

The Business of Ranching

Take your operation from “good to great” with these strategies from corporations.

by Kindra Gordon

It's not unusual to be among a group of ranchers and hear them joke about agriculture not being profitable. But such statements are no laughing matter, and may actually be hindering the mind-set of many ranchers.

Instead, the road to ranch profitability begins with positive business thinking, according to Barry Dunn, executive director and endowed chair of the King Ranch Institute for Ranch Management at Texas A&M University-Kingsville.

Dunn, who has 20 years of ranching experience and is a former range livestock production specialist at South Dakota State University, says, “There is a perception that ag isn't profitable, and that mental paradigm is so strong that many ranchers don't even know they are making money.”

He cites a survey he conducted in 2000 that showed the top 24 operations of 148 ranches had returns of 18% or more — a fairly high profit margin — but Dunn reports many of these ranchers didn't realize they were making money. He says it is a perception compounded by today's tax laws and forms, due to which many farmers and ranchers try to show minimal, if any, profit for tax reasons.

But, Dunn points out that no other

industry would accept lack of profits — or fail to recognize if they were making profits — and neither should agriculture. He says, “In a capitalistic economy like we have, it is every businessman's (including farmers and ranchers) responsibility to make money. If they don't, they will be forced out of business.”

Thus, he says, people in agriculture, particularly in ranching, need to change their mind-sets.

Think profitably

To do so, Dunn says, producers need to start thinking like big business.

As a first step, he suggests ranchers read fewer farm magazines and more business publications such as *Fortune*. “You'll learn a lot about business and begin to change your mind-set,” Dunn says.

Second, he suggests reading the best-selling book *Good to Great: Why Some Companies Make the Leap . . . and Others Don't* by Jim Collins. The book poses the questions, “Can a good company become a great company, and, if so, how?” To get the answer, Collins researched more than 1,400 companies and selected 11 — including Gillette, Walgreen's and Wells Fargo — that all made substantial improvements in their performance throughout time.

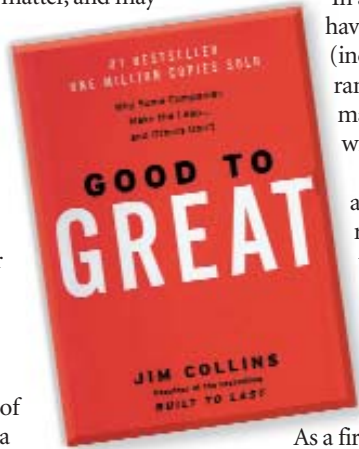
Collins found that a commonality among these companies that were “great” is that they

challenged many of the conventional notions of corporate success. In his book, he shares dozens of examples from great and not-so-great companies and offers a road map to excellence that any business — including a ranch — would do well to consider, Dunn observes. Some of those “learning lessons” for ranchers include:

Confront brutal facts. “It takes the right information to do a good job farming or ranching,” Dunn says. “This means you need records, and you need to confront them and be honest about them.” He suggests compiling a “report card” that looks at the business structure, production, marketing, annual expenses, investment and financial history of the ranch. “Ask yourself what you are doing, and what you could or should be doing,” Dunn says.

Focus on the core business. “There's a pressure on farmers and ranchers to diversify. But from his research Collins says the problem with that is that it takes away from the ‘core’ that you do the very best in your business,” Dunn reports. For instance, diversification divides your energy, business skills and investments. Thus, Collins suggests that businesses don't diversify, and instead do what they do best. Dunn says that advice has merit for ranchers as well.

Be disciplined. Dunn says this tactic requires attention to details. “You must have a deep understanding of what your ranch is about and start planning around it,” he says. In the book, Collins suggests this process requires that businesses conduct inventories



Other mind-set shifts for ag

As ranchers forge ahead in the 21st century, positive and proactive thinking may be among their best tools for the future. In addition to thinking profitably, ranch management specialist Barry Dunn with Texas A&M University-Kingsville, says ranchers need to shift their thinking in several categories.

Foremost, Dunn says, beef producers must focus on producing food — not commodities — and work across the entire ag industry to send consumers a unified message that food is part of a healthy lifestyle.

“We've got to look out for the entire food industry and promote food's healthy attributes. We don't want food to be identified as a causative agent of disease such as obesity, diabetes or cancer,” he says. As an example, he says the beef industry can't just ride the low-carbohydrate wave. Instead, the industry needs to be offering consumers nutrition and food safety messages that build

a positive image of beef into the future.

In the area of environmental stewardship, Dunn says, American ranchers still need to do a better job of telling the public about their land management practices. “Educating urban consumers is a big issue,” says Dunn, who suggests ranchers champion themselves for things like preserving open space and carbon sequestration on grasslands, which helps reduce the greenhouse effect.

Additionally, Dunn suggests livestock producers and landowners embrace their Western heritage and find ways to share cowboy poetry, nostalgia and other ranch-related events with those generations who are no longer connected to the land. Doing so may be key to developing future generations who support agriculture.



►“There is a perception that ag isn’t profitable, and that mental paradigm is so strong that many ranchers don’t even know they are making money,” says Barry Dunn of the King Ranch Institute for Ranch Management at Texas A&M.

before they implement goal-setting. This is contrary to traditional business thinking, which suggests goal-setting and then conducting inventory. But, Dunn says, “If you do goal-setting first — as is typically suggested — your inventory and your goals may not match your resources.” So inventory should come first, followed by goal-setting, developing a plan, decision-making and implementation. Dunn adds that monitoring what you are doing can also become a powerful part of your ranch, along with evaluation and replanning — which will be necessary because your inventory is always changing.

Let momentum work for you. In his book, Collins calls this final concept, “the flywheel,” which he describes as making decisions in your business and then letting the positive momentum from them work for you. In ranching, Dunn calls these the “drivers.” As an example, he says calving when forage is available helps build profitable momentum in a ranch because you should not have to feed as much stored hay. Another example is using appropriate stocking rates to help keep your rangeland in good condition so that it can weather times of drought. Tapping marketing niches for extra profit could be an additional momentum driver.

Dunn calls knowledge the ultimate strategy for business success. Among agriculture, he says, “It’s almost like we don’t celebrate our successes enough.” For future viability, ranchers need to think successful to be successful, he emphasizes.

For more information about the King Ranch Institute for Ranch Management, visit www.tamuk.edu/aghs/krirm/krirm/index.htm.

