

Analyze & Act

South Dakota cattleman shares 10 management tactics that have helped ranch profitability.

by Kindra Gordon, field editor

Don't be afraid to analyze what you are doing," advises Vale, S.D., rancher Ed Blair.

When looking to cut expenses in 2009, Blair did some serious number crunching with his family and came to the surprising decision to sell the 500 acres of irrigated cropland they farmed to raise feed for their cow herd.

"I never thought we'd part with it, but we sold it," he states.

Doing so has drastically reduced input costs — and machinery needs — for the Blair Brothers beef operation, which includes 1,200-1,400 black Angus cows and yearling heifers and markets 400 Angus bulls by private treaty annually. Brothers Ed

and Rich, along with their wives, manage the family operation. In the past decade, Ed and Wanda's son Chad and his family and Rich and Jeanie's son Britton and his family have also become active partners in the ranch.

For feed, the Blairs now contract for hay with area farmers, buying some on the open market. They have become savvy at analyzing market cycles and using the futures market to buy corn under production costs.

The Blairs have scrutinized their other management practices as well, and Ed ranks that tactic of **"analyzing all angles of what you are doing"** as his top tip for profitability, saying, "Doing what is easy is not normally the most profitable."

He gives a list of nine additional things

that have made their ranch profitable:

2. Short-duration rotational grazing.



For 10 years the Blairs used short-duration rotational grazing with their replacement heifers. When they started seeing an improvement with the range condition of their pastures as a result, they began running the entire herd together and flash-grazed

More financial management considerations

While current cattle prices and profit margins have been very good for producers, William Edwards cautions that it's not a time to let financial management wane. Edwards, an emeritus economist with Iowa State University Extension, has a list of financial management considerations to keep in mind.

"Much has been written about following good financial management strategies when times are tough," notes Edwards. "In reality, the most important financial decisions are often made when times aren't so tough."

He adds, "As one ag lender said, 'Most bad loans are made in good times.'" So how can farmers and ranchers position themselves for the inevitable downturn? Here is Edwards' list of things to consider:

► **Reduce debt.** Look for the highest-interest-rate loans you have and ask if there is any penalty for prepaying principal. He explains that reducing debt provides a guaranteed return on your investment and leaves equity available for borrowing again in the future.

Additionally, Edwards says, don't forget about operating loans. Being able to finance your own crop inputs and livestock expenses each year puts more dollars back into your pocket. However, he suggests it may pay to continue to borrow a small amount of operating capital each year, just to keep the line open and the paperwork up-to-date.

► **Fix interest rates.** Current interest rates are low by historical standards, but they won't stay there forever. If you cannot pay off debt early, at least lock in current interest rates for as long as you can, advises Edwards. The penalty charged for getting a fixed rate could look like a bargain in a few years. Variable-rate loans created many problems for farmers and ranchers in the 1980s. Check your loan agreements to see if there are caps on future interest rate increases.

► **Replace assets.** Updating your machinery line and replacing equipment now will lower cash-flow requirements in the future. Check fences, corrals and equipment and make needed repairs

before they fail. It is possible to "live off depreciation" when margins get tighter, at least for a while.

► **Expand cautiously.** Buying land with 50% or more equity will help ensure the payments will cash flow even under lower product prices. The same holds true for livestock facilities and breeding stock, says Edwards.

He explains that highly leveraged expansion projects carried out during high price periods often come on line just in time for lower selling prices to show up. Investing to grow the business is acceptable, but keep the financial ratios in line, he advises.

His additional suggestions include:

► **Look for ways to invest in cost-saving technology** to improve efficiency.

► **Use forward-pricing,** such as futures and options contracts, to allow some flexibility in marketing. Livestock Gross Margin and Livestock Revenue Protection insurance policies may also be useful tools.

► **Negotiate flexible cash leases** and avoid locking in high rents for multiple years.

► **Diversify assets;** consider non-farm real estate, retail ventures, or mutual funds to return a steady income at a level of risk with which you are comfortable. Consult a financial adviser about putting funds into a tax-deferred retirement account.

► **Plan income-tax strategies wisely.** Try to spread deductions over several years.

Edwards notes that the farm crisis of the 1980s was hard on all farmers and ranchers, but those who put their financial houses in order during the years leading up to that period were able to weather the storm.

"Today's operators would do well to learn from history," he concludes.

— Source: Iowa State University

every pasture a few weeks before the breeding season in mid-June.

“Over three or four weeks we move the cows to a new pasture about every three days,” explains Ed. Doing so helps keep plants in a vegetative state — and at a higher nutritive value — longer.

3. Pipe water. “Our goal is to have a tank on every quarter section of land,” says Ed. He notes that they’ve spent 25 years chipping away at this goal, and they still have more water lines to put in.

Ed adds, “I think you can manage cattle easier with water than fence.” Because of their drought-prone region, he prefers pipelines to relying on dugouts and ponds. The Blairs have looped all of the pipelines they’ve put in, so that one area can be isolated if needed and to give them flexibility with managing their cow herd and range.

4. Synchronized artificial insemination (AI). To tap superior genetics, the Blairs AI all cows and heifers on their ranch. Ed acknowledges that synchronized AI costs money, but the Blairs believe it pays off because they get 85%-86% of their mature cows bred in 25 days, which results in a shorter calving season and more-uniform calf weights at weaning.

The Blairs are also strict about reproductive traits. Any female that isn’t bred after two cycles during breeding season is culled.

5. Early-wean during drought. Ed calls this a “very effective tool,” noting that once the calves are weaned, the cows’ maintenance needs — and costs — drop dramatically. In 2012, a severe drought year on their western South Dakota ranch, the Blairs weaned on Aug. 7. Replacement heifers were drylotted from that date until June 10 the following summer. Ed says they still had a 65% AI conception rate on those heifers.

6. Graze crop aftermath. Because they raise less feed now, the Blairs have turned to crop aftermath in their area, namely cornstalks, for their cow herd. Living just 6 miles from a region with irrigated cropland offers an abundant supply.

7. Feed least-cost and limit-fed balanced rations. Ed is a proponent of considering a variety of feedstuffs based on availability, nutrition needs and cost.

“Take the time to run the rations,” he advises. “Feed them what they need, not all that they’ll eat.”

8. Invest in quality handling equipment and learn proper techniques. Ed notes that investing in good-quality equipment can make a job easier. The Blairs

also only buy equipment that is portable so it can be moved and used where it is

needed.

Attending cattle-handling seminars has changed his approach to working cattle, says Ed. “With the right techniques and attitude, one guy can do more than a whole crew.”

9. Use low-stress weaning and preconditioning. Ed is a

proponent of fenceline weaning and proper vaccinations at weaning time, calling it “one

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of the most important things you can do” to enhance the calf’s performance down the road.

10. Buy right. Ed shares, “My father took this to the extreme. He’d take three to five years gathering building materials for a new shop or shed that he would construct.” The point being, it’s important to shop around and compare — on everything from genetics and feed to equipment, he concludes.



Editor’s Note: Kindra Gordon is a cattlemoman and freelancer from Whitewood, S.D.