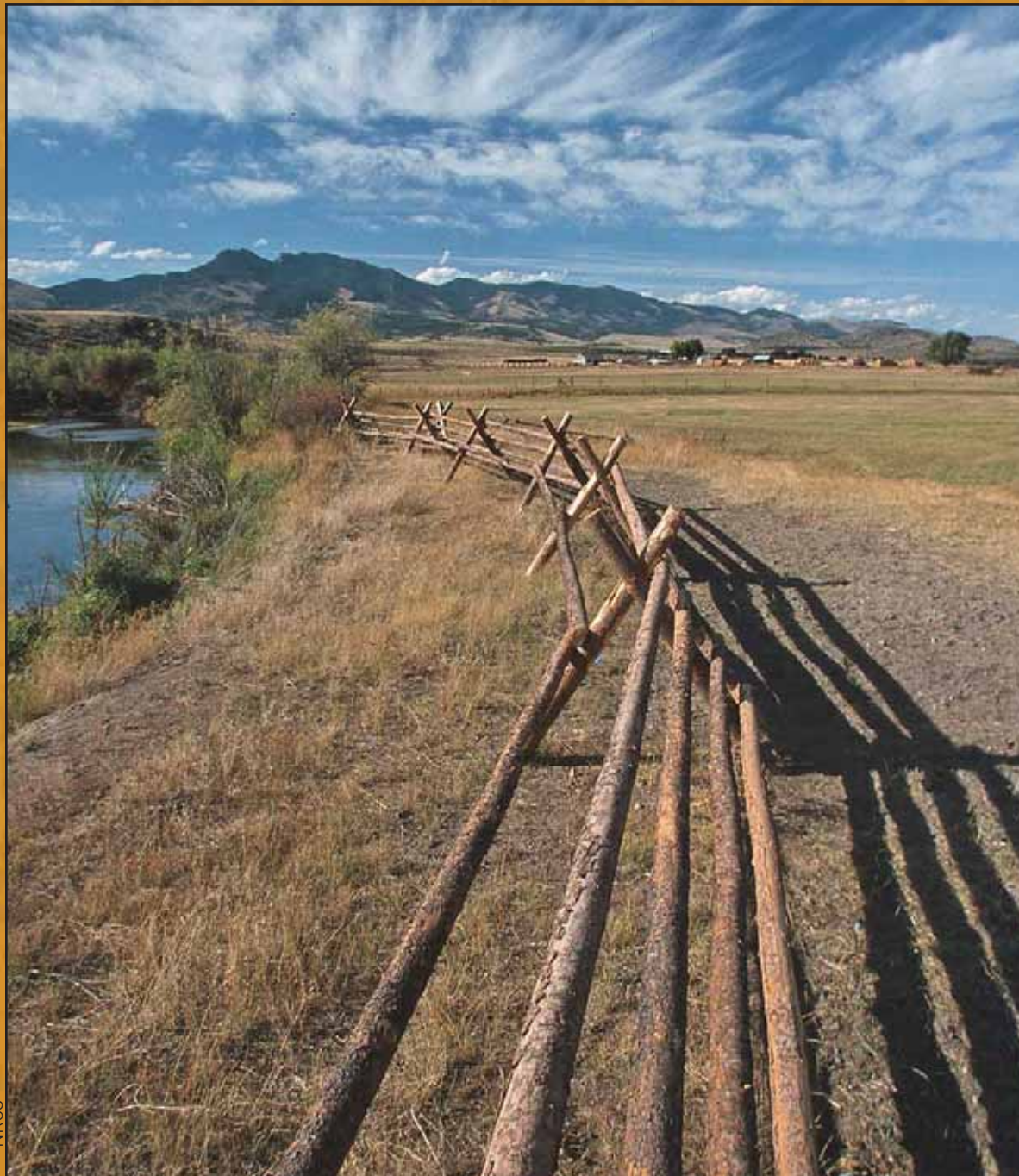


Using the Balanced Scorecard
for Ranch Planning and Management:
**Setting Strategy and
Measuring Performance**



NRCS

Using the Balanced Scorecard for Ranch Planning and Management: Setting Strategy and Measuring Performance

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Some ranch operations are **viable and profitable**. Others are not. Which is yours?

The key to business success—whether operating a ranch or a Fortune 500 company—lies in management and planning.

It's the ability to have foresight, to carefully evaluate and choose appropriate new concepts and technologies, and to implement a well-thought-out plan that complements all aspects of the business.

The highly-respected former CEO and chairman of General Electric Jack Welch put it this way: Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion.

