generating those dollars in the first place.

ProfitProbe™ confirms Allan's observation, showing that ranchers leasing 75% or more of the land they used were 5 times more profitable than ranchers owning 75% or more of the land they used.

Gregg Simonds went a step further saying that ranchers need to think of themselves as capitalists. He described a capitalist as someone who organizes and delivers values to a customer. The traditional way in which ranchers have done this has been to take low quality and low value protein in plants and convert this into high quality, high value protein in animal products. Gregg said that North American ranchers have done this so well for so long that they got stuck in a paradigm.

Gregg argued that real innovation stopped in the ranching industry a long time ago. It is an industry out of time and out of money, and in that environment, innovation is nearly impossible. The breakthrough in our industry will come, he said, when we begin to capitalize or concessionize the many non-agricultural values our lands produce. Greg said, "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...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."

Challenge Your Paradigm Boys

Marlene Moore described her “breakthrough” story to conference participants. Marlene’s success is a direct result of her departure from traditional practices. Among her breakthroughs were discovering that:

- ✓ She didn’t have to raise replacement heifers, she could purchase replacement cows.
- ✓ By grazing the neighbor’s crop residues she could eliminate hay feeding.
- ✓ She could produce highly marketable calves by crossing “sort off” cows with terminal bulls.
- ✓ Cows calving on green grass don’t need people around to help.
- ✓ Marketing and economic control were the most valuable tools she had.
- ✓ Cell grazing increases carrying capacity, improves the land and reduces labor costs per animal
- ✓ Trying to maintain a constant size cow herd every year is not profitable (primarily due to the cost of replacements)
- ✓ Drought can happen anywhere. Pre-planned drought action is critical.
- ✓ Burnout is real and debilitating. You can start over. RMC principles and tools plus networking are tremendous assets to this process.
- ✓ We can be “cowboys” using horses v. 4-wheelers, thus maintaining some “old traditions” and still have a profitable ranch.

Marlene’s ranch is designed for a woman to manage. What does that mean? Well for one thing, it means that I can open all of her gates! Marlene challenged the men in the audience to see their operations through the eyes of a woman. She joked that rather than relying on brute strength, this would mean they’d have to think. Maybe she wasn’t joking.

One last point about Marlene. I spent a delightful day and a half traveling with Marlene earlier this summer as we visited a couple of alumni ranches in Nebraska. After enduring what Marlene told me was a 300 year drought, Marlene and Dwight have decided to take a year off. They sold the herd and plan to rest the entire property for a year.

I related this to another rancher a few days later. He said, “You mean they aren’t going to graze it at all?” After he got over his disbelief he told me that he wished he could do that too. Funny thing is, we can.

Electronic Newsletter

We are happy to continue sending newsletters by snail mail, but if you’d like to receive your copy electronically let us know. Sending newsletters electronically saves us resources, time and money. Please e-mail us at rmc@ranchmanagement.com if you would like to receive the newsletter on line.

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 school will be held in Springfield, Illinois, February 9-14, 2004. As a Ranching for Profit School alumnus you are entitled to attend the farming school for the \$100 (US\$) or \$200 (CAN\$) repeat fee.

BEHAVE

My wife told me that when she was just a girl, her mother told her to “Behave!” Kathy responded, “I am being haved.”

Dr. Fred Provenza of Utah State University, is the leader of the BEHAVE project and has taken the study of being haved to a whole new level. BEHAVE stands for **BE**havioral principles for **H**uman, **A**nimal, **V**egetation, and **E**cosystem management. He spoke to conference participants about the implications of his research.

We all know that the behavior and the well being of animals has an immediate impact on an operation. Unfortunately, traditional efforts to help managers make a living often ignore how animals make their living. Fred’s exciting and ground breaking work has shown how simple strategies that use knowledge of behavior can improve the environment, increase profit and result in a less stressful life for managers and their animals.

