



Ranching For Profit

Healthy Land, Happy Families & Profitable Businesses

“Can we talk?”

The answer of course is “yes.” But do we listen? Unfortunately the answer is usually “no.” In conversation most people have two modes: 1. talking, and 2. getting ready to talk. Stephen Covey says, “Most do not listen with the intent to understand; they listen with the intent to reply”. A good listener listens to understand. That means a listener does far more than merely hear words. A good listener encourages communication and sharing. Questioning is an essential tool in listening.

Teacher, comedian and social change activist, Fran Peavy, believes that “questions are alive.” A powerful question can “...sit rattling in the mind for days or weeks as the person works on an answer. If the seed is planted, the answer will grow.”

Peavy explains that “*strategic questioning*”¹ is the skill of asking questions that will make a difference. Shaping a strategic question involves these key features:

Strategic questions create motion. According to Peavy, strategic questions are dynamic. For example, let’s say land prices have gone through the roof and you’re surrounded by development because your neighbors have all sold out. You’ve been considering a move to a ranch somewhere in North Dakota where land prices aren’t quite as high. I could say, “Why don’t you just move to North Dakota?” Peavy would say that this is really a suggestion *pretending* to be a question. She says a more strategic question would be, “What places come to mind when you think of living happily?” or “What is the meaning of this move in your life?” These questions encourage you to talk about the qualities you want from a new home and to set new goals.

Strategic questions create options. If I ask, “Why don’t you move to North Dakota?” I have asked a question that is dynamic in one direction (North Dakota). A strategic question opens the options up...“Where would you like to live?” or “What are three places that you feel connected to?”

Strategic questions dig deeper. Peavy says strategic questions are like a lever you can use to pry open the stuck lid on a paint can. If you have a short lever, you can only just crack open that lid. But if with a longer lever, or a more dynamic question, you can pry off the lid and really stir things up. According to Peavy, a long-lever question can stir up synthesis, motion, and energy: What needs to be changed? What is the meaning of this situation in your life? What aspects of it interest you most?

Strategic questions avoid “Why.” Most “why” questions ask you to defend or rationalize a decision. “Why” questions can create resistance to change.

Strategic questions avoid “yes” or “no” answers because these leave the person being asked in an uncreative and passive state.

Strategic questions empower. In answering questions like “What would you like to do to achieve your goals?” you’ll hear a confidence expressed that can make progress toward creating desirable outcomes.

¹ Source: Strategic Questioning: An approach to creating personal and social change by Fran Peavey One of the articles in Creating A Future We Can Live With (IC#40) Spring 1995, Page 36.

Strategic questions ask the “unaskable.” Peavy says that for every individual, family, organization, or society, some questions are taboo. A strategic question often challenges the values that an issue rests upon. Asking taboo questions in a nonpartisan way can be a great service to anyone with an issue on which she or he is "stuck."

One of the primary functions of Executive Link boards is to engage one another in strategic questioning. This type of questioning has value beyond the board room. It is a tool that will serve you well anytime you want to achieve a deep understanding of someone's issues or concerns.

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Salaries, Bonuses and Vacations, Oh My!

Pay Yourself A Wage

If you are like most farmers or ranchers you don't pay yourself or other family members a regular salary. That's a mistake and you should take steps to correct it immediately. As an employee of your business your business should pay you a fair wage. The small amount you might gain from tax advantages by having the business pay for living expenses is far outweighed by the potential resentment and conflict which can arise when people don't have money they can call their own, especially when there are stakeholders who live away from the ranch and don't have the same perks. It also makes the delineation between your business and your life much clearer.

How much should you and other family members be paid? Salaries will vary depending on the job content, a person's experience, and wages paid in the region, and the non-monetary perks that go with the job (like free housing or maybe driving a company truck for personal use...all of which ought to be documented). As a rule the person should be paid what it would cost to replace them with a person who could produce similar results in the job. Someone capable of being a CEO who is building fence should be paid fence builder wages, not a CEO's salary.

If cash flow makes providing a monthly salary difficult, you and other owner/employees can loan money back to the business, but the business should repay you with interest. These transactions must be recorded. Make sure this is transparent and make sure you discuss the tax implications with your accountant.

Bonuses

It's well documented that money doesn't motivate people. Stan Parsons told me long ago that you can buy someone's hands, but you can't buy their heart (their loyalty) or their mind (their creativity). I've described keys to motivation in other newsletters. But if money doesn't motivate people, why do people use bonuses, and do bonuses really work?

Effective bonus programs work because they recognize accomplishment. That means there are cheaper and more effective ways than money to recognize performance. A certificate for dinner out, concert tickets, a vacation to someplace special or tickets to the National Finals Rodeo may do more and be remembered longer than money, and may also be appreciated by the employee's spouse as much as the employee.

There are two reasonable ways to build effective bonus programs. The first is to pay a relatively low salary and set the bonus target low, so that the bonus is relatively easy to achieve. This approach makes most sense in businesses with tight cash flow. The second, and more effective approach, is to pay a competitive wage and set the bonus target high so it will take outstanding performance to achieve it. This is usually the most effective approach.