How does that description apply to you? Are you a visionary business leader for your ranch enterprise? Or can you become one?

This manual introduces the “Balanced Scorecard” developed by Dr. Robert Kaplan of the Harvard Business School and Dr. David Norton.

The duo authored the book *The Balanced Scorecard: Translating Strategy Into Action*, and the scorecard format has been used by thousands of global companies and small businesses since the early 1990s when it was initially developed. While this concept may be relatively new to the

ranching community, adopters of this approach to management include corporate icons like General Electric, DuPont, Ford Motor Company, IBM, and Walt Disney World.

Using the scorecard, a manager can clearly see the things that need to be measured to “balance” different competing parts of the ranch.

For example, rather than analyze financial records alone—which are only capable of telling of past events—this approach also takes into account things such as customer relationships, ranch processes, and investment in family members and employees’ learning and growth—all of which can have an impact on future business success.

Central to the effectiveness of the Balanced Scorecard is viewing the business (your ranch) from these perspectives and then developing strategies and evaluating outcomes relative to each of those perspectives. By doing so, you can build a stronger base for your future sustainability.

To that end, this manual offers a step-by-step guide for the ranching industry to adopt the Balanced Scorecard and move toward **managing for ranch business success**.

The Balanced Scorecard is a strategic management tool that provides the manager with a clear and concise picture of the health and progress of the business in reaching the rancher's goals. It includes financial measures that show the results of actions already taken, and it includes measures of customer satisfaction and innovative improvement actions that will drive future financial performance.

Striving For Balance

The Balanced Scorecard requires managers to get down to basics and focus on the handful of measures that are most critical.

You can find all these on today's ranches: livestock resources, natural resources, financial resources, and human resources. And all require strategic management and planning to keep the ranch business in balance.

Focus too much on one thing—such as livestock production—and chances are the natural resources component will deteriorate. Fail to pay attention to customer feedback, and you may limit future marketing options for your products.

Moreover, if the people involved in the ranch are not communicating and devising plans for the future, the business may not pass successfully to the next generation.

Thus, it is essential to look at the ranch operation as a whole with each entity interconnected and in a total balanced system. Holistic manage-

ment is one successful example of this theory: All systems are part of a whole and every action taken affects the sum of those parts.

Similarly, the Balanced Scorecard is a tool that allows managers to identify the key components of the business and recognize the inter-relationships among those elements. But, whereas most management tends to concentrate on one area

History of the Balanced Scorecard

Robert Kaplan and David Norton conceived the Balanced Scorecard in 1990 after a year-long research project with 12 companies on the leading edge of performance. The Scorecard was developed in response to the change in focus they noted in management styles of these leaders: Financial numbers alone are not sufficient to run a business effectively because they lack predictive power.

Kaplan and Norton proposed that along with financial measurements it is also important to understand the factors that influence those numbers.

Kaplan and Norton describe the Balanced Scorecard: The Balanced Scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation.



*“It’s all a big wheel, and
one broken spoke breaks
the wagon down.”*

—Minnie Lou Bradley,
Bradley 3 Ranch,
Memphis, Texas



Does Balance Mean Trade-Off?

When thinking about balance, it's common to think that it requires trade-offs. But it doesn't have to mean that. Instead, the Balanced Scorecard allows for all perspectives in a ranch business to be evaluated. This, in turn, may help you recognize that changes are necessary, but they are strategic rather than reactionary.

and measure past performance, the Balanced Scorecard aims for a balanced presentation of financial measures (that tell the results of actions already taken) and operational measures (such as customer satisfaction, production processes, and learning and growth activities) that are drivers of future financial performance for the business.

Overall, the scorecard approach emphasizes that no single measure can provide a clear performance analysis of the ranch business. Additionally, the Balanced Scorecard allows managers to see the interrelationships among the components of the business and identify specific action plans for improvement. Managers then can assess whether enhancement in one area builds improvement in another resource area or if the progress is being achieved at the expense of some other portion of the business.

For instance, education can be one component that affects the future well-being of a business. Enhancing your own skills (or those of your workforce) can translate into enhanced productivity

and ultimately increase financial returns.

If you learn about managed grazing, for example, and if you implement it in your livestock enterprise, it is likely the productivity of your pastures will improve along with the productivity of your cow herd. As a result, you may have more pounds of calf to sell each year or you may be able to increase stocking rates. Either scenario should return more profit to the ranch.

