



The following article was presented as a talk at the National Beef Profit Conference. Author Jim Eller, Bryan, Texas, is vice president of Granada Corp., a cattle business started 10 years ago and best known to purebred breeders for their Angus and Brangus herds. Eller discusses business management basics that should apply to any operation.

BUSINESS MANAGEMENT IN THE CATTLE INDUSTRY

The business management aspect of the cattle industry, as is true for any other industry, utilizes the implementation of the planning and informational gathering functions for success. Managers who are successful understand the operation and have set objectives and goals to attain. They develop systems and procedures and train people to use the systems. These individuals motivate and develop the skills and attitudes of subordinate personnel, and manage the systems they have developed toward the objectives they have established.

Beef production is big business. As a manufacturing plant turning out a product, all the facts of the beef production line must be properly managed to produce efficiently and produce a profit. Production for any enter-

prise functions only with an administration function over it, and the sales and finance functions supporting it. A business approach to beef production is especially important in times of high inflation, high interest rates and increased expenses, coupled with soft demand for the product, low prices and a reduced return on investment.

The requirements for successful management systems begins with a complete understanding and knowledge of the operation. The beef business today must be operated and financed like big business and not in a horseback, cowboy manner that was the culture of the industry in the past. Unfortunately, many cattlemen today do not understand their operation as they once did because they have failed to make the transition to modern management systems. Some prefer to be on a horse or to sort cattle in the pens rather than spend time on finance, budgeting, merchandising and business systems. Cowboys can be hired, but it is difficult to hire businessmen who know the cattle business.

Cattlemen need to adopt a production-line philosophy about their business, and examine and understand every detail necessary for economy and efficiency for the movement of cattle through their production line. Understanding the operation requires a review of inputs for land, labor and capital, as well as the return on investment. From the land review, objectives for intensification, diversification, economies of scale, vertical and horizontal integration, and the quality of inputs to gain efficiency, can be attained. The quality of labor and management personnel and the techniques used to manage the production line can also be evaluated.

Four Techniques

Managers use four types of techniques in handling situations:

1. Crisis Management—wait until something happens before you do anything about it.
2. Predict, Prepare and Get Ready—before something happens.
3. Do Nothing—don't do anything about it when it happens.
4. Change the World—decide what you want to happen, then alter the variables, change the environment and make it happen. In this case it is best to first check the

costs of this system, and it may be better in some cases to do nothing.

A review of these techniques should be made to plan management objectives.

With the financial pressures of the cattle industry today, the area of capital management, sources of funds and cash flow may be the most important factor in "knowledge of the operation" that a manager may be required to understand. To effectively understand the operation, managers must also be able to identify problems, analyze a problem and solve the problem. This process on the part of a successful manager involves more than a casual approach. A thorough approach requires steps to determine why something is a problem, what future values can be gained when the problem is solved, what forces are at work, what strategies should be employed and what action should be taken.

Systems and Procedures

The second requirement for a successful management system is the development of systems and procedures. When the planning budget is formulated, the assumptions used for the budget numbers should formulate an operating plan. The operating plan for the Granada breeding cattle operations is revised annually with the preparation of the next years budget, bound in workbook form, and distributed to all employees of that division for planning and reference throughout the year. This plan spells out in detail the systems to be utilized for the year for inventory control and reporting procedures, animal identification systems, health and immunization programs, feeding plans and programs, land use and forage production plans, breeding plans and systems, cattle handling systems, procedures for management at weaning and growing out young cattle, internal and external parasite control, performance evaluations, etc.

Another important area of the operating plan or management system, is the sales plan and cash flow projection. Accurately projecting financing requirements, planning management strategies and forecasting profit potential, are essential parts of any operating system. In a large cattle operation this procedure, when done properly, can utilize enough ledger sheets to cover several acres

of land. New techniques, however, have replaced old fashioned pencil pushing with modern computer modeling systems. At Granada we use computer modeling not just for the planning phases but for day-to-day management systems. For example, the Granada breeding herd model utilizes the inventory of animals by location, type of animal, sex and age, to project the inventory, sales proceeds and cash flow by months and years in the future.

Initially assumptions were used for calving rates, seasonal calving patterns, production costs, time of sales, projected sales income, etc.; however, after running the model for a period of time, all assumed numbers have been replaced with real historical values. To support the sales/cash flow model, other models for total ranch expenses, feed consumption, gains and per day costs and other expense items are also utilized. By using real numbers instead of assumptions, the management system and decision making throughout the course of a year can be altered and still have knowledge of where you are today and where the operation will be at specific times in the future. This type of model allows day-to-day questions to be answered which affect the management decisions to be made. For instance, ask the computer: What if I increase weaning weights by 10 lb.; or increase the calf crop by one percent; or decrease feed costs by five dollars per ton; or hold the animals thirty days longer, etc.? Receiving instant answers in "dollars" is one of many important systems a cattleman can utilize in the management of his business.

