#07 October 2023

Don’t Waste Record High Profits

Reflecting back on the record high profits in 2014-15, everyone needs to ask if the investments contributed to a more resilient operation or if it resulted in a higher overall cost structure. Hindsight is 20/20, and while some may have regrets about decisions made at the time, the most important question is whether lessons were learnt so that they can be avoided this round. Some choices of convenience and comfort have allowed producers to continue operating while easing labour demands. An example would be hydraulic chutes or tip tables that make animal handling more enjoyable. But other choices have resulted in larger utility bills during the winter and annual machinery depreciation, which have had negative implications on long-term profitability.

As cow-calf producers head into the fall run, record high calf prices are expected to support margins at or above what was seen in 2014-15. What will be done with these margins can set an operation up for future success, be neutral, or have a net negative impact with unintended consequences.

1. **Liquid Reserve** – A liquid reserve is something that can be accessible within two weeks, giving options during times when many feel like they are backed into a corner. It is designed to be used for things like feed during drought or opportunities that arise on short notice, like a land purchase. Recommendations vary but one is to have 50 per cent of annual expenses in reserve. Now, many producers will say that is a pipe dream. But building a reserve in years of record high profits is a starting point. If this is something new, reflect on how a liquid reserve may have resulted in different decisions during the past five years. Would it have made the tough times less stressful?
2. **Assets that Provide a Return** – Invest in things that provide a return and support long-term profits, as well as appreciable assets. For example, water infrastructure and fencing that assist in grass management, productivity and resilience during future droughts, floods and low prices. These investments pay for themselves and contribute to a competitive cost of production. In addition, appreciable assets such as land and genetics build operational net worth.
3. **Avoid Spending Money to Reduce Taxes** – Spending money on depreciable assets solely to reduce taxes has long-term consequences that must be examined carefully. The mindset of avoiding taxes is connected with the thought that agriculture cannot be profitable. This is

Brought to you by Canfax Research Services in collaboration with the Provincial Coordinators and funded by BCRC

dangerous when those decisions are self-fulfilling as tax avoidance contributes to a lack of profitability on the operation. If choosing to invest in depreciable assets, have reasons that are more than tax avoidance.

4. **Employees/Owners** – If the next generation is interested in coming back to the operation, record high profits can make that attractive. But what needs to be asked is: how much gross revenue per person is needed to support another person? What is the long-term average that an operation has had in the past? How has that adjusted overtime with inflation? Recognizing that those adjustments can be sticky with a long period of being stable, then jumping to a new level. The current high inflationary environment requires awareness of what those adjustments have been. Hiring more staff to ease the workload maybe attractive in the short term; but when labour is available things tend to be taken on that then require that labour even after the price cycle has passed. Can the business structurally support more staff?

5. **Business Management** – Management makes a significant contribution to operational resilience. Investing in yourself as a manager and tools that assist in making decisions, such as record keeping or training of personnel. The options in this area can be overwhelming, picking one or two projects to focus on in the coming year can get the ball rolling.

Bottom line: The next few years can set your operation up for future success, with all involved coming out stronger and more resilient for the bottom of the price cycle. Don't waste it.