As another example, investing the time and attention to take a business accounting course at a local community college may substantially increase your ability to clearly identify those components of the operation that are absorbing the highest expenditures and those that are generating the highest revenues. Improved accounting skills might lead to improved profitability of the ranch much more easily than more typical efforts to increase cow herd productivity.

In essence, the Balanced Scorecard helps identify the specific strategies or "game plan" to make more profit happen.



B. Lynn Gordon

Fig 1. Balanced Scorecard example.



Why The Scorecard Works

The Balanced Scorecard is a unique approach to strategic management because it provides feedback on both internal and external outcomes. Performance continuously improves. Unlike other management systems that focus exclusively on financial performance, the Balanced Scorecard aims to analyze financial measures along with other major factors affecting the past, present, and future well-being of the business.

Specifically, it addresses the balance between:

- short- and long-term objectives,
- financial and non-financial measures,
- lagging and leading indicators, and
- external and internal performance.

A properly prepared Balanced Scorecard should fit on a single page. This minimizes “information overload” and forces you to focus on the business elements that are most critical, while still allowing you to quickly look at performance from multiple viewpoints.

Figure 1 shows how the elements of a

Balanced Scorecard help you visualize the linkages between different parts of the ranch business. Keep in mind it is not the exact format of the scorecard that is critical but rather the links between vision, strategy, and measurement.

The following pages outline in detail the steps necessary for developing your own Balanced Scorecard. In total, the process includes:

- 1) Establishing the vision for the future of the business and strategies for reaching that vision.
- 2) Identifying “perspectives”—or the basic components—critical to the business operation such as financials, livestock production, natural resources, customer service, lifestyle, and education.
- 3) Identifying measures for tracking progress and/or success within each perspective.
- 4) Creating action plans to achieve goals.
- 5) Evaluating performance and determining if goals are being met and if progress in reaching your vision is being made.

Defining the Vision

To apply the Balanced Scorecard to a ranch operation, first identify your vision by answering the questions, “What is my business?” and “What do I want to achieve?” and then outline a set of strategies that will help fulfill that vision.

The starting point for any successful business venture is to begin with the end in mind.

This is often a vision statement that defines what the business aims to achieve. Essentially, defining a vision will require assessing the business itself and the environment within which it operates and then identifying the gaps between where the business is now and where you want it to be. This may be done by asking “What is my (our) business?” and “What do I (we) want to achieve and why?”

Specifically, strategic planning experts suggest a vision statement should include three key components:

1) a statement about the values and reasons that are the basis for the business,

2) an envisioned future describing what the business will be like if it achieves its goals, and
3) a recognition of how the business serves its stakeholders—which might include owners, employees, customers, community, and society as a whole.

Ultimately, the vision statement should guide the business through challenges and opportunities and provide a framework on which to base decisions.

Also keep in mind that everyone involved in management should contribute to the vision and strategic plan. Reaching a shared vision for the business may require some time to agree on the driving forces of the business, the values that matter, and the effort necessary to make it work. It will likely be the most challenging part of the Balanced Scorecard process. But this process turns into a robust, long-term plan that will focus the ranch family on the future. Family members will identify the changes they must make now to achieve their shared vision of the future.

Setting Strategies

After developing a forward-looking vision statement, a set of strategies that will help fulfill that vision should also be outlined. This is the foundation of the future, the beginning of the action plan that will close the “gap” between vision and reality.

Strategies may involve major change and restructuring—such as adding a native grass seed harvest enterprise to a cow-calf entity—or just be small steps to fine-tune existing strategies—such as enhancing genetic selection to improve marketability of bred heifers.

To keep the process manageable and achievable, only a limited number of core strategies that directly correlate to the vision statement should be identified.

Don't Forget to Include the Family

Applying strategic planning to a family ranch business is often challenging due to complex family interrelationships. Thus, it is important that strategies for coping with objectives, establishing priorities, and solving conflicts are developed.

- All family members should be involved in this meeting process.
- Meetings should be held in a neutral location.
- Consider rotating the chairperson for each meeting so that no one individual is perceived to hold the power.
- Have an agenda to keep the meeting organized and accomplish the desired goals.
- Discuss problems that need to be overcome, but also take time to assess what has been successful.

If problems arise:

- Present the problem to the group and get a consensus on what the issue is.
- Brainstorm on ways to address the issue.
- Write down an agreed-upon plan of action, and then monitor and evaluate the success or shortcomings of the plan.

Examples Of Vision and Strategy

Two examples of vision statements that could apply to family-operated livestock ranches are:

Maintain a profitable multi-generational family ranching business with a fulfilling family lifestyle and positive contributions to the community and environment.

