

RANCHING FOR PROFIT

BUILDING A BUSINESS THAT WORKS FOR YOU

How many ranch businesses do you know that could pay cash rent for the land, borrow all the money invested in livestock and machinery, pay a decent wage for labor and still make a profit? The fact is that most North American ranchers are not profitable and only stay in business because they are subsidized. They are subsidized by inherited wealth, appreciating land values, off-farm income, working for less than it would cost to hire someone else to do the job or by some other activity on the property not related to livestock (e.g. recreation, timber, etc.).

Most ranch businesses earn a very low rate of return on the assets invested. We accept that as normal. But can you imagine a grocery, a bank, a hotel or a garage staying in business if it could not pay rent on the building it uses, cannot pay a competitive wage to the people it employs, and expects to get less than bank rate on the money invested in its inventory? That is precisely what we consider normal in ranching. We don't expect ranching to be as profitable as other businesses, after all we are told time and again, ranching is a "life-style" business.

Some life style. Of course there's the home on the range, wide open spaces, working for ourselves, and all the rest. But what about the economic and financial stress, the stress of uncertain prices and drought and the personal pressures from parents, children, siblings, our spouse and ourself? Statistics show that depression, divorce and suicide rates are highest in rural areas, and higher for farm and ranch families than other segments of the population. Wide open spaces and independence don't go very far when you take medication for your ulcers, your banker is knocking at your door and no one in your family talks to one another anymore. Lifestyle business? Some life style.

The title of Stan Parson's new book *If You Want To Be A Cowboy Get A Job*, sums it up pretty well. Stan's right when he writes, "*if you want to ranch and be a cowboy – disaster beckons. The two just don't go together.*"

When you are a cowboy, your business is just a place to go to work. You invest years of hard work supporting the business. But you are not supposed to be supporting your business, your business is supposed to support you!

Some of us have a hard time grasping this concept. Maybe it is because of all the personal sacrifices, stress, injuries, blood, sweat, tears and years of our lives we've spent keeping things together. But that's not the way it is supposed to be. Your business should be supporting you! If it's not, you need to spend less time working *in* your business and more time working *on* your business.

Steven Covey defines insanity as doing the same thing over and over and expecting different results. Not only do we do the same things, we do more and more of them.

Our answer to poor profit, eroding range health and personal stress has been to work harder and harder. But when you discover you're in a hole the last thing you ought to do is dig faster. What makes us think that continuing to work harder *in* our businesses to increase production efficiency will increase profit and strengthen our businesses? It hasn't worked in the past. It won't work in the future.

WORKING ON YOUR BUSINESS

In his book *The E Myth*, management consultant Michael Gerber reports that a staggering proportion of start up companies fail in their first few years. According to the statistics, 40% don't survive to see their first anniversary. An additional 40% fail before their fifth year. Eighty percent of the remaining businesses fail by the 10th year.

You might suspect that ranching is exempt from the statistics, but it's not. Similar trends in agriculture have been masked by the internal subsidies described earlier. Due to these subsidies, farm and ranch businesses take about 25 years to use up the accumulated net worth before they perish.

We blame factors beyond our control like the weather, low prices and high costs, for these failures. But if the prices or the weather really determine profit, why do some businesses survive, even thrive, in these conditions while others fail? Depressed markets are a crisis for some but a profitable opportunity for others. It is not the situation, but the way in which we position our business and the decisions we make that determine success or failure.

Whereas the vast majority of start-up businesses fail, Gerber reports that franchise businesses have a 10 year survival rate of 97%. Why the difference? Simply put, franchise businesses have a clear-cut blueprint on how to run a business. The franchiser has worked on the business to build a business that actually works. We are so busy working in our businesses (doing \$5 to \$10/hour jobs) we often don't ever get around to working on our businesses (the \$100+/hour work). This is the work that determines the winners and the losers in any business...including yours.

It is critical to understand the difference between *working in the business* (WITB) and *working on the business* (WOTB). The technician works in the business, the businessman works on the business. Most ranchers do a lot of WITB and very little WOTB. We are very good technicians. When it comes to roping a steer, vaccinating a cow, pulling a calf or seeding a pasture, we do a great job. The problem is that we may not do the *right* job.

