CREATING FLEXIBILITY IN YOUR RANCHING ENTERPRISE

Clay P. Mathis
King Ranch® Institute for Ranch Management
OVERVIEW

Philosophical discussion

- Future
- Trends
- Strategic thinking

Ranch Business

- Priorities
- Risk

Creating Flexibility

- Systems approach to finding leverage points
- Example: Drought Risk
"...the future is becoming much less predictable."

Dr. Michael Boehlje
Distinguished Professor of Economics
Purdue University
IMPORTANT TRENDS

Industry Wide
- ↑ Consumer interest in food production practices
- ↑ World population/food demand
- ↑ Regulations and complexity of business
- ↓ U.S. cowherd

At the Ranch
- ↑ Climate variation(?)...forage production
- ↑ Cattle prices
- ↑ Feed prices
- ↑ Land values and fragmentation
- ↓ Willing and skilled ranch labor

How will your operation be successful?
Adaptability!

“It is not the well adapted that will thrive, but the adaptable.”

Michael Swanson, PhD
Chief Agricultural Economist
Wells Fargo
WHAT WILL YOU DO TO PREPARE FOR A LESS PREDICTABLE FUTURE?

How will you think?
- Tactical
- Strategic
- Both!

What will be your decision-making perspective?
CREATIVE DESTRUCTION

...suggestion by Charles Koch, CEO Koch Industries, Inc.

(The Science of Success, 2007)

- Every seven years a company or organization should go through the process of recreating their business entity from scratch
  - CREATIVELY destroying the old model
  - Rebuilding a more modern approach

***this does not imply ignoring our ranching heritage
HOW DO WE CREATE FLEXIBILITY?

A Systems Approach...

- A mindset or way of thinking
- Seeing the whole...and how the parts are interconnected

Find LEVERAGE!
LEVERAGE POINTS

Characteristics

- Long lasting and self sustaining
- Capable of changing long term patterns of performance
- Often involves entrenched mental models
- May require stopping or doing less of something
- May require starting or doing more of something

Task: Find a few leverage points that can create greater flexibility!
At The Ranch...

Income
Expenses
Risk
**Typical Sources of Ranch Revenue**

- **Livestock**
  - Cattle
- **Wildlife**
- **Minerals**
- **Other?**

\[ \text{Livestock} \cup \text{Wildlife} \cup \text{Minerals} \cup \text{Other?} = \text{Total Ranch Income} \]

Know the trade-offs to find BALANCE!
Cow/Calf Expenses

Source: Stan Bevers, TAMU

SW SPA Database - 1991 to 2010

$/Cow Exposed

$300 $350 $400 $450 $500 $550 $600 $650


Source: Stan Bevers, TAMU
SOUTHWEST SPA RESULTS
EXPENSE BREAKDOWN PER FEMALE

Average Total Cost per Cow = $588
Average of 78 herds, 2006-2010

The Big Three:
➢ Labor
➢ Feed
➢ Depreciation

Source: Stan Bevers, TAMU
#1 Risk in the West - Drought

What do we know about ranching in the West?
- Low precipitation
- Variable precipitation – Frequent drought

Therefore...must design a ranching system to reduce the known risk inherent to arid rangeland production!
QUESTION TO PONDER!

Is your current ranching enterprise designed to withstand the risk of drought?

Annual Precipitation from 1913-2012 at Billings, MT

...and capitalize on new opportunities?
COMPONENTS OF SUCCESS

- Flexible to protect the core business
- Enterprise diverse to spread risk
- Managed for the good of the whole ranch, not to maximize the pieces

There is no “best” mix of enterprises or practices for ranching!
Barriers to Success?

What’s your Problem/Challenge?

■...are the solutions simple?

Systems Project -
**IDENTIFYING AND BRIDGING THE GAP**

**Desired**

- Ranch to support the next generation in 25 years
  - 2 additional families

**Actual**

- Earnings to support current family

**Gap/Tension**
ICEBERG CONCEPT

What *is* happening?

What *has been* happening?

Why?

Event

Trends and Patterns

Structures

Learning

Leverage
CONSIDER DROUGHT...AND DESIRE TO EXPAND
GETTING TO “WHY”

What is happening?
 We can’t expand and struggle to even sustain cow numbers

What has been happening?
 Frequent drought = forage fluctuation
 Sell cows in suppressed market
 Buy feed in elevated market
 Buy back cows in elevated market
 Increase stress on ownership

WHY?
WHY IS IT SO DIFFICULT TO COST EFFECTIVELY MANAGE THROUGH A DROUGHT?
POTENTIAL HIGH IMPACT SOLUTIONS

- Repl. Heifer or Stockers
- Center Pivot
- Wildlife Income

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LEVERAGE

***Cow-Calf
- Core Enterprise

Wildlife/Recreational Income
- Income stability

Replacement Heifer Enterprise
- Flexible AU easily liquidated
- Enables rapid cow herd expansion

Stocker Enterprise
- Flexible AU easily liquidated/expanded

Risk Reducing Inputs
- Center Pivot

The Big Three:
- Labor
- Feed
- Depreciation
AU Flexibility - Example

Historically – 1000 AU
- 850 Cows (850 AU)
- 40 Bulls (60 AU)
- 130 Repl. Heifers (90 AU)

75% Cow-calf
- 750 Cow/calf AU
- 96 Repl. Heifers = 67 AU
- 261 Stockers = 183 AU

60% Cow-calf
- 600 Cow/calf AU
- 77 Repl. Heifers = 54 AU
- 494 Stockers = 346 AU

How Often?
**ANNUAL Precipitation for Billings, MT**
(1913 through 2012)

- **100-year Average**: 13.7 Inches
- **100%**
- **75% (16 of 100 yrs)**
SUMMARY

Consider “Creative Destruction”

Use a “Systems Approach” to Problem Solving
- What is happening?
- What has been happening?
- Why?

Look for Leverage Points that will help your Ranching Enterprise be more Flexible
- Protect the core business
- Capitalize on opportunities

Managed for the good of the whole ranch, not to maximize the pieces!
Adaptability!

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Michael Swanson, PhD
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Learn what it takes to manage a dynamic ranching operation through the language for learning and action.....

Systems Thinking
for natural resources problem solving

John B. Armstrong Lectureship on Systems Thinking
August 12-15, 2013

Registration: $500
Kingsville, Texas
Thank You!

Clay P. Mathis
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