Or

The ranch will be a profitable and gratifying business for family members and employees to work in. It will use the integrative management of grasslands and crop land for producing livestock at a profit and providing

habitat for an abundant wildlife population. The wildlife will be harvested by family and customers by providing a safe and enjoyable recreation experience to our customers and a rewarding experience for family.

Examples of strategies that would apply directly to fulfilling these visions might include:

- increase land base and herd size to accommodate multiple generations,
- provide good stewardship of natural resources, and
- manage a wildlife hunting enterprise for family and customers.

A vision statement focuses on the future of the business. A mission statement summarizes what the current business is about and why. Because the Balanced Scorecard aims for continual improvement in future outcomes, it uses only the vision statement and omits the mission statement.

Write a vision statement for your ranch operation and then list 3–4 strategies that might contribute to this vision.

My vision statement:

Strategies:

1.

2.

3.

4.

Evaluating From Multiple Perspectives

Perspective is defined as “the capacity to view things in their true relation or relative importance.”

Using that definition, look at your ranch resources from **multiple** perspectives. There are financial resources, natural resources, the ag commodities—which might be livestock or crops, customer resources, your quality of life, and even learning and growth.

All of these components contribute to the viability of the ranch business. No single perspective or resource should be overemphasized compared to the other categories. The Balanced Scorecard demands that each is given equivalent emphasis in the business. Together these components offer a holistic view of business health.

“Balance” is achieved when all perspectives are

considered and required trade-offs or potential enhancements have been identified.

Kaplan and Norton note that viewing a business from different perspectives helps answer basic questions like:

- How do customers see us? (customer perspective)
- What must we excel at? (internal business/ production perspective)
- Can we continue to improve and create value? (innovation and learning perspective)
- How do we look to bankers? (financial perspective)

Essentially, this evaluation process puts together a “report card” for the ranch, allowing managers to access a set of performance measures within each of the different perspectives that give a fast but comprehensive view of the business.

Which Perspectives Should Be Included?

For the Balanced Scorecard, perspectives are the categories from which business progress and success are measured. Originally for corporate applications, Kaplan and Norton proposed four perspectives: financial, customer relations, internal work process, and learning and growth.

However, in tailoring this management process to the ranching industry, additional perspectives—such as natural resources and lifestyle or others—can be included to more accurately reflect all components of the ranch business. For other industries, different categories may apply.

In establishing the perspective categories for the Balanced Scorecard there are two important guidelines.

Foremost, the Balanced Scorecard should not contain more than eight perspectives to keep the process focused and manageable.

Second, the perspectives should build upon each other toward the overall accomplishment of the business vision. But keep in mind that all categories are important and no single area should outweigh another. For example, learning and growth opportunities for family members

Identifying Leading and Lagging Indicators

Key performance indicators can be either the feedback type (lagging indicators) or the predictive type (leading indicators).

Lagging indicators measure past performance and things you cannot change.

Leading indicators are predictive of future performance and may offer opportunities to capitalize on.

For instance, inquiries from potential buyers of cattle would be an example of a leading indicator. Reports on how a rancher’s cattle performed for past buyers would be considered lagging indicators.

Likewise, employee turnover is a lagging indicator, whereas measures of job satisfaction would be an example of a leading indicator.

A Balanced Scorecard that is made up of only lagging indicators (which many financial measures are) won’t help provide predictors of future success and where the business should focus. Thus, when developing a Balanced Scorecard, you’ll want to include a combination of both leading and lagging performance measures.



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and employees will most likely translate into improved range and cattle management. If range and cattle performance improve and the cattle buyers are more satisfied, it will all translate into improved financial performance of the business. In the end, all these perspectives add up to greater satisfaction for owners, managers, and employees, which translates back to the overall vision and strategy for the business.

In this manual, we look at the ranch from six perspectives:

1. learning and growth
2. natural resources
3. ag commodities/production
4. customers
5. financial
6. lifestyle

Measuring Performance

To turn the scorecard into an ongoing performance evaluation tool, action plans must be developed within each perspective to assist in tracking progress.

Think of the Balanced Scorecard as the dials and indicators in an airplane cockpit. To navigate and fly the plane, pilots need ... information on fuel, airspeed, altitude, bearing, destination, and other indicators Reliance on one instrument can be fatal. Similarly, the complexity of managing a business today requires that managers be able to view performance in several areas at once.

—*Dr. Robert Kaplan and David Norton*

“Metrics,” the actual measurements of success, is the term used by Norton and Kaplan. The strategic objectives that are set and measured are the day-to-day operations that will move the business toward achieving its vision.

