

## Horse Boarding Stables in Alberta: An Economic Analysis

The horse stabling industry in Alberta has been growing in recent years, stimulated by a growing population and incomes. However, this source of demand for stabling services is highly vulnerable to a potential reversal in the economic climate in the province.

In this environment, new stable businesses are being established and need economic benchmark information. At the same time, established businesses must be prepared to react to increased demand and increased competition as well as the potential for a change in Alberta's economic climate.

### Background

During the winter of 2008, Alberta Agriculture and the Horse Industry Association of Alberta cooperated to involve a volunteer group of stable owners in an economic analysis project. The objectives of the project were twofold:

1. provide participants with an analysis of their business from which they might improve economic performance
2. gather information that might illustrate the economic circumstances of the stabling industry

Information was gathered from the financial records of 13 volunteer participants for the 2006 business year. The data was analyzed at the Economics Unit of Alberta Agriculture and Rural Development using standardized AgriProfit\$ methodology.

The participant group represented a cross section of the industry from small scale to large and from recreational stables to training/competitive stables. The participants received a business analysis that reported revenue and costs for their own business as

well as various average results representing the total group of participants. Participants were offered assistance with interpretation and application of these reports to their own business.

This factsheet covers the following:

- case studies
- economic performance
- benchmarks
- the group average

*Horse stable  
businesses need  
economic  
benchmark  
information*

### Case studies

The case studies provide a look at some of the more successful enterprises. The information in the first part of this factsheet is based on a case study approach. Sub-groups of participants were selected based on similar type of activity (enterprise) and average or above average profitability in relation to the total group.

Thus, the expense and profitability results described in these case studies are not intended to be representative of the broader stabling industry as a whole. They are management benchmarks that can be used by individuals planning on entering the industry or by those in the industry wanting to evaluate ways of enhancing long term viability of their business.

Ideally, as there is typically variability in revenues and expenses from year to year, when possible, benchmarks should be generated considering business activity over a longer time span. The case study results are still valid, but the reader has to consider the possibility of year-over-year effects.

Most of the project participants operated stabling businesses that involved a combination of activities or enterprises. By analyzing the financial records of each participant, it is possible to determine the profitability of each enterprise contained within the total business.

Case study groups were developed by averaging the information from at least three participants in the project representing specific enterprise activities. The enterprise case studies presented in this factsheet are as follows:

- **Training stables** provide a boarding service combined with a professional level of performance training. Essentially, all the horses being boarded in the stable are receiving training. In addition, most of these stables provide lessons to horse owners and show some of these horses at various performance events. These facilities are competitive stables.
- **Stabling-in** enterprises provide indoor stabling along with the use of an indoor arena for the recreational use of the patrons. In some cases, lessons were available, but this activity has been separated from the stabling enterprise. These facilities are recreational stables.
- **Stabling-out** enterprises provide outdoor stabling along with the use of an indoor arena for the recreational use of the patrons. In some cases, lessons were available, but this activity has been separated from the stabling enterprise. These facilities are recreational stables.
- **Lessons** enterprises provide lessons as a supplement to boarding services for recreational clients.

## Economic performance

Economic benchmarks for these case study groups are focused on revenue, expenses and profitability. The dollar amounts are calculated on a per horse per year and per horse per month basis to help readers apply these benchmarks to their specific size of operation. These benchmarks reflect the situation of the more economically successful participants in the project.

The three main categories of economic benchmarks presented in this factsheet are as follows:

- **Value of Production** is the cash revenue +/- change in production inventory (in this factsheet, the term Revenue has the same meaning as Value of Production).
- **Expenses** are input and service charges directly attributed to earning the revenue, at the enterprise level. They are categorized as follows:
  - **cash costs** such as purchased feed, repairs, utilities, paid labour, etc.

- **total production costs** consist of the cash costs plus a valuation of non-cash items (market value for home grown feed and pasture, an arbitrary rate for contributed labour and a calculation of depreciation of buildings and equipment).

**Profitability** is the difference between revenue and cost. This case study provides two levels of profitability at the enterprise level: returns over cash costs and returns over total costs. In most businesses, it is relatively easy to measure revenue and cash costs. Thus, a measure of cash profit is a common benchmark. It is more difficult to assess a value for homegrown feed and pasture, for labour contributed by the owner and her/his family and for depreciation on buildings and equipment used in the business.

Profitability benchmarks for this group are calculated as follows:

- **gross margin** is the difference between revenue and cash costs. This benchmark is very useful for cash flow planning. It has a unique application to each individual business since it is the source of cash available to provide for family living expenses, debt repayment, purchase of capital assets such as equipment or buildings (replace or expand) and savings.
- **return to equity** is the difference between revenue and total production costs. This benchmark represents the long term viability of a business because all costs are included. In addition to covering the cash costs, the business is providing compensation for labour contributed by the owner and is providing an increase in owner's equity that can be used for the longer term replacement (depreciation) of buildings and equipment. Thus return to equity is a profit generated by the business that is a return to the equity and management invested by the owner. This benchmark requires that the business owner makes his/her own judgment as to whether the return is adequate for the particular combination of assets involved in the business. For example, assessing a return on equity invested in land can be problematic since land values are often above their productive value. Land values have historically increased over time; some investors consider that to be their return on investment.

