

RANCHING FOR PROFIT

AGRICULTURALLY INSANE

I was recently asked if it was possible to lower production costs and reduce the capital intensive nature of ranching. My answer? Sure. There are examples all around the world. There are individuals scattered across the US who have been doing it for years. They are usually pretty easy to recognize. They probably drive a Toyota into town instead of a dual-axle 1 ton. They understand why they shouldn't borrow money when their banker thinks they should. They tend to have smaller cows than your other neighbors. And they probably understand how endangered species and things like wolf re-introduction can be a boon to their businesses. Their neighbors think they're nuts.

If we take conventional wisdom as the definition of sanity, they are nuts. But conventional wisdom says that ranching isn't profitable. Steven Covey defines insanity as doing the same things over and over and expecting different results. So, who's more nuts, the rancher who does everything right (according to conventional wisdom) and expects things to come around, or the guy who's doing everything "wrong" and making money.

Why then do so many ranchers adhere to conventional wisdom?

One reason we cling to conventional wisdom is that the US livestock industry is not a for-profit industry. Of the approximately 1 million people who own beef cattle, 950,000 own fewer than 50 cows. They produce nearly 40% of the nation's beef but very few of these people depend on cattle for their livelihood. For many their cattle are more a hobby than a business.

But profitability is not the driving motivation for many larger scale ranchers either. If it were, they would have sold their herds and land and invested in something with more than the ½-1% financial return on assets that most ranchers earn. In fact, most livestock businesses operate at an economic loss. They only survive because they are subsidized. I'm not referring to government subsidies but the internal subsidies we provide ourselves in the form of off-farm income, inherited wealth, living off appreciating land values or working for less than it would cost to replace yourself. These are all forms of subsidies and without them most US farms and ranches would fail.

At the Ranching for Profit School, we usually work with the minority of producers to whom profit is a critical issue. Our target audience is those in livestock agriculture trying to make a living from the land. Our market research shows that there are fewer than 20,000 businesses meeting that definition in the US and Canada.

These people are smart, honest and hard working, and some of them may be reading this article. They are, for the most part, very productive, but very unprofitable.

Einstein could have been talking about the livestock business when he said, "*the significant problems we face today can not be overcome with the same level of thinking which caused the problem.*" Our thinking has become very limited about what ranching really is.

As I mentioned, the return to assets ratio is very low in ranching, about ½ - 1% on average. There are two ways to improve this ratio. First, we can increase our return. We've done that by trying to increase production and cut costs. But we can also increase the return to assets ratio by reducing our investment in assets. Most ranchers have never considered this possibility.

While a tractor shows up on the "asset" side of the balance sheet, we'd be better off viewing it as a liability. Sure we could sell the tractor and recoup whatever value hasn't depreciated away, but until we sell it, that tractor is more of a liability than an asset. It is a liability because we have to pay for fuel, repairs, insurance, interest, someone to drive it and a place to store it when we aren't driving it. Some asset.

What is a rancher's biggest asset? The land. Ranchers who own their land are in the livestock *and* the land business. Where did we ever get the idea that we had to buy the land we graze or that we have to own the cows that occupy our ranches? Today we see more custom grazing and ranchers leasing the lands on which they run cattle than we used to. But these trends only scratch the surface of what is possible. There is no one-size-fits all recipe, but more than one client has taken this idea to heart. I met with one recently who built a grazing business in which he did not own the land or the livestock. In fact, he gets paid by the land owner to graze. He's making a healthy profit. Of course his neighbors think he's crazy.

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