Identifying key metrics (key performance indicators) is a crucial step in Balanced Scorecard development. The measures must be pertinent to the situation and the people using them if

**“You can’t
manage what
you don’t
measure.”**

—Anonymous

informed decisions are to be made. The indicators should also fit the vision and strategies.

Robert Eccles who authored *The Performance Measurement Manifesto* in the Harvard Business Review in 1991 stated that when devising measures (performance indicators) three questions should be asked:

- Given our strategy, what are the most important measures of performance?
- How should these measures relate to one another?
- What measurements truly predict long-term success?

That said, the ranch manager must take the time to identify which performance drivers make the greatest contribution to his specific needs.

For instance, a seedstock producer will probably have very different metrics than a commercial cow calf producer. Under the financial perspec-

SET SMART GOALS

When setting goals, they should be:

- S** = specific
- M** = measurable
- A** = attainable
- R** = realistic
- T** = trackable over a specific time period.

tive, the seedstock producer will focus on the cost and income related to the sale of bulls and females. The calf producer’s metrics will likely reflect the cost and income as it relates to weaned calves.

Additional factors to consider:

1. The performance metrics should be tied to key strategies that are designed to help achieve the overall vision.
2. In order for a metric to be effective, it must be measurable, relevant to the operation, and easy to document. For instance, under the customer perspective, surveys requiring extensive analysis are better left out of the Balanced Scorecard unless they can be synthesized into single figures or percentages.
3. There should be three to eight indicators per perspective. Absence or abundance of goals in any one perspective would give a quick visual indication of whether the business is in balance.
4. Links between goals in different perspectives should also be examined to see the effect one might have on another.
5. Both leading and lagging indicators should be included.

Fig 2 is an example of a Balanced Scorecard for a ranch. Its six perspectives are learning and growth, natural resources, ag commodities/production, customer, financial, and lifestyle.

There are three to eight performance indicators to measure and monitor per perspective.

There are both leading and lagging indicators.

The perspectives build upon each other. (Note the arrow along the left side.)

By reading across the page, you can very quickly determine if a particular action plan has been successful or not (i.e. goal vs. actual).



Fig 2. Example of completed Balanced Scorecard.

| Perspectives with Strategic Objectives | Goal | Actual |
|--|---|--|
| Ranch Lifestyle 1. <i>Healthy, happy family</i> 2. <i>Sense of security</i> 3. <i>Low stress</i> | Yes Yes Yes | Yes No No |
| Financial 1. <i>ROA</i> 2. <i>\$ net income</i> 3. <i>Breakeven</i> 4. <i>Current ratio</i> 5. <i>Free cash flow</i> | 8% \$200,000 \$0.75 2:1 50,000 | 6% \$201,000 \$0.73 2:1 47,000 |
| Customer 1. <i>Feedback good</i> 2. <i>Repeat customer</i> 3. <i>Customer inquiry</i> | Yes Yes Yes | Yes Yes Yes |
| Ag Commodities/Production 1. <i>Lb weaned/cow exposed</i> 2. <i>Preg %</i> 3. <i>Replacement rate %</i> 4. <i>Cow BCS at weaning</i> 5. <i>Days fed harvested feed</i> 6. <i>% calves born in first 21 days</i> 7. <i>\$ vet/cwt weaned calf</i> 8. <i>Cattle ID</i> | 500 94 15 5+ 85 65 \$0.02 Yes | 520 92 12 5+ 98 55 \$0.03 Yes |
| Natural Resources 1. <i>Stocking rate = carrying capacity</i> 2. <i>Prescribed burn</i> 3. <i>Residual forage adequate</i> 4. <i>Noxious weeds treated</i> 5. <i>Precip as a % normal</i> 6. <i>Range condition score</i> 7. <i>Photo pts compared</i> 8. <i>Grouse count</i> | Yes Success Yes Yes 110 Improving Improving Increasing | Yes Success Yes No 90 Steady No Change Increasing |
| Learning and Growth 1. <i>Attend RBCS</i> 2. <i>Attend KRIRM symposium</i> 3. <i>Participate in grazing school</i> | Yes Yes Yes | No Yes Yes |

NOTE: The goals and numbers shown are strictly examples.

Learning and Growth Perspective

The learning and growth perspective is the foundation of the future success of the ranch. It focuses on the ability to change, improve, and adapt products and processes, as well as the ability to develop and introduce new products, services, and relationships. With education, there is vast opportunity for improvement and the creation of new ideas.