Most of us in ranching actually have several jobs. Sometimes we work as a hired hand. Sometimes we are the CEO. The hired hand breaks the ice in the winter, feeds the cattle and fixes the fences (WITB). The CEO develops and implements the business plan (WOTB). Most of us are more comfortable doing the **cowboy's** work rather than the **businessman's** work. The primary reason for the failure of most small businesses, including most farm and ranch businesses, is inadequate WOTB.

Most producers I talk to recognize that their business would be better off if they spent more time on WOTB, but there are several reasons they don't. See if any of these are familiar:

- *"I don't have time. I'm so busy working in my business that I don't have time to work on it."* If we do get around to it, it is usually late at night and we are so tired from a day of WITB (\$5.00/hour work) we may not be awake enough to do WOTB (\$100/hour work) effectively.
- *"I don't like the WOTB as much as the WITB."* We tend to feel more of a sense of accomplishment after pounding fence posts in the ground all day long than we do after a day of researching market trends and developing a marketing plan. But, if you just want to be a cowboy, you'd better get a job for someone who gets the WOTB work done.
- *"I don't know how to do it."* That shouldn't be surprising. Your father probably taught you how to drive a tractor or dehorn a cow, but did he ever teach you how to create goals for the business or build a plan to achieve those goals? Every Ag College has courses on animal husbandry, range management and business, but none teach you how to make and implement the strategic decisions that will determine the future of your business.

At the *Ranching for Profit School*, we teach ranchers how to work *on* their business. One of the keys is to hold regular WOTB meetings.

WOTB Meetings

Most of us have held staff meetings or family meetings where we lay out the work that needs to get done in the coming days or weeks (mostly WITB work). Sometimes we even tackle some of the WOTB issues at these meetings, but the outcome rarely results in definitive action.

In sharp contrast, WOTB meetings concentrate on strategy and the result is always a specific plan of action.

If you haven't held WOTB meetings before, your first meetings should focus on what you, and the others involved in the business want personally and what the business will need to look like to meet those needs. Once you have a well defined vision for the business, WOTB meetings should be used to develop the strategic plan to achieve the vision. Once the plan is in place, you'll use your WOTB meetings to monitor your progress and tackle new issues.

Regular meetings are essential. In most family run ranch businesses WOTB meetings should be held once a month. In addressing some issues, (e.g. developing a strategic plan for the business) WOTB sessions may need to be held more frequently for a defined period. Once you have decided how frequently to hold your regular WOTB

meetings, the key is regularity. **Do not** allow operational crises or excuses to get in the way of planned WOTB meetings.

Everyone who is in a decision-making position should attend your WOTB meetings. In a small business it may be the whole staff. The owner/president should prepare an agenda, which should be distributed prior to the meeting. He should also chair the meetings, making sure that they start and end on time. This usually means allocating time to each agenda item to ensure everything gets covered.

Structure and some formal procedures are important. The first item on the agenda is always the same: read the vision statement and goals. Read aloud and take turns around the table. It is amazing what a powerful effect this has in keeping everyone focused.

The bulk of the meeting is spent discussing strategic issues. Don't put more than three issues on the agenda. Conclude the discussion of each issue by creating a *written* plan of action. The action plan should list the specific actions that will be taken, who is responsible to take each action and when each task will be completed. For major projects, (e.g. the estate plan) break the project down into smaller tasks and assign a deadline for each one.

Close the meeting with two final agenda items: "Worry Areas" and "Commitments." Worry areas are things that are bothering you. They may be big strategic issues or small WITB concerns. Ask each person at the meeting to list their worry areas. Input from everyone at the meeting often brings quick solutions to the problems.

End the meeting by reviewing the commitments agreed to in the action plan. Each person should state what they have committed to do, and the deadlines they are committed to meeting. The person's name, commitment and the time frame are all recorded in the minutes of the WOTB meeting. At the beginning of the next WOTB meeting, after reading the vision statement, take a few minutes for everyone to give a quick update on their progress.

Effective WOTB takes discipline and practice. But it is the single most important step toward increasing profit in any business, including yours. When a ranch is structured and run as a "for profit" business, ranching can be a great lifestyle. You may even be able to afford to be a cowboy now and then.

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