Can Ranch Profits Be Improved?

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Can ranch profits be improved? The answer to that question depends on the individual ranch manager. Increasing profits from a ranch firm is not an easy task to accomplish. Moreover, it will not happen unless a commitment is made to increase the level of management of the firm. A commitment must be made to operate the ranch as a business.

Before examining some alternatives to improve the level of management, it is important to clarify the meaning of profitability, a term which does not mean the same thing to all people. Cash expenses, depreciation, and inventory changes are subtracted from gross ranch revenues to determine net returns. These net returns represent a return to unpaid family labor and management, owned land and capital invested in equipment and cattle. However, once net returns are determined, opportunity costs should be deducted in order to calculate net profits from the ranch. Opportunity costs are the returns given up if ranch resources such as owned land, family labor, management, and invested capital were used in their next best level of employment. For example, if owned rangeland could be leased to a neighbor for $3.00 per acre per year, this cost should be subtracted from net returns in order to determine true profits. Likewise, the capital invested in cows and equipment that could be earning 9 percent in a government bond should be deducted. The cost of unpaid family labor and management would equal the value of outside salaried employment. If net profits are negative following the deduction of opportunity costs, the ranch, as a business, is not paying market value for the resources used in the operation. By identifying true profits, management can identify what costs to remain in ranching as a way of life and can establish profit goals and objectives.

Assume that a ranch manager has determined that he is selling his resources below market value to his cow-calf operation, and he has established a goal to increase profits from this underpaid resources. As discussed earlier, to increase profits generally means to increase managerial input. Increased managerial input involves identifying problems and means to solve these problems, selecting the best solution, putting the solution into action, and continuously making adjustments where necessary. Specific means to increase managerial input are as follows:

1. Develop good records
2. Operate the ranch as a business
3. Learn to cope with risk and uncertainty
4. Be open to new technology or ideas
5. Improve managerial training

Develop Good Records

There is no simple answer to the kinds, amount or detail of information that a good record system should possess. The record system should supply the minimum information needed to make good managerial decisions. Since records are costly to maintain, only those actually needed for tax or management decisions should be maintained. To be effective, records should be consistently maintained from year to year and should reflect all the separate production activities of the ranch.

The types of records which would likely be of value to the manager are the balance sheet, the annual profit/loss statement, tax records to include those necessary for identifying capital purchases and production records. Production records should be developed for each separate enterprise on the ranch. For example, if the manager is maintaining ownership of a weaned calf through stocker and feedlot phases, each phase of production should be separated for profit/loss determination. This will enable the manager to make informed decisions regarding possible shifts in future operations.

For a cow-calf operation, records on calf crop percentages and weaning weights are critically important in determining profits of the firm. High producing cows should be identified in order to establish a priority for selecting replacements or for culling cows when herd reduction becomes necessary.

Finally, historical cash flow records are needed for making cash flow projections and for allowing better planning of borrowing and repayment. Record keeping is a time consuming, difficult, and often frustrating component of increasing managerial input. However, good record keeping is absolutely necessary for improving management decisions of the firm.

Operate the Ranch as a Business

A second means to increase the managerial input of the ranch operation is to operate the ranch as a business. An essential for any successful business operation is time spent in planning by the manager. Every ranch business needs to have office space
where the necessary office equipment is located, records maintained, and most importantly, a relatively quiet place is provided the ranch manager to plan ranch operations. Effective planning includes the study of past records, evaluating new technology, predicting future price and cost trends, developing budgets and selecting new enterprises.

It’s easy for the ranch manager to get caught up in carrying out or supervising the day to day operation of the ranch with little time being reserved for longer term planning. Many of these decisions are simply made by default and potential opportunities are lost.

In order to run the ranch as a business, ranch management also needs to separate the family’s personal living expenses from the expense of the ranch business. Separate accounts should be maintained with a predetermined amount set aside for the family’s living expenses. It is essential for proper planning that the cost of maintaining a cow on the ranch and the family’s expenses be kept separate and that only business expenses are charged to the ranch. At the end of the year, if the ranch has made a profit, perhaps management can pay the family a bonus.