Moreover, education has an intrinsic value to people and society. Individuals feel valued as contributors to the success of the operation if they are provided with opportunities for learning and growth. Morale and performance tend to be higher in a business that values individual education.

The ability of a company to build its intangible assets or intellectual capital has become a critical success factor in creating and sustaining a competitive advantage.

Examples of learning and growth indicators for ranches may include:

- Participation in industry short courses, seminars, and/or field trips on a variety of topics

including animal handling and behavior, range and pasture management, marketing, livestock production, accounting, family communication, estate planning, and goal setting.

- Utilizing websites as resources for information.
- Enrolling in business courses at a local community college or university or online.

The Cooperative Extension Service, community colleges and universities, the Natural Resource Conservation Service, and breed associations can all be sources for these educational opportunities.

The importance of having measurable goals in the learning and growth area cannot be overemphasized. These educational goals are aimed at ensuring the business's greatest assets—its people—are being developed and nurtured to deliver the innovative ideas crucial to business success.

List three to eight learning and growth objectives for your ranch operation. Each one should include an action item, a goal, and an outcome to be measured.

REFERENCE WEBSITES

For more information on learning and growth opportunities:

www.cattlelearningcenter.org

www.nrcs.usda.gov

Cooperative Extension Service by state:

www.csrees.usda.gov/Extension/index.html



Learning and Growth Objectives

How the people on this ranch can learn and grow. (Include an action item and who is involved, goal, and outcome for each.)

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

*“Education is
critical to
achieving one’s
highest
potential.”*

—Lauro Cavazos
U.S. Secretary of Education
1988–1992
King Ranch Kineño

Once complete, transfer your objectives and goals to the Balanced Scorecard on page 27.

Natural Resources Perspective

To quantify successful range management the outcomes generally should indicate an improvement in range condition, wildlife habitat/populations, and cattle performance.

More specifically, the key indicators might include:

- Determining carrying capacity and calculating appropriate stocking rates.
- Photo points or some other means of monitoring to track range condition.
- Wildlife counts of a key species you may be managing for.
- Information on wildlife harvested during the hunting season.
- Weaning weights of calves and body condition scores of cows coming off grass, or average daily gains for stocker cattle on grass.
- Additionally, water quality and/or residual forage may be monitored.

Each of these items can be measured objectively with established techniques. A baseline of

information is required before monitoring can happen. Measurements can be taken by a rancher or employees, or you may consider contracting with a range professional. Many natural resource services are also provided by the USDA-Natural Resources Conservation Services.

The most important consideration in successfully meeting natural resource management goals is the ability to be flexible and adapt to resource conditions. For instance, drought can impact carrying capacity of the land from year to year—even month to month. Thus, stocking rates need to be able to fluctuate in response to the drought. This means liquidation of cows or some other solution might need to be included as part of the normal business for the ranch.

Use the next page to determine three to eight natural resource objectives for your ranch. Each one should include an action item, a goal, and an outcome to be measured.

“When one tugs at a single thing in nature, he finds it attached to the rest of the world.”

—John Muir

REFERENCE WEBSITES

For more information on natural resource management:

www.noble.org
www.oznet.ksu.edu/pr_forage
www.attra.org
www.grassland.unl.edu
www.rangelands.org
www.drought.unl.edu/dm/monitor.html
www.nrcs.usda.gov
www.ckwri.tamuk.edu



Natural Resources Objectives

How can we improve the natural resources on the ranch? (Include an action item, goal, and outcome for each.)

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

Leading and Lagging Indicators on the Land

Remember that a Balanced Scorecard should have a combination of leading and lagging indicators.

- Range condition is an example of a measure that is both a leading and lagging indicator. While range condition or seral stage estimates the current plant community with respect to a potential and is a result of past management decisions, it is also an excellent predictor of future production. If range condition has not met goals, stocking rates can be reduced in the future to help drive change.
- A photo point of gully erosion would be an example of a lagging indicator. The damage is done. The water is gone. The soil has eroded.
- Counts of mature grouse, quail, or pheasants in the spring of the year would be a leading indicator of the future grouse and pheasant population based on average reproduction rates.

Once complete, transfer your objectives and goals to the Balanced Scorecard on page 27.

Ag Commodities/ Production Perspective

How do we measure success in cattle or other livestock or crop production? By pounds, value, performance?

Some of these measures are not always a true reflection of the whole picture. For instance, the additional inputs like feed that larger animals require may not be offset by enough additional production to be profitable.

