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Management Practices in a Profitable South Dakota Beef Cow-Calf Operation: A Case Study

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MANAGEMENT PRACTICES IN A PROFITABLE SOUTH DAKOTA BEEF COW-CALF OPERATION: A CASE STUDY

by
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The focus of a previous *Commentator* issue (No. 436, March 12, 2003) was on the usefulness of Standardized Performance Analysis (SPA) as a tool to increase our understanding of the determinants of profitability in the beef cow-calf enterprise. SPA aids our assessment of the operation by emphasizing empirical analysis of production and financial practices, but does not include other factors that may also play an important role in the success of the operation. These factors may include management style, decision-making processes, goal setting and attitude toward risk. To gain greater insight into these aspects, surveys were conducted with producers who had completed SPAs. The results indicated that high profit producers saw goal setting as important, particularly the need to set short-term goals for nutrition, herd management, and increasing herd size. They reported an eagerness to increase their knowledge through networking and seeking advice, were willing to consider change, and continued to improve their operations through unceasing improvement in their management skills.

In the present *Commentator*, we discuss our findings from an in-depth analysis of a specific beef cow-calf producer's activities and behavior. This case study was designed to explore the best business practices and peak performing agricultural executive characteristics of an individual South Dakota beef cow-calf producer. This producer was recognized for repeatedly scoring at the highest levels of the high profit category for South Dakota producers completing a SPA. We were interested in learning more about how he sustained high long-term profitability in his operation across all points in the cattle cycle.

Background of Producer

The case study subject has run a 2,500-acre ranch in the southern Black Hills for approximately the last forty years. Since he was in grade school, the producer knew that he wanted to be a cow-calf producer. He purchased a pre-existing operation at the age of twenty-one, and is still running it in his mid-sixties. The operation is based on 2,500 acres of owned land, and he has leased land ranging between 1,500 to 5,000 acres. Currently, the producer is renting 2,000 acres of land. Historically, he has tried to maintain a herd size of around 200 cows.

The producer's 30 year old son and daughter-in-law live on the operation with him. In the next several years, the producer hopes to transition the management of the operation to his son.

Best Business Practices

In any industry, there are certain characteristics and practices that one would expect successful operators to follow. In a cow-calf operation, where one of the goals of the producer is to maximize profits, many of the practices focus on this goal. The best business practices used for this research were taken from a study done at Texas A&M. In 2002, James McGrann, a professor and extension economist at Texas A&M, took 12 years of SPA data and analyzed it to determine best practice characteristics.

The list of best business practices as published by McGrann included the following:

- Purchasing all hay needed for the operation
- Implementing a natural resource management program
- Using a preventive herd health program
- Keeping accurate records
- Separating ranch and personal bank accounts

- Setting goals and writing them down
- Leasing equipment
- Avoiding industry fads

Producer Best Business Practices

Among the practices the South Dakota producer uses are implementing a natural resource management program as well as a preventive herd health program. He also sets goals for the operation. While he does not formally write them down, it is important that he sets them and is aware of his progress towards them. The producer uses his awareness of the strengths and weaknesses of the operation when setting his goals.

Being moderately conservative toward risk is a way he avoids fads. The producer describes himself as "middle of the road" in reference to his views on risk. He will start using a new technology when about half of the producers around him have used it and found it successful. The producer contends that he is careful not to believe that everything that works for his neighbors will also work for him.

The best business practice that the producer does not use, such as leasing equipment instead of purchasing it, is due mainly to his belief that doing it differently benefits his operation. For example, he produces his own hay so that he can be sure of the quality. He buys equipment so that when he pays it off, he feels that he has something tangible to show for his years of payments. A practice the producer does not use but feels is a good one is maintaining accurate records.

