



By Dave Pratt

Ranching For Profit

Healthy Land, Happy Families & Profitable Businesses

There's A Lot Of Oil In A Pound Of Steak

Yesterday a reporter asked me the difference between what we teach at the Ranching For Profit School and what they teach at other programs. Since I haven't been to some of the other programs available I wasn't sure how best to respond to that question. So I read an excerpt of an article I had just reviewed on how ranchers should respond to high fuel costs. The article's author had interviewed me and someone else who teaches another course for ranchers. "Park the ¾ ton diesel and drive a Toyota to town" was the other person's advice. My advice: sell the ¾ ton and avoid making the trip all together.

The essential difference between what we teach at the Ranching For Profit School and my perception of what other programs teach boils down to the difference between efficiency and effectiveness. We can try to be more efficient with a gallon of fuel, or we can try to be more effective by eliminating the need for the fuel in the first place. We further improve our effectiveness by reallocating the capital from the fixed asset that consumes the fuel to something that generates income or at least appreciates in value.

Lots Of Big Wheelbarrows

Stan Parsons often told the story about one of his first clients in South Africa who concluded "*the biggest piece of equipment you need on a livestock farm is a wheelbarrow, and that's only if you are crazy about equipment.*" After hearing this, one Australian attending a Ranching For Profit School noted with amusement "*American ranchers have a lot of bloody big wheelbarrows.*" Heavy equipment and livestock production are incompatible. They have been for a long time. The rapid jump in gasoline and diesel prices just brought it to everyone's attention.

Gas prices doubling in the last year does not mean that the cost of driving has doubled. The impact of gas prices doubling in the last year has been to increase the cost of driving by about 20-25%. In most cases the biggest cost of heavy metal is not *using* it (e.g. fuel, maintenance and repairs) but just *having* it (e.g. interest, insurance, depreciation, and licensing). So, as bad as gas prices are, the cost of fuel isn't the biggest problem with our dependence on heavy metal. The biggest problems are the misallocation of capital and the increased labor resulting from having it.

Filthy Rich & Dirt Poor

Ranchers whose money is tied up in depreciating, non-income generating fixed assets are likely to appear wealthy on their balance sheet and dirt poor in their bank accounts.

There are two places where we have money in our businesses: fixed assets and working capital. Simply put, fixed assets are things you intend to keep, while working capital are things you intend to sell. So for most ranchers, land, cows, vehicles and machinery are all fixed assets. The problem with fixed assets is two fold. First, as long as most of our money is tied up in fixed assets there is very little money in things we intend to sell. The result is we have tremendous net worth and miniscule cash flow. Compounding the problem is the cost of maintaining those fixed assets, like the repair and maintenance of the tractor, and on the cows for that matter.

This leads to the second problem: The increased labor that results from having equipment. Ironically, this equipment is supposed to leverage labor. One man in a tractor pulling a disc can till 10,000 times more in a day than one person with a hoe. Does that mean the hoe is 10,000 times more work? No. If we only had a hoe we wouldn't even consider tilling. In the name of efficient tilling, having the tractor directs us toward work that we wouldn't do if we didn't have the tractor. The tractor made us efficient but not necessarily effective.

Getting The Metal Out

Getting rid of the heavy metal isn't complicated, but it isn't one of those things that can be done in isolation either. When enterprises are dependant on hay feeding, you can't just sell the equipment and expect to increase profit. You have to start with enterprises that don't need hay. The only way to do this is to match the forage cycle to the animal's requirement. That means managing a cow's body condition and timing calving so that cows calve when the elk calve and the deer fawn. If this doesn't get at least 80% of the hay out of your operation, at least 7 years out of 10, then the environment is probably not suited to year-round livestock enterprises. I'm not suggesting that you can't raise cows in country where the snow is up to your eye balls 6 months out of the year, but I am suggesting you can't do it profitably.

One of the many questions you may remember from the school is the paradigm question: "What is impossible to do, but if it could be done would fundamentally change your business for the better?" Invariably one of the answers is "*to eliminate feeding hay.*" Getting the hay out is easy. Go seasonal. Of course the unspoken full answer to the paradigm question is "How can I eliminate feeding hay without changing anything else?"

