by Laura Nelson

Calculating Change

Evaluate the financial implications of adopting more regenerative practices.

The ideals of increased soil health, lower input costs, higher grazing capacity, more wildlife on the land and healthier livestock in your herd make regenerative ranching an attractive proposition.

"Those are the headlines that get our attention; that's what we all want for our ranches. But the key question is: How do we get there without mortgaging the farm?" says Dan Childs, an agricultural economist who recently retired as senior regenerative ranching advisor from Noble Research Institute in Ardmore, Okla. He's spent more than 45 years working with ranchers on financial and business planning while owning and operating his own ranch business.

"The best approach I've found is, you've got to do just a little bit at a time," Childs says, beginning with a good look at your financials.

Start with a true picture of financial health

There's a good reason your banker requires a profit and loss (P&L) statement and balance sheet before offering a line of credit. Unfortunately, Childs says, too many ranchers record these numbers solely to satisfy loan requirements and then leave the documents in their banker's file cabinet. But those who take the power of their P&L and balance sheet into their own hands can make clear decisions at the start of their regenerative journey.

"Those statements should be the beginning of evaluating the financial implications of adopting more regenerative practices," Childs says. "We want to ask ourselves, 'What's our net farm income before we start down this journey, and do we have a record-keeping system in place that will support an enterprise analysis?'"

An enterprise analysis is a process business owners use to allocate income and expenses by enterprise to clearly evaluate the most profitable and least profitable parts of their ranching operation.

A typical cow-calf rancher might view their operation as a single enterprise, but Childs suggests ranchers think more deeply about how money flows in and out of the business. Are weaned calves really the only source of income or expense on the ranch? Or do you also sell replacement heifers? Cull cows? Grow hay or some other forage crop to feed your cows? Run a trucking business on the side or help neighbors with artificial insemination?

Perhaps you truly identify only one enterprise in your business. That's fine, Childs says, as long as you're able to track the true profit or loss of your work.

Know your profitability target

With this financial information in hand, Childs says, you're in a prime position to evaluate where you can experiment with new practices that align your ranch with the principles of soil health and a more regenerative mindset.

Start by identifying an ideal, yet realistic, profit target. Locking in a true profit target allows us to look beyond production as our primary measure of success.

"Sometimes, perception is not really reality," Childs says. "We think we did something right or wrong, but it's the records that will substantiate and reinforce the truth."

Perhaps in your opening financial evaluation, you're rightfully proud of the calf check you cashed on sale day, but you see that purchased feed costs crippled your ability to show it as a profit. Do you need to cut those costs to get to your goal?

Pencil out what it might take to replace the 1,300-pound cows you culled this year with 1,000-pound cows instead. Estimate the difference in their feed costs, then analyze if you can stomach the smaller cow weaning a 450-pound calf instead of the 550-pound calf you're accustomed to, in exchange for rolling out less hay next winter.

Make an honest analysis of your land's forage capacity. Perhaps you conclude you've been historically overstocked, making up for overstocking with purchased feed to carry livestock through the winter. What if you reduced your cow herd by 20% to more accurately match the natural resources of your land? Now, with 20% fewer animals to stock, can you defer grazing some pasture to leave as standing forage in the fall and make a serious reduction in the need to feed hay through the winter, or even eliminate the need? Do those reductions add up to enough to cover the smaller calf crop?

"You can theorize whatever you'd like in these scenarios, but you can't make a very clear decision unless you project a budget that looks at the true profit potential," Childs explains.

Evaluate these three expense categories

As you evaluate different paths to profitability, Childs says he repeatedly sees three major categories of expenses that can sidetrack those plans. He cautions ranchers to look closely at each of these:

Spending on tax-avoiding assets.

"We farmers and ranchers think that if we pay taxes, we've committed a cardinal sin," Childs says. But avoiding paying taxes is not a compelling reason to carry a heavy

fixed-asset inventory. In general, he advises ranchers to keep their fixed-asset inventory low.

"That's your tractor, skid-steer and hay baler — the things that are going to cost you the same amount whether you have 50 cows or 500 cows. For most, if you can rent it or hire it, that's a more cost-effective choice," Childs says.

Supplemental feed costs.

This is often the heaviest line item on a rancher's expense account.

"Whatever we can do to reduce feed in a livestock operation generally makes a pretty major impact on the bottom line," Childs says. "It's the easiest thing in the world to have a full hay barn to feed a cow out of, but it's also the most costly. It's much harder to manage stockpiled forage at a rate that will last your herd through the winter."

Replacement females.

"Many will say, 'I can't buy the quality I can raise,' and I understand that may be true," Childs says. "But that doesn't mean it's profitable.

"If we're really honest with our numbers, most will find we need to be a 300-to-500-head cow-calf operation before we can really justify raising our own replacements. They're very expensive to carry."

Record-keeping as a conversation starter

Whether it's from a banker, a business partner, a spouse or other family member, many ranchers need to earn the buy-in of other people before they make management changes. In many of these scenarios, a multi-year cash flow budget may be a necessary and powerful tool to show profit potential.

"You need to be able to show, 'I want to make these changes, and this is how it's going to pay off or work out,'" Childs says. "Lenders love customers who come in with that depth of planning and documentation. It shows that you're serious about what you're doing, that you've done your research, and that you have good reason to have confidence in your decisions."

Similarly, the budget analysis could provide a confidence boost to a younger generation wanting to introduce a new practice to a family operation.

If creating these budgeting tools sounds daunting, Childs says the Noble Profitability Essentials course was created to help ranchers walk through enterprise accounting and cash flow budget exercises.

It's important to understand that these practices really are the economic engine of an operation, Childs says, explaining, "If we can't make it work with a pencil, it's doubtful we'll make it work in real life." HW

Editor's Note: This is part of a continuing series of articles about regenerative ranching from Noble Research Institute, long trusted by beef cattle producers for supporting the industry with research, education and consultation. Follow the series in future issues of *Baldy Advantage* and *Hereford World*, as well as in special *1881* podcasts at *Hereford.org*. Additional regenerative resources and past articles in the series are also at *Noble.org*.

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Use enterprise analysis to evaluate the most profitable part of your operation.