Learn to Cope with Risk and Uncertainty

A third factor in increasing managerial input for a ranch operation is learning to cope with risk and uncertainty. Generally, for a given operation, increasing profits involves the prospect of greater production and financial risk. Risk is often measured in terms of variability of net income from year to year. Variations may occur because of weather, disease, unstable markets, and adoption of an enterprise that does not perform technically as expected.

Another type of risk concerns the use of credit. When change in ranch organization requires considerable investment and subsequent borrowing, negative financial impacts on the ranch operation can be substantial. One of the principal means ranch managers use to survive bad years is increased reliance on credit reserves. Therefore, the increase in financial risk faced by a ranch manager who must depend on decreased use of credit is two-fold; a) less credit is held in reserve, and b) the potentially large negative financial impacts which may occur as borrowing increases.

Obviously, managers will organize their ranch operations differently to produce acceptable levels of profit depending upon their risk/return preferences. A producer with large annual fixed payments (land debt, for example) would likely reject a ranch plan that would generate good average annual returns over time but had a high probability of low income in a given year. The one bad year might mean the firm would not survive.

For example, a 1976 study indicated that ranch plans developed for the Rolling Plains of Texas maximized annual average returns by using a continuously grazed system stocked for average or better rainfall and depending on supplemental feed to maintain livestock performance in dry years. Further, steers were placed in a custom feedlot, and dryland wheat was utilized by the ranch manager to graze stocker steers (both raised and purchased) beyond weaning. An examination of annual income levels over time showed that the chance of income below the survival rate for the firm was substantial (depending on credit reserves and annual cash flow requirements). Producers in the Rolling Plains who wished to avoid extreme income fluctuations (at the expense of decreasing the potential average annual income) were advised to reduce stocking, adopt a rest-rotation grazing system that allowed for improvement in range vegetation, use adequate levels of supplemental feed, and avoid grazing steers on wheat pasture.

By examining alternative plans for low-risk/low income to high risk/high income, a ranch manager could identify a plan that fits his income preference, beyond which potential gains in income would not be worth the added risk.

Increasing ranch profitability may well depend on the ranch manager’s ability to manage risks. Managing risks may include use of alternatives such as the futures market or insurance, proper adoption of range/livestock technology, credit terms that match repayment capabilities, or adoption of production activities that will reduce negative income probabilities, i.e., diversification. For example, in the Rolling Plains study discussed above, income from a particular custom feeding alternative was found to move in the opposite direction to the income from weaned calf production in any given year. Consequently, the feedlot alternative could be justified as an addition to a ranch plan to stabilize income even if annual profits were not increased.

Be Open to New Technology or Ideas

The most popular or commonly sought after alternatives to increase profits are those that will not change the firm’s organization or way of doing things. Economic efficiency can be improved if physical production is increased for the same level of expenditure or the same level of production is maintained while reducing expenditures.

Alternatives to increase economic efficiency may include such actions as spending wisely, preventing waste, using feed additives or implants, using exotic breeds, controlling noxious weeds and brush, palpating cows, and using existing fences to control grazing. Knowledge of the livestock price cycle and use of the futures market or forward contract may offer some potential, given the correct circumstances, to increase profits. To benefit most from adopting these practices, a producer must continually keep up with new products, the market situation and market alternatives and production technology improvements and be among the first to adopt the new practice. Once a practice to increase production becomes widely adopted selling prices can be expected to adjust downward. Thus, the long-run beneficiaries of new technology may ultimately be consumers who receive ample quantity of products at a reasonable price. However, producers who do not adopt alternatives to increase economic efficiency will face declining profits.

Often the manager views a practice independently from his total operation and is disappointed with overall results. The adoption of an exotic cross breeding programs isn’t likely to help much if pastures are overgrazed resulting in an inadequate diet for any cow, regardless of its breed.

Another example illustrating a one shot approach to increasing profits is control of brush on rangeland. Management is often disappointed in the results if proper stocking and adequate rest for treated pastures are not included as a part of the brush control program. A successful brush control program must involve the total planning unit.