Peak Performing Ag Executives

In addition to best business practices, a list of characteristics common in peak performing agricultural executives was used when studying this producer. This list was presented by Kevin Klair, an extension economist at the University of Minnesota, at the Integrated Risk Management Education Sessions in 1998. Peak performing ag executive characteristics are found among producers who use strategic planning and strategic risk management practices. Using these practices greatly aids producers in making the best management decisions for their operation. Questions about these characteristics were asked to see which of these fit the South Dakota producer and his style of management. Included in the list of characteristics are:

- Ability to be a risk manager and not a risk taker
- View as self as a head coach and not an enforcer
- Using a business plan
- Seeing change as an opportunity
- Seeking outside expertise

Producer Peak Performing Ag Executive Characteristics

While it was more difficult to determine if the producer possessed these characteristics than determining what best business practices he used, the two lists fit well together. He has an awareness of the strengths, weaknesses, opportunities and threats in regard to his operation, and those are key components of a business plan.

The strengths of the operation varied from personal characteristics of the producer to the practices that he uses. He felt that his stubbornness and unwillingness to give up was an advantage in this industry. Preventive maintenance and upkeep of his equipment was another strength. Having a moderate approach to risk was an area that the producer felt was important to his continued success. An example given was of a situation where he and a neighbor had a chance to buy some land that was adjacent to both their properties. The asking price for the land was more than three times that of other land in the area, and the producer, based on the results of financial risk analysis, decided to pass on the opportunity. His neighbor bought the land at the asking price and subsequently went bankrupt.

A limitation the producer recognized in the operation centered on lack of funding for improvements that he would like to make. As costs continue to rise, the producer feels this situation will become even more difficult. A second weakness the producer saw was the record keeping on the operation, which is an area he hopes his son will improve.

His practices regarding change, especially in the introduction of new technology, are a major way in which he looks for new opportunities. The producer feels that he is moderately conservative in his approach to risk, and his actions and management decisions reflect this. When making decisions, he consults with others, including his veterinarian, his banker, equipment dealers, and extension educators. The producer is looking for opportunities in the certified Angus beef market as well as other new marketing opportunities in the future.

Potential threats that the producer saw included a limited lack of expansion opportunities in the area, which is also a current weakness. Increasing governmental regulations on the use of chemicals and how producers can deal with the threats of predators, such as mountain lions, are additional threats.

Producer Advice for Others

The producer was asked what advice he would have for someone looking to get into the beef cow-calf business and be successful. He stressed that starting from scratch was a bad idea, joking that a person who thought that "must be a little bit crazy to even think about it." He would advise them instead to find someone who wants to sell an existing operation. Along with this, he suggested that they then work with the existing owner or an experienced producer in the area and learn from them while they are getting started.

A second piece of advice was to always be aware of the bottom line. He feels that bankruptcy doesn't carry the stigma that it used to, and so producers aren't as concerned about it as they used to be. Being careful with money and how it is spent on the operation was his best advice on how to avoid financial troubles.

The final piece of advice was to always look ahead. Planning for the future and for possible difficulties, as well as looking at who will run the operation next is an important plan for determining where the operation should go maintain a successful enterprise.

Conclusions

The producer in this study has been profitable for many years. His operation follows some of the recognized best business practices, and he personally possesses some of the characteristics of peak performing ag executives. He sets goals, uses preventive maintenance on his equipment, uses a herd health plan, and is actively involved in conserving the natural resources on his property as described in the best business practices. In addition, he actively seeks outside advice, is a risk manager instead of a risk taker, and incorporates components of a business plan in his operation, as described of peak performing ag executives.

He believes that he has found the practices that work best for his operation and uses them, regardless of whether they are deemed as "good" by anyone else. He introduces new technology and new practices that he has determined will be helpful.

The producer meets his own definition of success. He enjoys his profession, has pride in it, and bases his success upon that rather than solely on financial measures.

As the producer prepares to turn management of the operation over to his son, his hope is that his son will continue to use the practices that will ensure the long-term viability of the operation, as well as being proactive in making positive changes.

For further reading:

Cumber, C. (2003). "Determinants of Profitability in the SD Beef Cow-Calf Enterprise." *Economics Commentator*, No. 436, SDSU, March 12.

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