

Tackling Tough Decisions

Identifying essential decision-making information.

by Troy Smith, field editor

Deciding which bull to buy or choosing between a 20% or 38% protein cube is not a really hard decision for a ranch manager.

However, determining whether an ongoing drought requires cutting herd numbers by 20% or 50% — that's tough. The implications of a destocking decision would be much more far-reaching, says Stan Bevers, with Texas A&M University's King Ranch Institute for Ranch Management.

During the 2021 Cattle Industry Convention in Nashville, Tenn., Bevers addressed the kinds of information managers of cattle operations need in order to tackle the really hard decisions. Good management information includes livestock records, a business asset inventory with a depreciation schedule, and financial accounting records, he said.

Managers also must weigh decisions by considering effects on inventory, cash flow, net income (profitability) and ranch net worth.

"These decisions kick us out of our comfort zones, but they can also threaten ranch survival," Bevers said.

Stressing the importance of having accurate inventories and detailed expense and revenue accounting, Bevers said a ranch's annual financial analysis should be focused on the "three P's":

- Position, which refers to the total resources controlled by a ranch business and total claims against those resources. Financial position gives an indication of the business's ability to withstand risk.
- Performance, or the ranch business's track record, is the analysis of the results of operating and financial decisions made over time.
- Projection, which considers whether the business is advancing toward its mission for the next three years.

Bevers also emphasized the need to use an appropriate system of accounting. Many ranches satisfy the needs of the Internal Revenue Service (IRS), however, that system seldom reflects the financial stability of a ranching operation, he said.

"Tax accounting does not give a clear idea of profitability," Bevers said. "Ranch businesses should use managerial accounting instead."

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decision-making is often hampered by a lack of communication among participants in a ranching operation. It requires connecting information between hired labor and management, across generations involved in the operation, or among members of the same generation.

"Failure to communicate always complicates the process," Bevers said. **AJ**