The potential for increasing profits by changing the ranch organization depends on how the ranch is currently organized and how willing the ranch manager is to change his “way of doing things.” For example, recent evaluation of a ranch firm in South Texas indicated that by changing the calving season to match forage availability and by adding a stocker steer operation to the ranch, the ranch manager could potentially increase net returns to land, management and capital an estimated three to five times. Changing calving season alone was projected to increase the ranch’s carrying capacity by 30 to 40 percent. In addition,
annual variable cost per cow dropped 18 percent because of lower winter feed requirements. The potential for profitability improvement depended on the manager's willingness to consider change in his operation.

To effectively bring about change in the ranch organization, the manager must continually search for new ideas and technology which might be adopted by the firm. Adopting new technology, however, without knowledge of how to properly implement it may insure failure. A new grazing system implemented by a manager who didn't understand the technical aspects of the system might fail because he was a week late moving cows. Thus, to successfully adopt new technology, the manager must allocate time to studying and evaluating its potential for his ranch operation. Attending field days and extension service programs, reading professional journals and magazines, and carrying out a certain amount of individual research and development on the ranch operation are some of the activities through which a ranch manager keeps himself current on new technology.

**Safe Fall Grazing Schedule**

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The Bureau of Land Management is engaged in preparing environmental statements concerning proposed domestic livestock grazing on public rangelands. Based upon detailed studies and analyses, each planning unit is found to have more or less unique problems in grazing management. This article presents a working hypothesis with respect to possible cattle losses under late fall grazing conditions.

The Cowhead/Massacre Planning Unit, located in the extreme northwestern part of Nevada and the extreme northeastern part of California, is representative of the Great Basin. Field observations within this planning unit indicate that Great Basin wildrye, a native grass of this area, in very thin stands and poor condition can be improved by restricting grazing to fall and winter. Also, the elimination of competing shrub vegetation by herbicides, brush cutters, or both will speed the rate of recovery.

There is little agreement among ranchers as to the climatic hazard for grazing animals during fall and winter. Climatic fluctuations are very great. Some ranchers claim that these rapid and hazardous changes, especially during the winter, cause animal losses. Other ranchers and experienced livestock managers insist that if such animal losses do occur, these losses are a reflection of poor livestock management.

Weather records for the Cowhead/Massacre Planning Unit were obtained from the National Climatic Center, Asheville, North Carolina, and covered three recording stations: Cedarville and Fort Bidwell, Calif.; and Sheldon, Nev. The respective number of years of records were: 84, 67, and 38. In order to have a uniform period for comparison, we chose the data from 1941-1970. This 30-year period corresponds to the "Monthly Normals of Temperature, Precipitation, and Heating and Cooling Degree Days, 1941-1970" published by the U.S. Department of Commerce, National Oceanic and Atmospheric Administration, Environmental Data Service for California and Nevada.

A search of literature revealed no specific cause of range animal deaths under winter conditions. However, conversations with ranchers and animal scientists disclosed the uniformly held opinion that with reasonably good forage and available water, range animals can endure great stress from cold and other climatic factors.

Wind-chill should be considered because wind velocity together with temperature might serve as the basis for a fairly accurate prediction of heat loss from cattle on winter range. Unfortunately, the recording stations did not supply data on wind velocity and duration, but temperature data were supplied. No valid heat loss stress could be estimated without the necessary wind data. It was thought advisable to seek an area of stress in forage consumption. Observation on the range and discussion with ranchers indicated that when 6 inches or more of snow covered the forage, the cattle stopped grazing.

Therefore, it was assumed that 6 inches of snow on the ground for a week would seriously limit forage supplies to range animals. It was also assumed that this same snow would supply enough water for range animal survival. On these assumptions, the above weather data were examined on a weekly basis. Weeks of climatic hazards were determined by establishing which weeks had 6 inches or more of snow on the ground for a major portion of the week.

We found that Sheldon, Nev., had more frequent and deeper snow on the ground than did Fort Bidwell and Cedarville, Calif. These differences are undoubtedly associated with the fact that Sheldon is at 6,500 feet elevation while Fort Bidwell and Cedarville are at 4,500 and 4,670 feet respectively.

After field observations, studying the records, and discussions with ranchers, we determined that cattle removed from the fall range prior to the first of December each year would have only 1 chance out of 20 of being "snowed in."