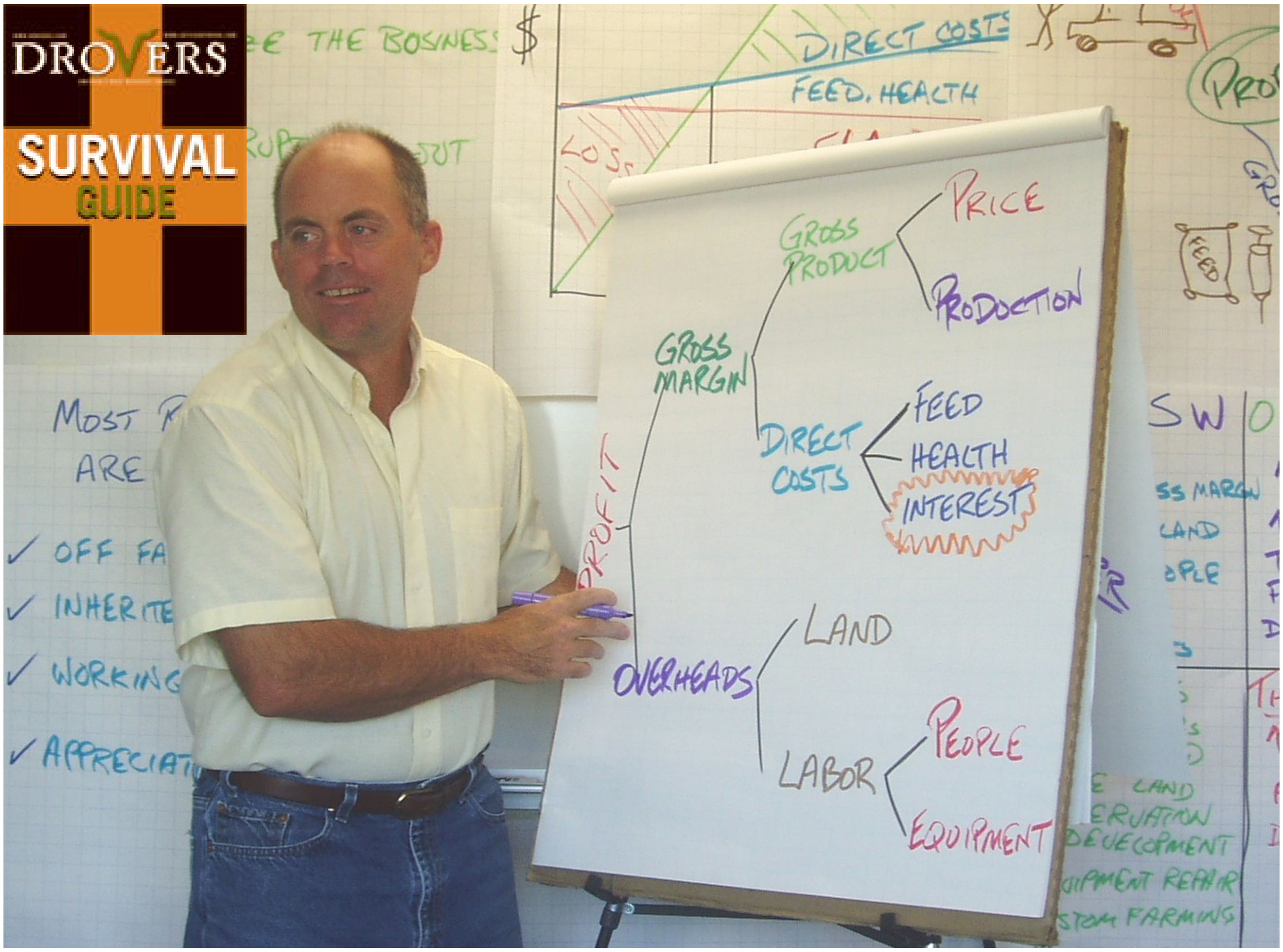

RANCHING FOR PROFIT IN TOUGH TIMES

An asset that isn't producing income is a liability. Evaluate what you really need to own.