In adapting modern business procedures to beef production, cattlemen must begin to think about their operations in business terms. For example:

1. Measures of Profitability:
 - a. Return on Assets: $\text{Profits} \div \text{Assets}$
 - b. Return on Equity: $\text{Profits} \div \text{Equity}$
 - c. Return on Investment: $\text{Profits} \div \text{Total Investment}$
2. Liquidity: $\text{Capital Assets} - \text{Capital Liabilities} = \text{Working Capital}$
3. Breakeven: $\text{Fixed Costs} \div \text{Price} - \text{Variable Costs} = \text{Breakeven}$
4. Net Margin: $\text{Net Profit} \div \text{Sales} = \text{Net Margin Ratio}$
5. Gross Margin: $\text{Earnings Before Taxes}$

and Sales \div Sales = Gross Margin Ratio

6. Leverage: Debt or Liability \div Equity = Financial Leverage

7. Maximum Interest Calculation: Earnings before Interest and Taxes \div Total Assets = Amount of interest you can pay to breakeven. If this number is smaller than current interest rates there is profit margin, but if higher, there will be a loss. An example of a loan contract ceiling:

$$\frac{\text{Earnings Before Interest and Taxes}}{\text{Total Assets (Average)}} = \frac{\$ 281,545}{\$1,627,430} = .173$$

(The .173 number relates that profit can be made with 15% interest, but 18% interest will create a loss.)

Managing People

The third area of expertise required for successful management systems is managing and training people to use the systems. Good managers motivate people as well as develop proper attitudes and skills in the employees. People normally will not work as hard as they can just for money; therefore, good "people managers" create an environ-

ment where people enjoy the work and are motivated to improve. Pay systems utilizing "piece-rate systems," bonuses, commissions, etc., help to motivate employees to achieve the desired outcome; however, good managers also strive to achieve desired results with a minimum amount of the manager's time and energy.

Managing people can be done with two types of management theories:

1. Theory X Manager: Mr. Dynamic X. Old-way is the owner/operator/manager of a large cattle operation, patterned in the mold his grandfather created in 1890. He has saddled and is ready to go daily at daylight. He is the boss and everyone knows they can't do anything without his O.K. He is one of the crew with worn-out chaps; he sorts cattle in the pens; he is mounted horseback for all cattle handling; he eats cold beans with the rest of the boys around the branding fire; and runs the whole show. He sets all the objectives and everyone does it his way or they don't stay around long. Although he has several long-time foremen, they are part of the crew also. The work day is 14 hours in summer and 10 hours in winter with 12 hour days in spring and fall—360 days per year.

2. Theory Y Manager: Mr. Low Y. Key (is not Chinese) is the owner/operator/manager of a large cattle operation, patterned in the mold of a modern, profitable manufacturing plant. His work week begins with a management meeting with his key people, foremen and managers. The meeting is set into motion with a listing of the goals to be achieved, short-term and long-term. He goes around the table for input from all the key people by asking them what they think. Although he also tells them what he thinks, he asks for a team approach, and works on ways that all can agree on a path to achieve the goals. When the meeting is concluded, he tells them to go do the job "your way" to reach the goals the group has set. He then tells them to call him if they have problems. If everything is smooth, don't call (he focuses on only the exceptions). "Between now and the next management meeting I will be at the NCHA Superstakes, an NCA directors meeting and a bull sale; my secretary will know how to call me."

Management by exception is a technique used by most successful managers in business today. With skilled, motivated subor-

dinates these managers have time to think, to seek to improve the operation, to adapt it to changing environments and to be well-informed on changes that are occurring that affect the operation. The successful manager does not blindly adopt the methods of his predecessors and try to do it all himself. Instead, he works on motivation and development of his people to cause them to strive for achievement. He is a "nice guy" who welcomes employees' input, and in this case nice guys finish first. Mid-level management personnel who are successful also follow the management-by-exception pattern. They reach those positions by being good at their jobs, and when they spot the exceptions, they kick them up to the administrative level for decisions. All good "people managers" are also good at managing time, and they are skilled and disciplined in managing themselves.

To wrap up successful business management for the beef industry, cattlemen should strive to adapt proven techniques developed in the manufacturing industry to achieve increased efficiency through an assembly line of planning and informational gathering process into complete operational plans. They must understand the operation; they must know how land, labor and capital resources affect it, and how these control the flow of cattle through their production line. Cattlemen must develop systems and procedures based on modern technology and business practices and not on "the way we always did it." Operational plans should be developed in a manner to allow flexibility for change to meet changes in the climate of the industry.

A manager who manages people should motivate and develop skills in subordinate personnel to contribute input into systems to achieve goals, instead of digging in and doing it "himself." He should develop skills in managing the exceptions or problems that arise, while leaving routine operations to capable employees who can handle them. Those of us in the cattle industry today who fail to recognize the fact that beef production is big business and must be managed with a modern business approach, through good times and bad, may not be around too long. We manufacture a product utilizing raw materials of soil, water and plants, but our production facilities also require good business management techniques for the total operation to be profitable.