In assessing this internal business perspective, Kaplan and Norton suggested the focus should be on the skills, competencies, and technology of the business and its ability to meet the needs of the customer as well as the potential to add value to customers' businesses.

Additionally, measuring successful cattle performance should use:

1. Standardized terms, definitions, and protocols that take measurements accurately, such as Standardized Performance Analysis (SPA).
2. Measurements that can be compared to a benchmark that has been created using the same terms, definitions, and protocols.

The benchmarks should be from relevant geographical areas and be up to date.

Appropriate key performance indicators in the ag commodities/ production perspective for a cow-calf operation might include:

- Pounds weaned per female exposed,
- Pregnancy rate,
- Replacement rate,
- Cow body condition score at weaning,
- Number of days hay was fed over the winter,
- Herd health indicators such as death loss at

various stages of production and vet costs per cwt. of weaned calf, and

- Weaning weight, to indicate growth rate and milk production. Note that adjusting weights for age and sex of calf, age of dam, and other factors is necessary for the genetic evaluation of seedstock herds but is not appropriate for commercial herds.

Pounds weaned per female exposed is an inclusive efficiency measurement and summary of genetic potential, all facets of reproductive performance, death loss and herd health, growth rate, and pre-weaning nutrition from milk, pasture, and supplement. Total pounds weaned is a lagging indicator because it is a cumulative measure of past performance of the cow herd.

Pregnancy percent and the **percent of calves born in the first 21 days** of the calving season can be useful measures of reproductive efficiency. Pregnancy percentage is both a lagging and leading indicator because it measures past reproductive performance during the breeding season, but it also can be a predictor of total pounds weaned for the upcoming production year.

Body condition score (BCS) of dry pregnant cows is a leading indicator of future reproductive performance. This can be extrapolated into a prediction of total pounds weaned and gross income.

Determine three to eight ag commodity/production objectives for your ranch operation. Each one should include an action item, a goal, and an outcome to be measured.

REFERENCE WEBSITES

For more information on livestock production and ag commodities:

www.beefcowcalf.com

www.beefimprovement.org

www.iowabeefcenter.org



Ag Commodities/Production Objectives

What are the ag commodity/production objectives for our ranch? (Include an action item, goal, and outcome for each.)

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

Include All Production Enterprises

If your farm or ranch includes production of ag commodities in addition to cattle, you would want to include those enterprises under the ag commodities/production perspective as well. For instance, if you raise corn and soybeans you may monitor annual bushels per acre or unit cost of production.

If your other entity is operated and managed separately from the cow-calf enterprise, such as a large farming operation or large feedlot, you may consider developing a Balanced Scorecard solely for that business with its own vision and strategies, perspectives, and performance indicators. In general, a scorecard is appropriate for a business unit that has its own customers, distribution channels, production facilities, and financial performance measures.

Once complete, transfer your objectives and goals to the Balanced Scorecard on page 27.

“Ranchers need to know who their customer is, and they need to know if they are satisfying their customer’s needs.”

—Ken Monfort, 1983

Customer Perspective

For your ranch business to be viable, you’ve got to know who your customers are and if their needs are being satisfied. Viewing the business from the customer perspective may include asking the following questions:

“How are potential customers made aware of our products?”

“How is my business (or products) affecting my customer?”

Answering these questions requires listening to customer feedback and recognizing that customers’ concerns tend to fall into four categories: time, quality, performance and service, and cost.

Thus, to assess whether the business is achieving success with its customers, examine these categories. Example indicators may include:

- Involvement in retained ownership and/or marketing alliances. These allow for information to be passed up and down the value chain of the marketplace and for customer feedback

to occur. It also allows the manager to identify if there are repeat customers and how much customer inquiry is produced.

- Development of quality assurance systems on-farm, a strategy aimed at improving the supplier-customer relationship for the common good.

Note that commodity agricultural production does not lend itself to knowing who your customer is, let alone if your commodity has met the needs of the customer. Genetics, management, and marketing are all critical to the type of cattle that are produced, their value in the market place, and ultimately, customer satisfaction if you can follow your cattle through the production chain.

List three to eight customer objectives for your ranch operation. Each one should include an action item, a goal, and an outcome to be measured.

REFERENCE WEBSITES

For more information on customers and consumers:

www.beef-mag.com

www.drovers.com

www.iowabeefcenter.org

www.cattlenetwork.com



Customer Objectives

What I need to know about our customers. (Include an action item, goal, and outcome for each item.)

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

Once complete, transfer your objectives and goals to the Balanced Scorecard on page 27.

