

X BAR X RANCH, INC.:

A CASE STUDY OF A FAMILY-OWNED CATTLE RANCH

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ABSTRACT

This case study presents the opportunities and threats faced by the X Bar X Ranch, a third-generation, family-owned, cattle ranching business. Many family ranches survive through expansion or by diversifying into the growing recreational market or niche markets. Unpredictable weather, potential threats to the food supply (BSE, terrorists, etc) play a role in the survivability of the family ranch as it now exists. With the current generation of owners nearing retirement age, decisions about the future direction of the ranch need to be addressed before another generation's involvement further complicates the situation.

INTRODUCTION

The X Bar X ranch is a small, family-owned cattle ranching business in Montana. As with many family-held ranches, the X Bar X ranch is faced with aging owners who need to make decisions about the future direction of the ranch, including succession planning and exit strategies. This case gives a brief history of the ranch, the current operations, and financial statements for the last five years. Future opportunities and challenges for the cattle business in general, and for X Bar X ranch in particular, are identified. The case includes discussion questions and exercises on the issues and processes involved in transferring ownership.

DESCRIPTION OF THE CASE RANCH

This case study describes a Central Montana family-owned ranch consisting of one operation controlling approximately 10,000 acres. The ranch maintains a herd size of between 400 – 600 breeding cows depending on moisture conditions. The breeding cows are mostly Black Angus or cross-bred Angus. Black Angus or Black Angus cross sires are used on the mature cows to produce both terminal calves (calves produced for slaughter) as well as replacements. Low birth weight cross-bred bulls are used on the heifers to increase calving ease and thus decrease death loss due to calving. These resulting calves are considered a terminal cross and thus are sold for slaughter.

TYPE OF BUSINESS

The X Bar X Ranch, a cow-calf operation, was originally purchased by the parents and grandparents of the current owners. The first parcel of the ranch was purchased in 1916. In 1970, the ranch was incorporated as a C corporation with shares held equally among the seven family members, two parents and their five children. The owners are the second and third generations to own and operate the ranch. The current manager, an owner, has managed the family ranch for over 25 years. The original ranch was purchased beginning in 1916.

OPERATIONS

Cattle Operation

The X Bar X Ranch's primary revenue arises from the sale of its calves. All steer calves are sold and most of the heifer calves are sold. Approximately 100 heifer calves are kept for replacements.

Calving is a labor intensive activity on the ranch and occurs in March and April. Because calves are the major source of revenue it is important to keep the live birth rate as high as possible. This means that all cows are tested in the fall to determine if they are pregnant. Cows that are not pregnant, called "open cows" are sold. Occasionally cows will need assistance with the calving process; employees are available and if necessary a veterinarian is called. Immediately after birth each calf has its ear tagged with a unique identifying number. At about a month or two of age, calves are vaccinated, dehorned, and branded. Cows with their calves are turned out on pasture in late May and remain on pasture until the calves are sold. Calves remain with their mothers until the fall when they are either sold or weaned.

Typically the calves are contracted in June and shipped in mid to late October. The price per pound and the anticipated weight as well as other selling conditions (shrink, vaccinations, etc.) are set in the contract. The seller calves are not weaned until they load on the trucks. Replacement heifers are weaned depending on several factors including the condition of the cows, range conditions and convenience.

Hay Operations

The X Bar X Ranch winters its breeding cows and bulls. This means the cattle must be fed during the winter months. For planning purposes, feeding begins January 1 and ends May 15 depending, of course, on weather conditions.

In addition to cattle, the X Bar X Ranch raises hay. All hay produced comes from its dry land hay ground. Approximately one-half of the hay produced is alfalfa or alfalfa-mix hay. The remainder is grass hay. Hay production depends greatly on the amount and timing of the moisture. May and June are critical months in determining hay production. Hay production is currently the limiting factor on the number of cattle the ranch can carry. In years with above average moisture, the X Bar X can produce more hay than it needs to feed its cattle during the winter. Excess hay is held in inventory for the next year. In an average year, the X Bar X barely produces enough hay to support the number of cattle. In years with below average moisture, hay production is below the amount needed to winter cattle and hay must be purchased or cattle sold.

In addition to the quantity of hay produced, the ranch is concerned with the quality of its hay. Feeding certain types of hay produced during drought conditions may result in illness or death.

EMPLOYEES

Permanent Full Time

The ranch manager, also an owner, is employed full time. In addition to receiving a salary, she receives a cattle allotment, health insurance, allowance for provisions, and hamburger. In addition to the ranch

manager X Bar X usually employs two full time workers. The employees receive salaries with amounts that depend on their experience and tenure. In addition to their salary, full-time permanent employees receive housing, utilities, hunting privileges, and beef.

Seasonal Full-time or Part-time Help

Seasonal help is usually necessary during haying and calving seasons. Calving takes place in March and April. The extra help is often in charge of night calving, that is, checking the cows and calves during the night. Although cows do calve mostly on their own, occasionally they require assistance from the employees or professional help. Employees are busy with checking the cows, tagging new calves. They also move cows that have calved to new pastures to minimize disease problems. Calves are weaned when they are sold and shipped to the feedlot. Historically the calving percentage has been over 90%. Calving percentage is defined to be the number of calves that are weaned divided by the total number of bred cows.

Haying is the other labor intensive activity for which temporary help is needed. Haying consists of cutting, baling, and stacking hay. Hay has to be done while the “sun shines” often resulting in 12 to 14 hour work days. Hay meadows consist of alfalfa, alfalfa-mix or grass hay.

MARKETING

For the past several years, a cattle buyer, person who buys feeder calves for a number of large and small feedlots, has contracted to buy calves. In the past three years the calves have been contracted with a video livestock sale operation and sold via video auction to feeders or to other cattle buyers. Over time this ranch has developed a reputation for producing mostly uniform, high-gaining, predominately black calves. The calves are frequently purchased by the same buyer or feeder from year to year.

Cull animals (animals that undesirable, for many reasons including, lameness, poor producers, not bred etc.), are usually sold when it is convenient to management. Cull animals are typically sold at local livestock auctions.

FINANCING

None of the land that the X Bar X Ranch owns is mortgaged. However, each year the ranch borrows money for its operations. Typically the operating loan is paid off each year, usually after the receipt of payment for its calves. Cash flow is an issue for most cattle ranches; the X Bar X is no different. A major part of the cash inflows occur when the calves are sold in the fall, yet cash outflows such as salary, utilities, etc. occur regularly during the year. Table 1 has the Income statements and Table 2 has the Balance sheets for the past four years.

The complete paper is available on request from the authors.