

Outside the Box: Opening the hood

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We don't think twice about raising the hood on the ranch truck to check fluid levels, belts and battery terminals as part of a regular maintenance protocol. A service technician starts every evaluation with a checklist that assures critical components are assessed, pilots work

through a preflight assessment to assure safe flight, and no farmer in his or her right mind would plant without evaluating field conditions and planter functionality.

Raising the figurative hood on a business ought to be second nature as well. Without a disciplined approach to

assessment, a business falls into the same trap as someone who becomes lost in an unfamiliar landscape. Without landmarks and a rational plan, people will exert great energy trying to find their way home, but almost always wander in a circle only to find that they end up at their original position. Avoiding the "wandering in circles" syndrome begins with asking a few key questions that gauge business performance:

● **What's the level of enthusiasm and commitment by leadership and staff to the business?**

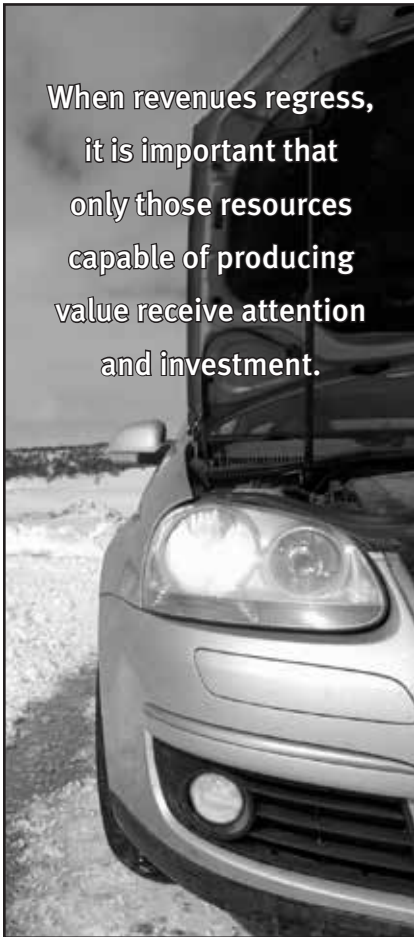
Farming and ranching requires high levels of dedication and passion. Without a strong sense of purpose and drive, the business is sure to sputter along in fits and starts, ultimately leading to frustration and a sense that the business is more burden than joy.

● **Are difficult conversations and decisions being avoided?**

This may be the most important question of all as it forces introspection and a deeper evaluation of the underlying health of the enterprise, relationships both internally and externally, and the alternate paths forward. Nonetheless, avoidance of these challenges will ultimately erode the sustainability of the business.

● **Are the assumptions about the business environment (internal and external) rational?**

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every business tool carries with it a set of assumptions. The chaotic nature of economics, weather and business operations dictate that assumptions are at play. However, leadership must continually assess the validity of those assumptions to chart an effective course of action.

● **What measurements are taken, and are they the right metrics?**

Progress depends on effective measurement, but the wrong metrics can lead to navigational errors and may divert the attention of leadership to indicators that only magnify problems instead of solving them. For example, is performance per head or per acre the most valuable indicator? What are the consequences of chasing growth rate too far? Are employee incentives correctly aligned with business goals?

● **What or who is the aspirational model, and is the model appropriate?**

Organizations, just like people, often utilize role-model approaches to build their vision, develop operational procedures and processes, and to gauge improvement against a model of success. Studying a championship team provides great insight into creating a winning model, but if the role model's approach is misaligned with our values, constraints or capabilities, then it may not be appropriate to emulate.

One certainty of 2016 is that the historic prices of feeder calves experienced in 2015 will not be replicated in the near term. During times of high prices, it is difficult to avoid slipping into less-disciplined practices. Thus, as prices correct, identifying and correcting inefficiencies becomes an important focal point. The aforementioned questions help frame the process of tuning the business "engine;" however, several other analyses are warranted and include assessment of productive vs. nonproductive assets, determining the appropriate mix of appreciating and depreciating assets, and examining existing processes and protocols to find opportunities for improvement.

Evaluating the inventory of assets is critical to determine if there are opportunities to cash out resources that are unproductive or have reached the apex of performance and are likely to experience declining productivity. Open cows, dysfunctional equipment, and underutilized machinery and technology are examples of assets that should be sold instead of being retained. When revenues regress, it is important that only those resources capable of producing value receive attention and investment.

Agricultural production depends on a mix of appreciating and depreciating

assets, but establishing and maintaining the optimal balance is critical. When it comes to equipment and tools, it is important to determine which of these should be owned and which should be rented or leased. One approach is to evaluate the usage rate of high-ticket items and weighing the cost of ownership vs. outsourcing.

For example, how often was the

backhoe in the equipment shed used in the past 12 months and what's the comparative cost of owning it vs. renting or outsourcing the job to a contractor? Tying excessive capital into depreciable assets reduces management flexibility, inhibits cash flow and may reduce overall productivity and profitability. Finally, identify key processes and protocols (weaning, haying, feed distribution, etc.)

and search for ways to improve efficiency and effectiveness.

Lift the hood and take a look! Preventative maintenance ultimately saves both time and money.



Editor's Note: Tom Field is director of the Engler Agribusiness Entrepreneurship Program at the University of Nebraska-Lincoln.