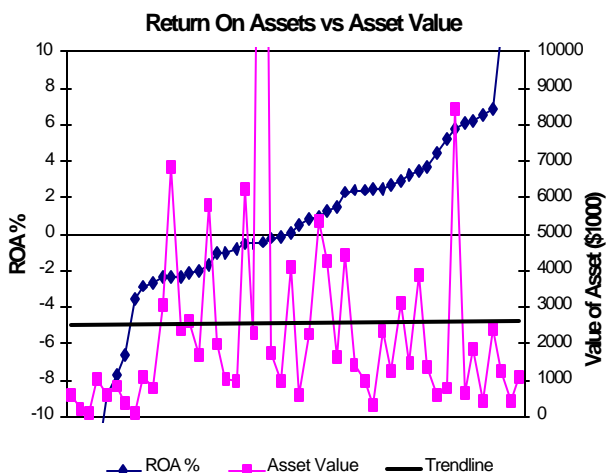
Fred said that life for grazing animals exists “at the boundary between order and chaos. Animals, humans included, learn habits to create order and predictability.” He said that young animals learn how to behave through interactions with adults and peers, their interaction with the foods they eat and the landscapes in which they live. There is an ongoing tension between curiosity and suspicion of new things. This creates “teachable moments” for animals. Apparently you can teach an old dog, cow or person, new tricks. These new tricks include cattle spending less time in sensitive riparian zones and more time using historically underutilized upland pastures without fencing or herding and shifting dietary selection so that an animal eats plants that are normally considered unpalatable (e.g. big sage brush).

Some of the new tricks for managers are the actions we can take to minimize the stress of bringing animals into a foreign environment. In a recent paper Fred wrote, “By understanding and applying behavior principles to our lives and those of the creatures we manage, we can transform systems ecologically, culturally, and economically.” For more information visit the BEHAVE web site: <http://alic.arid.arizona.edu/behave/intex.html>.

We are excited to announce that Fred is conducting a 1-1/2 day clinic for Executive Link members at each of the chapter meetings next summer. This is part of our new continuing education program within the Executive Link which also includes speakers like Don Jonovic, David Kohl, and others. For more information about the 2004 EL program contact our office.

Return On Assets (ROA) V. Asset Value

This graph shows ROA of businesses for which we completed a **ProfitProbe™** analysis, ranked from lowest to highest. *It also shows the total value of assets in each of those business.* Notice that while the trend line is flat, Five out of the 10 businesses with the highest ROA had assets of less than \$1,000,000. Likewise 5 of the 10 businesses with the highest asset base had negative ROA.



ProfitProbe™

"If you aren't keeping score it's just practice." **ProfitProbe™** records the economic, financial, production and personnel score of your business by thoroughly and objectively measuring "Key Performance Indicators" in your business and comparing your statistics to benchmarks established for the most profitable businesses in similar areas. There is still time to submit your business's 2002 data for analysis. Call or e-mail Owen (owen@ranchmanagement.com) at our office to learn more about completing a **ProfitProbe™** analysis for your business.

2003-04 Ranching for Profit School Schedule

There are 6 Ranching for Profit Schools and one Business School of Agriculture planned between December 2003 and February 2004. We have schools for the first time in Boise, Idaho, Springfield, Missouri, Springfield, Illinois and Regina, Saskatchewan. Repeating the school is still only \$100 (US\$) or \$200 (CAN\$).

UPCOMING RANCHING FOR PROFIT EVENTS

<i>Ranching for Profit Schools</i>	
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
<i>Business School of Agriculture</i>	
Springfield, IL Feb 9-14, 2004	<i>KIT (Keeping in Touch Field Day)</i> Sorensen Ranch, Wells NV Aug. 1, 2003
<i>Executive Link Program</i>	
Billings, MT Oct. 27 – 29, 2003	Colorado Springs, CO Nov. 10-12, 2003
(tentative) Boise, ID Nov. 3 - 5, 2003	Calgary, AB Nov. 17 - 19, 2003

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We are in the business of putting profit into agriculture!