



Editor's Corner

As we move into the winter, our thoughts turn to evaluating our business performance over the last year, and putting operational plans together for the upcoming year and beyond. This month's columns give you some context for the evaluation and decision making you have in front of you ... and beg a few questions about future strategic choices for your operation.

In this issue, I've presented the "challenge message" I delivered this past couple of years, in conjunction with many Alberta Forage and Applied Research Associations at their field days and workshops. We know that Alberta beef

producers are generally an innovative and proactive lot. They seek out and adopt change readily and willingly, with their sights set on improving their businesses. The challenge was to transition from the production focus to a profit focus. The process to do this involves assessing the profitability, affordability and desirability of production opportunities ... individually and in systems ... tracing a path from pounds to profitability.

In the "So What ...?" column, I've posed the question, "What's In It For Me?" This column sheds light on some of the benefits of participating in the *AgriProfit\$* program.

Dale A. Kaliel, Editor

Evaluating Change

Dale A. Kaliel

Pursuit of change in a business is done with a purpose ... to make an improvement. It would be safe to say that from the manager's perspective, the goal of each improvement is to contribute to the profitability of the business. Beef operators are faced with a multitude of change opportunities on an on-going basis. The challenge, however, choosing the right set of opportunities that will create sustainable profits over time. There's a straight forward process that gets this done.

Change Opportunities

Producers tend to be production motivated. Success is often measured in terms like percent conception rate, lbs per calf weaned, bales per acre and grazing days per acre. The choice of the *right technology*, be it a breed, variety, input or implement, is the heart-and-soul of profit-driven business change. These choices deliver production and economic efficiency results ... the basis for "doing things right".

Where do these change opportunities come from? They're all around you – in the daily news, in industry and research publications, delivered to your door by sales agents and so on. In fact, there's so much information and so many choices constantly in front of you that sometimes it's

difficult to find, then choose the one's that best suit your needs.

Karla Bergstrom, Jeff Millang and I have had the privilege of joining a number of local forage and applied research associations across Alberta in their Field Day events. These tours and workshops provided a focal point for observing and discussing practices, technologies and systems with experts and peers.

Staff and invited speakers knowledgeably translated "what was growing in the field" to key messages about what might make them suitable for producers to consider in making their businesses better. The sessions essentially became a "one stop shop" for participants, enabling them to pre-screen and short list a wide variety of change opportunities. They effectively conveyed information and created synergies ... providing a take-home focus for participants in their choices.

Our role in these field days and workshops was to deliver the message of "Evaluating Change – Creating Profit-Driven Solutions" ... the processes managers can use to move from a production focus to a profit -based decision focus.

Change ... Why? ... How?

The need for change, whether it be large or small, is apparent to most business managers. Over time

product prices generally decline and input expenses generally increase. For a manager, the challenge is to convert inputs and reduce unit costs at a pace greater than the decline in prices ... maintaining the net profit margin.

This brings pressure on the business to be efficient (doing things right) which producers are already good at. It also means being effective (doing the right things) ... choosing the right production systems and mixes.

The “how” part is more about a management attitude and focus. The attitude, or mind set, is to pursue change rather than letting it happen. Seek out technology packets and systems that keep you on your long term path to profit. The focus is to use business management procedures and tools to evaluate your choices. This means measuring success based on profit, not pounds.

It may be a subtle distinction ... but it's a difference that separates the manager from controlling the business vs. the business controlling itself.

The Evaluation Process

The process of evaluating technology choices involves doing budgets. With these in hand, you then ask a set of step-wise logical questions relating to profitability, affordability and desirability of each option.

1. Profitability
 - Is the change itself profitable short term and/or over the long run? Are all costs covered by value generated?
 - If it doesn't turn a profit - don't do it. If it is, *then ask ...*
2. Affordability
 - Can you cash flow the change? Does it change your risk exposure?
 - If it's limited by cash flow or doesn't give enough return for added risk - don't do it. If it is affordable, *then ask ...*
3. Desirability
 - Is the change something you're comfortable with and/or interested in? Is it consistent with your business values and long term business plan goals?
 - If no ... and the value you see in these “intangibles” over-rides the profit opportunity - don't do it. *If yes, proceed.*

When you're satisfied the change has met the profitability, affordability and desirability criteria, take the same set of questions forward and ask them at the enterprise level. Weigh out the expected economic interactions among enterprises. Finally, close by ensuring it's adding to the farm's performance using the same criteria. Here's a couple of quick examples to clarify.

Example #1:

You run a budget on producing swaths on rented ground for grazing your herd. Your dollars and cents estimates, accounting for what has changed, shows a profit for growing the swaths. Similarly, the reduced feeding days pencils to a profit for the cow herd.

In the next step, you don't foresee a cash flow issue and the risk associated with yield you see as manageable. Finally, you see this as consistent with your long term strategy as an option to reduce your cow herd's unit costs. *Do it.*

Example #2:

You have an opportunity to custom graze a few grass cattle along with your cow herd over the first half of your grazing season. In taking on these cattle, however, you'll be applying significantly more grazing pressure along a riparian area. Your productivity estimates and budgets show it to be a profitable venture.

Looking at the affordability side, you see no cash flow problems and the risk seems manageable but border line. Finally, you estimate that the additional damage to the stream bank, brought on by the added grazing days, is beyond the area's capability to recover on its own, or without significant added investment on your part. The action, although profitable, adds more risk and goes against your stewardship values beyond what you are willing to accept. *Don't do it.*

Using the appropriate budgets and following this step-wise set of criteria will ensure that your choices will keep you on the track to profit.