Rules For Effective Bonus Programs

Rule 1. Tie the bonus to something the employee has control over. In the case of a grazing cell manager, it would probably be the gross margin produced from the cell. The employee may not

control prices, or the weather, but that's okay. It's okay that they share some of the risk of the production environment...share a little of the stress of ownership. However, I don't often recommend you tie the bonus to profit. Overheads are far and away the number one driver of profit—and the owners exert disproportionate influence on overhead costs. It is usually the owners, not the employees that determine business strategy. It isn't the cell manager that decides to buy the new dual axle pick-up or the private plane.

Rule 2. The bonus should reward outstanding results. Make it a stretch to reach it. Bonuses work best when they aren't automatic...it isn't really a bonus if it is automatic, is it? The bonus should be paid for making a difference. This must be clearly communicated to the employee.

Rule 3. Make it big, especially if you have set the bar high. For example, at least 25% of the gross margin earned beyond the target. You should be glad to pay it. By achieving this bonus, the employee made the business extra profit.

Rule 4. Hold the target constant. No one likes a moving target...remember, you want to pay the bonus...if the employee hits the target you established paying the bonus means you *made* money!

Rule 5. The target, if monetary, should be based on accrual accounting, not cash. So, if you decide to retain a lot of animals, the bonus is related to the value produced, not the actual sales.

Rule 6. What ever the decision, it should be recorded in writing. Too many promises are made during hard times and forgotten in the good. That's unfair and it's dishonest. To protect both employer and employee, document agreements in writing.

Rule 7. Include an arbitration clause in case of disagreement. The written agreement should have an arbitration clause, so that if there is disagreement about the performance a neutral third party can objectively evaluate the results and determine if the bonus applies.

Take A Vacation

Another aspect of remuneration is time off. How much vacation time do workers need? How much time do you need? Our Australian colleagues say that a person can do a year's work in 11 months, but not 12. People produce more when they are fresh. Of course people say that they can't afford it or can't get away, but people get stale and need a break. Is the problem with not being able to get away one of being too busy or too disorganized? Spending 2 days at a bull sale is not a vacation. *ProfitProbe™* consistently shows that the employees in the most economically efficient businesses (high ROA) take more time off than employees in less efficient businesses. You could argue that since they make the most profit, they can afford to take vacations, but I see it differently. I think it is *because* they take vacations that they are profitable.

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THE EL CONTINUING EDUCATION PROGRAM IS OPEN TO ALL ALUMNI

We invite you and other Ranching for Profit School alumni and their families to attend the continuing education program at our Executive Link meetings this fall. The cost of each of these programs to non-EL members is \$100 (US or CAN) and includes lunch. Call the RMC office to RSVP. Here's the run down:

Joel Salatin: Building A Sustainable Farm *High Plains EL, Billings, MT 9:00.-1:30 Oct. 24*
Joel's farm includes the egg mobile, salad bar beef, and pigerators. Any one of these enterprises could be a thriving business, but Joel has "stacked" them so that each complements the other. Joel will discuss concepts that increase profit and reduce risk by creating multiple profit centers.

David Kohl: Trends and Tactics *Far West EL, Wells, NV 9:00 a.m. -1:30 p.m. Nov. 3*
Colorado Chapter, Colorado Springs, CO 9:00 a.m.-1:30 p.m. Nov 8
Dr. Kohl will discuss strategically positioning your business to benefit from emerging societal trends.

The Far West Chapter will have the added pleasure of meeting at EL member Agee Smith's Cottonwood Guest Ranch in the Jarbridge Wilderness in north east Nevada.

Dave Pratt: Anticipating the Future *Alberta EL, Edmonton, AB 9:00 a.m.-1:30 p.m. Nov 14*
 Participants will learn how to use the "Implications Wheel" to predict and prepare for positive and negative impacts of potential changes in the business environment.

<u>UPCOMING RANCHING FOR PROFIT EVENTS</u>	
<i>Ranching For Profit Schools</i> <i>It is still only \$100 US (\$200 CAN) to repeat the school.</i>	
Colorado Springs, CO, Dec. 4-10, 2005	Billings, MT, Jan. 15-21, 2006
Boise, ID, Jan. 8-14, 2006	Edmonton, AB, Jan.22-28, 2006
<i>Executive Link Meetings</i>	
High Plains Chapter, Oct. 24-26, 2005, Billings, MT. CE Program: Joel Salatin	
Far West Chapter, Nov. 3-5, 2005, Wells, NV. CE Program: David Kohl	
Colorado Chapter, Nov. 7-9, 2005, Colorado Springs, CO. CE Program: David Kohl	
Alberta Chapter, Nov.14-16, 2005, Edmonton, AB. CE Program: Dave Pratt (Implications Wheel)	
<i>Ranching For Profit Workshops</i>	
Greely, CO. 9:30 a.m.-2:00 p.m. Oct. 25, 2005 (ranch profitability) RSVP: 970-356-8097 #3	
Edmonton, AB. 11:00 a.m.-1:00 p.m. Nov. 9, 2005 (ecology/grazing) RSVP: 780-939-8339	
Edmonton, AB. 11:00 a.m.-1:00 p.m. Nov. 10, 2005 (ranch profitability) RSVP: 780-939-8339	
Edmonton, AB. 11:00 a.m.-1:00 p.m. Nov. 11, 2005 (people/succession) RSVP: 780-939-8339	
The Dalles, OR 6:00 – 9:00 p.m. Nov. 17, 2005 (ranch profitability) RSVP: 541-296-5494	

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We are in the business of putting profit into agriculture!

***If you would rather receive this newsletter electronically, e-mail us at:
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