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Times are tough. Prices are down, costs are up, credit is tight and there are a lot of people looking for answers. They are finding that conventional wisdom isn't working. The answers that some are discovering require some uncomfortable changes in the way they've been running their ranches and doing business for a generation or more.

Many of your neighbors don't believe that ranching can be profitable. They prove themselves right year after year. I can't count the number of times that I've heard someone say, "Ranching For Profit? Isn't that an oxy-moron?" But ranching can be profitable. Hundreds of Ranching For Profit School alumni prove that every year.

The restructuring required to create a profitable, recession & price proof business is beyond the scope of this brief article. But there are short term actions that are consistent with the ultimate restructuring needed to achieve sustainability. To find and implement the necessary actions we must first understand how we created the problem.

Stan Parsons, who founded the Ranching For Profit School, says that the biggest piece of equipment you need on a ranch is a wheelbarrow, and that's only if you are crazy about equipment! Most ranchers have some awfully big wheelbarrows.

Robert Kiyosaki, author of the best selling book *Rich Dad, Poor Dad*, explains why owning equipment and other "fixed assets" is a problem. Your banker would probably say an asset is something you own and a liability is something you owe. Kiyosaki disagrees. He says that an asset is something that "puts money in your pocket" and "a liability is something that takes money out of your pocket." Given this definition, equipment and machinery are not assets, they are liabilities. We often buy liabilities believing we are buying assets. An "asset" that isn't producing income is a "liability." Kiyosaki's advice? Sell it and buy a real asset.

There are two primary places where we have money invested in our businesses: Fixed Assets and Working Capital. Simply put, fixed assets are things we intend to keep and include land, equipment and cows. Are cows really a fixed asset? Just ask yourself, "Do I hope my cows are dry and empty so I can sell them this year, or do I hope most of them wean a calf and rebreed so I can keep them?" Of course we hope we can keep them. Most fixed assets depreciate. The biggest cost of keeping a cow is often depreciation. Cows are fixed assets. Your fixed "assets" are "liabilities" according to Kiyosaki.

In contrast, working capital includes the things, and inputs into the things, we intend to sell, like calves. Kiyosaki would call these your real assets.

Your neighbors typically have 95% of their money invested in fixed assets. It is ironic that we see their new truck, modern equipment and fancy facilities as signs of success and wealth. Yet these things are actually huge constraints to creating wealth. They are constraints because as long as our money is tied up in fixed assets we intend to keep, we have very little invested in things we intend to sell to create income. They constrain us further because those fixed assets are expensive to maintain, so the little income we generate from our working capital gets sucked up supporting our fixed assets. It is easy to see why Kiyosaki calls fixed assets "liabilities."

Conventional wisdom is that ranchers have to own a lot of fixed assets. The result of this strategy may have made your neighbors wealthy on their balance sheets but it's left them broke at the bank. Conventional wisdom also tells us that ranching isn't very profitable. Logically, following conventional wisdom you should expect conventional results. However, you'd be lucky to do that well. Over the last 40 years input costs have risen five times faster than cattle prices. That means that continuing to follow conventional wisdom will lead to worse than conventional results.

You usually can't turn an unprofitable ranch into a profitable one with one decision. But a good first step is to challenge the paradigm that owning fixed assets makes you wealthy. You were able to acquire fixed assets because you were wealthy, but those fixed assets are actually draining your wealth.

If you can't find a way for fixed assets to create cash flow, you'd be well served to find an alternative to owning these liabilities (e.g. lease rather than own). Does this mean you should sell your cows and sell your land? Not necessarily. But when land is overvalued for agricultural production you would be well advised to find ways to concessionize or capitalize the non-ag values. And perhaps you ought to reduce your equipment inventory to a wheelbarrow, and lease rather than own that. Leasing may increase operating expenses, but the capital freed by selling fixed assets can be used to create reserves so that you don't have to rely on the bank for borrowing. Even more important, the money can be reallocated to buy real assets that put money in your pocket.