Our Competitive Advantage

Livestock agriculture works biologically because ruminant animals can convert low quality forage to high quality products (e.g. meat, milk, fiber, work). It only works economically when we allow the unique biological competitive advantage of ruminant animals to work for us. That means we ought not be as concerned with the quality of forage as we are with the quantity, especially in brittle environments. That also means that feeding grain, in any quantity to a ruminant animal is, in the long run, going to be a losing proposition.

A Paradigm Shift

Dick Diven once told me that the most abundant source of organic energy is cellulose. Those tiny rumen microbes gave ruminant animals a corner on that market. Now, with ethanol and other biofuel production, there is competition for that cellulose.

Growing up we learned that agriculture was the business of producing food and fiber. We are in the throws of what will be a profound paradigm shift (if it endures) in which agriculture becomes the business of producing food, fiber and fuel...and not necessarily in that order. I say "*if*" it endures, because it is a big IF.

Lately switch grass has been touted as a potential source of ethanol production. It was even mentioned in the President's State of The Union Address. But research by David Pimentel, a professor of ecology and agriculture at Cornell University, shows that the energy expended to produce ethanol from switch grass is 147% of the energy derived from the ethanol actually produced! By anyone's standards that's simply not sustainable. Even if the efficiency of producing ethanol from switch grass is increased it won't make much difference. Much of the energy in producing the ethanol was expended in growing the crop in the first place. In case you are wondering, the energy expended to produce ethanol from corn is 129% of the energy in the ethanol produced.

Double Whammy!

There's another nail in the coffin for biofuels. The number one contributor of CO₂ to the atmosphere is agriculture. No, not methane belching bovines. Bison were belching methane long before bossy. It is loss of organic matter from the soil. When carbon in the soil is exposed to air through tillage, it is a bit like opening up the air intake on a wood stove. The aerobic microbes, no longer limited by oxygen, consume more organic matter (carbon), transferring carbon from the soil and, like us, breathing in O₂ and breathing out CO₂. As the biofuels market fuels the demand for corn, soybeans, and other crops, prices will go up. Corn is over \$6.00/bushel as I write this. Higher prices for grains means that acreage currently in pasture will go under the plow. Converting pasture, which under cell grazing sequesters carbon, to annual crops will have the opposite effect, adding more CO₂ to the atmosphere. While burning biofuels is cleaner than burning fossil fuels, the studies that include the greenhouse gas emissions resulting from the production of the crops used to make biofuels show that growing crops and converting them to biofuels will result in a net increase in greenhouse gasses.

Strike Three

Peter McBride e-mailed me an article a few months ago from the New York times that showed the area that would be required for woodlots or wind farms to generate the same energy produced from a coal fired power plant if these "green" technologies were to replace conventional energy production. The statistics are staggering. We've already seen increases in food costs in the US. Food shortages due to the reallocation of crops to fuel production is resulting in serious problems for feeding the world's poor. This is not to say that green energy production shouldn't be pursued, but it is clear that even so called green energy production has a disturbing cost.

What's The Answer?

The answer to all of this is as difficult as it is simple. We don't need smaller trucks. We need to get rid of the trucks all together. We need to get the oil out of agriculture. Impossible? Given our current structure, yes. But structure can and will change.

I remember traveling from East Germany to West Berlin through "Check Point Charlie" with a group of California Farmers in 1985. We had a meeting with the US Ambassador to Germany. Someone in our group asked if the Berlin wall would ever come down and Germany would ever be reunited. The Ambassador laughed out loud and lamented, "Nice dream. It won't happen in our lifetime." 18 months later they were having a party as the wall came crumbling down.

There are certain things that don't change. If we suddenly found the law of gravity inconvenient, we can't just up and repeal it. I think the paradigm that agriculture is the business of food and fiber may be one of those basic laws.

While there are some rules that don't change there are others that must. Our sustainable future will include more grass finishing and less feedlot finishing. People will not harvest as much forage for livestock. The animals will harvest it themselves. Cattle will travel fewer miles between conception and consumption. There will be a stronger connection between the people who produce food and fiber and the people who consume it. It isn't hard to imagine that future. It is much more difficult to imagine the transition we will go through to achieve it...about as tough as it was to imagine the Berlin Wall coming down.

The biofuels phenomenon is most likely just another in a long line of examples of focusing on efficiency at the expense of effectiveness, or as Stan Parsons used to say, "*Hitting the bulls-eye on the wrong target.*"

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