Budgeting Processes & Management Information

There is a range of useful budgeting and evaluation approaches that can be applied to address the different opportunities producers entertain. Some focus only on the profitability of an action while others can incorporate the notions

of risk and non-cash values associated with desirability.

They do require a bit of practice to identify where, when and how they can be used. All will clearly deliver the capability to track profitability, then affordability, then desirability. These will be the subject of future articles and workshops through local forage and applied research associations.

In order to develop these budgets to assess your business options, you will need to have other supporting on-farm management information. Trials and general analysis information often come with estimates of “what it might cost”. The more information you have, particularly to translate trial yield and costs to your own farm realities, the better your budgets will be. An *AgriProfit\$* business analysis is the single best source of

economics and management information for you to build from in preparing budgets.

Home Stretch

Beef producers are beginning the transition process, understanding that managing for profit requires using economic and business management measures. Assessing change opportunities needs to follow the step-wise profitability, affordability and desirability criteria. These proceed from the activity level, through each enterprise, and on to the farm level. Following this process will improve profitability and return control of the business to the manager.

Dale A. Kaniel

Sr. Economist: Production Economics
Economics & Competitiveness Division
780-427-5390

dale.kaniel@gov.ab.ca



Your farm information is the **key** to making better business choices and your farm more **profitable** ...

Sign up for an *AgriProfit\$* Business Analysis today!

Call: 310-0000, then 780-422-3771

E-mail: dale.kaniel@gov.ab.ca

jesse.cole@gov.ab.ca

pauline.vanbiert@gov.ab.ca

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Just drop me an e-mail to:

dale.kaniel@gov.ab.ca

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We’d like your comments and questions about the articles featured in this newsletter. Suggestions for future issues are also welcome. Please contact me:

by e-mail: dale.kaniel@gov.ab.ca

by phone: (780) 427-5390

or, by mail: #302, 7000-113 Street, Edmonton, Alberta T6H 5T6

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If you’d like to learn more about and/or participate in our research & business analysis program, please contact me at the above.



So What's ... In It For Me?

(Why Would I Do an AgriProfit\$ Analysis on My Business?)

This is the time of year when your *AgriProfit\$* team is busily preparing for the upcoming program season. We're enlisting new and returning producers, and organizing for the on-farm interviews to collect the information that will be processed into business analysis reports for each. Our more experienced *AgriProfit\$* participants are familiar with the "how's and why's" of using the management information in their reports, but we spend a fair amount of time with newer folks addressing the question of "what's in it for me?"

What's in it for producers?

While participation in the *AgriProfit\$* program is free-of-charge, it does require an investment in time from producers. As it is essential for *AgriProfit\$* participants to see direct value in return for their time, each receive:

- a detailed economic analysis of farm enterprises of their choosing, driving at unit production costs and returns for their commodities,
- a "whole farm" analysis, revealing financial performance, strengths and weaknesses,
- benchmark analysis, laying out their own productive, economic and financial progress over time, as well as comparisons to "peers".
- newsletters, bulletins and analysis tools, based on standardized *AgriProfit\$* information.

Participants are in the position to measure performance, and take active management control.

How can *AgriProfit\$* help producers?

The link between *AgriProfit\$* and farm business success can be summed up by two phrases:

1. "*You Can't Manage What You Don't Measure!*"

To reduce unit costs and improve profitability, the first logical step is to measure the "current position". A basic business analysis, including key enterprises and a roll-up to the farm financial position, is a starting point. Your analysis and budgets are *based on your farm*. Each year of analysis adds another dimension in measurement, showing progress, opportunity for change, and/or potential areas of strength and weakness.

2. "*Who's in Control of this Business, Anyhow?*"

For all intents-and-poses, without a business

analysis a farm directs itself. Knowledge of unit production costs and financial performance helps producers focus, strategically, on necessary short and long term choices and changes. It provides a basis to measure success, and how each choice improves farm profits, with acceptable risks. The manager is now in control.

How is my information used?

The confidentiality of individual producer information is paramount.

In addition to business analyses for participants, pooled producer information is used in benchmarking, applied analysis, and decision tool support. The focus is on creating "knowledge nuggets" and decision aids based on real farm information.

Doesn't my accountant do this?

Although you may get similar farm level information from your accountant, it:

- often masks things you could do to manage for profit within your operation.
- doesn't deliver unit costs of production.
- is typically not comparable to broad-based industry economic benchmarks and analysis.

These differences may seem small but can make a big difference in how effective you can be in using your own "on-farm facts".

Does *AgriProfit\$* have local partners?

AgriProfit\$ staff work closely with local forage and applied research associations, adding value to local trials and bringing the economics and business management messages home.

Home Stretch

An *AgriProfit\$* business analysis is designed to *measure* so producers can *manage*. The focus is to deliver information and critical thinking so farm managers can control their business future. If you would like to sign up to *AgriProfit\$*, or have questions, don't hesitate to contact me by phone (toll-free using the 310-0000 line), or by e-mail.

Dale A. Kaliel

Sr. Economist: Production Economics

Phone: (780) 427-5390 Fax: (780) 427-5220

dale.kaliel@gov.ab.ca