The One Denominator With the Greatest Impact

We often see production parameters measured per cow, per acre, or per cwt of weaned calf.

Which is best?

Per cwt of weaned calf would seem to be the most inclusive as it combines reproductive as well as growth characteristics of a production unit. When SPA measures from 148 herds were evaluated with all three denominators, the most sensitive measure of statistical differences was on a per cwt of weaned calf basis. It is also how the marketplace values the primary products of a cow/calf production system.

When calculating breakevens, the most inclusive number to measure is total pounds weaned, not average weaning weight.

$$\text{Breakeven} = \frac{\{(\text{total operating costs} + \text{interest}) - \text{non-calf revenue}\}}{\text{per beginning year cow}} \times \frac{100}{\text{lbs of weaned calf per beginning year cow}}$$

This measure can always be compared to the most current, relevant, and readily accessible benchmark available to cattlemen—the marketplace.

Financial Perspective

The financial perspective looks at how the business's strategy is affecting the bottom line. Obviously, financial success is required for long-term sustainability of any business.

Traditional measures of corporate financial status include growth, profitability, and shareholder value.

On the other hand, discussions about financial success in ranching often include measures of liquidity, solvency, and cash flow. While important, these are not the only measures of profitability.

Instead, key performance indicators of ranch profitability should include:

- Rate of return on assets,
- Rate of return on equity,
- Operation profit margin,
- Net ranch income, and
- Free cash flow.

Rate of return on assets (also referred to as Return on Assets or ROA) measures the percentage return, regardless of source, to each dollar invested in the operation.

ROA measures how efficient the production system is at taking invested dollars, regardless of source, and turning them into net income. It can be used to compare performance of a business or a group of businesses to other businesses. Its simple calculation is:

Return on Assets = $\frac{\text{Net income} + \text{interest} - \text{Owner withdrawals}}{\text{Average total assets}}$

Return on equity measures how efficient the ranch production system is at taking the dollars

of owner equity invested in the business and producing a return. Its calculation is:

Return on Equity = $\frac{\text{Net income} - \text{Owner withdrawals}}{\text{Average total equity}}$

Operating profit margin is also a very good measure of financial performance and useful in calculating business competitiveness. It measures profitability in terms of return per dollar of gross revenue. Its calculation is:

Operating Profit Margin = $\frac{\text{Net income} + \text{Interest} - \text{Owner withdrawals}}{\text{Gross revenue}}$

Net income is the result of matching revenues with the expenses incurred to create those revenues, plus the gain or loss on the sale of farm capital assets. It is the return to the rancher for unpaid labor, management, and owner equity. Its formula is:

Net income = $(\text{Gross income} + \text{gain or loss on capital assets}) - \text{Total expenses}$

Free cash flow (FCF) is the cash a ranch business has left after it has paid all of its expenses and re-investment. It is an important leading indicator because it signals the ability to pay debt, dividends (family withdrawals), and facilitate the growth of the business.

FCF = $\text{net income} + \text{depreciation/amortization} - \text{capital expenditures} - \text{dividends}$

Other financials that have value in a cow/calf operation include cost per pound of calf sold, net income per pound of calf sold, gross revenue per person, and debt to equity ratio.

Determine three to eight financial objectives for your ranch. Each one should include an action item, a goal, and an outcome to be measured.

REFERENCE WEBSITES

For more information on calculating ranch financials:

FINPACK, <http://www.cffm.umn.edu/products/finpack.aspx>

Farm Financial Standards Council, <http://www.ffsc.org>

Standardized Performance Analysis (SPA), <http://spatx.tamu.edu>



Financial Objectives

Financial objectives for our ranch. (Include an action item, goal, and outcome for each one.)

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

Pros and Cons of Financial Measurements

When Kaplan and Norton developed the Balanced Scorecard, it represented a shift away from using financial performance alone to monitor business viability. Their reason? Many financial measures are lagging indicators that have no predictive power to help guide the business toward future success. ROA is an excellent example of a lagging indicator. The net income has been generated and the investment in assets made.

That said, Kaplan and Norton do not disregard the need for timely, accurate financial data, so long as its emphasis is balanced with regard to other perspectives.

They point out that some financial metrics like current ratio and working capital may be used to predict the future. Performance of commodities on the Board of Trade and the Mercantile Exchange would also be leading indicators.

Moreover, the hard truth is that if improved performance fails to be reflected in the bottom line, ranchers should reexamine the basic assumptions of their strategy and mission.

Once complete, transfer your objectives and goals to the Balanced Scorecard on page 27.