Outside the Box: The bottom line

by **TOM FIELD,** *director of the Engler Agribusiness Entrepreneurship Program, University of Nebraska–Lincoln*

Measurement, metrics and standards — the means by which we keep score; perhaps the most often discussed is the bottom line.

The bottom line is a slang term for net income calculated by subtracting the cost of goods sold, expenses and taxes from total revenue. The term originates from the location of net returns as the last line of the income statement.

There are basically two ways to influence net income — increase revenue or reduce expenses. If managers overemphasize either revenue enhancement or cost cutting, negative consequences arise. Chasing revenue may lead to offering discounts that increase the volume of sales, but fail to cover the cost of production. On the other hand, slashing expenses can lead to the loss of infrastructure and capacity required to grow the business in the future.

Once again, the old adage of "balance in all things" comes into play.

Unfortunately, businesses do not have the luxury of limiting their definition of bottom line to only financial concerns to assure long-term success. A second definition of bottom line — "the underlying or ultimate outcome or criterion" — must be applied to multiple factors that influence success. Identifying these factors begins with a leading question: What ultimately determines whether or not the ideal outcome can be obtained? Identifying these leading indicators or "big rocks" is critical to developing a focused management plan that integrates multiple key results areas.

Big rocks

Clearly, both short- and long-term financial performance impacts the viability of an enterprise. However, great ranch enterprises depend on a broader set of influences, including healthy human relationships, productive cattle herds and fitness of the landscape. Each of these categories requires its own definition of bottom-line performance.

Within these categories reside the "big rocks" that ultimately affect the capacity of an enterprise to endure. The most critical rocks and their associated metrics vary from enterprise to enterprise. Thus, managers must develop an intimate understanding of their own situation and establish performance-monitoring systems that are suited to the circumstances of their enterprise.

Determining the bottom line requires that a manager dig beyond the surface. For example, picking diligently at the leaves of an undesirable plant species invading a forage stand will never eliminate the weed. However, disrupt functionality at the root, and the invasive species can be obliterated from the stand. The key to good management decisions is understanding issues at the root level.

In the case of cattle performance metrics, there are a large number of measures that can be calculated, but not all are equally important. Take weaning weight as an example. Increasing weaning weight is within the grasp of most managers, but is it always worth chasing?

Increasing average weaning weight from 500 to 600 pounds (lb.) can be accomplished, but it may or may not be a profitable decision. If the cost to achieve the higher productivity is in excess of the value of the additional 100 lb., then it was an unsustainable decision.

Given the positive relationship between growth traits, heifers with big weaning weights will likely grow into mature cows that are significantly larger than the baseline. Furthermore, these larger cows may have feed requirements in excess of the existing forage supply, which ultimately results in increased costs from purchasing supplemental feed or in reduced pregnancy rates. Many producers find that pounds sold per cow exposed or pounds sold per acre offer more meaningful bottom-line measures.

In the case of landscapes, bottom-line measures are critical to assuring the well-being of natural resources. Too often, landscape performance criteria are ignored because of the difficulty of measurement coupled with the challenge of determining cause and effect. Soil health, desirability of the plant community, and watershed functionality ultimately impact the ability of a grazing enterprise to thrive. A ranch can experience desirable net income performance and increased cattle herd productivity while undermining the fitness of the landscape. Once landscape performance declines, the other bottom-line factors fall into decline, as well.

Relationships are also a key results area that receives minimal attention in the management plan. Ask most young agriculturalists about their long-term goals and they usually respond with some version of "farm more acres" or "have more cattle." At the surface, these are commendable objectives.

However, at the root there are trade-offs that must be understood. For example, more acres or larger herds may well mean more hours of labor. Those hours get filled in one of two ways — the existing staff does more, or employees have to be hired. The trade-offs of the latter choice include making time to find good employees, providing the necessary orientation and ongoing training, plus the additional cost of adding people.

If the hours are to be filled by the existing staff, trade-offs may range from declining quality of family life to the slow but nearly certain likelihood that as the hours get longer, the quality of people's work declines, as does their job satisfaction.

Developing an intentional process to isolate the most important factors influencing enterprise success, as well as determining appropriate metrics, provides managers a way to focus their resources on the "critical few" while avoiding the unintended consequences of directing attention to misleading indicators of performance.

In summary, it is the wise manager who carefully selects bottom-line definitions and metrics.

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