# Benchmarks

Looking at benchmarks will provide reference points for some specific enterprises.

## Training stables

Revenue for these stables is a combination of fees for boarding, training, showing and lessons (Table 1). Some stables had a separate fee structure for boarding and training. Others used a combined rate. The revenue benchmarks for these training stables are calculated from the combined revenues.

The average revenue for this group of training stables for the combined boarding and training services is \$946 per horse per month. Revenue from other services such as lessons and showing is \$96 per horse per month.

**Total revenue** is **\$1042** per horse per month.

- average **cash costs** for these training stables is **\$704** per horse per month
- average **total production** cost is **\$1089** per horse per month
- average **gross margin** for this group is **\$338** per horse per month
- average **return to equity** is **\$(47)** per horse per month

This situation, where gross margin is positive but return to equity is negative, is sometimes referred to as “living off depreciation.” In other words, cash flow may be adequate to allow the business to carry on until it is necessary to replace buildings or equipment.

The return to equity for this group of training stables is negative, indicating that the long term viability may be at risk (ideally the return should be positive; how positive is a matter of individual judgment).

The challenge to these businesses is to find ways to reduce costs and/or increase revenues. The first step in this quest for a better bottom line is for the stable owner to obtain a reliable calculation of total production costs.

**Table 1. Training**

	<b>\$/horse</b>	<b>\$/month</b>
boarding/serv	11351.87	945.99
other	784.10	65.34
adjmnts	374.67	31.22
<b>total revenue</b>	<b>12510.64</b>	<b>1042.55</b>
feed bedding pasture	1471.13	122.59
non cash feed	33.89	2.82
vet, med	951.86	79.32
mktnng	86.78	7.23
fuel	214.25	17.85
rep & maint	586.04	48.84
utilities	361.17	30.10
advert & show exp	1141.01	95.08
prof fees	171.81	14.32
custom work	30.00	2.50
other supplies, misc	567.91	47.33
op int paid	38.04	3.17
paid labour	1794.93	149.58
adjmnts	28.21	
contributed labour	3020.51	251.71
rent	0.00	0.00
taxes, ins	503.20	41.93
deprec	1567.29	130.61
lease pymnts	103.59	8.63
capital int	402.78	33.57
<b>cash costs</b>	<b>8452.70</b>	<b>704.39</b>
<b>total prod costs</b>	<b>13074.39</b>	<b>1089.53</b>
<b>gross margin</b>	<b>4057.93</b>	<b>338.16</b>
<b>return to equity</b>	<b>-563.75</b>	<b>-46.98</b>
Investment		
land	14200	
buildings	21082	
machinery	4903	
livestock	1220	
<b># horses</b>	<b>24</b>	

The next step is to critically evaluate (compare to benchmarks) the specific cost categories to determine if reductions are possible. At the same time, an evaluation of revenues can be made to see if there is opportunity to either increase rates charged for services (keeping in mind the competitive nature of the business) and/or increase output through better use of facilities and/or labour.

An additional consideration for owners of training stables is the recognition that contributed labour calculated as part of total costs is valued at \$12.50 per hour. Thus, time contributed in the highly skilled training activities is likely undervalued in the calculation of return to equity. In this case, the return to equity benchmark is expected to contain not only a return on equity invested, but also a return for specialized training and business management skill.

## Stabling-in enterprise

Revenue for these stables is a basic stabling fee plus various additional charges for specific horse or equipment care provided by the stable (Table 2).

**Total revenue** for this group is **\$307** per horse per month.

- average **cash cost** for these stables is **\$214** per horse per month
- average **total production cost** is **\$361** per horse per month
- average **gross margin** for this group providing stabling-in services is **\$92** per horse per month
- average **return to equity** is **\$(54)** per horse per month

The return to equity for the stabling-in group is negative. Long term viability may be at risk, and a critical evaluation of opportunities for improvement should be considered (see the discussion in the section above).

The revenue shown in this case study may be low. Businesses located close to large population centres may be able to charge a higher monthly rate for this service.

The costs shown can provide a useful benchmark for evaluating opportunities for improvement. It is interesting to note that feed and bedding costs (\$63) account for less than one-third of cash costs (\$214) and less than one-fifth of total costs (\$361).

<b>Table 2. Stabling in</b>		
	<b>\$/horse</b>	<b>\$/month</b>
boarding/serv	3654.58	304.55
other	48.99	4.08
adjmnts	-16.70	-1.39
<b>total revenue</b>	<b>3686.87</b>	<b>307.24</b>
feed bedding pasture	577.46	48.12
non cash feed	178.28	14.86
vet, med	158.95	13.25
fuel	118.17	9.85
rep & maint	132.67	11.06
utilities	183.64	15.30
advert & show exp	11.11	0.93
prof fees	67.44	5.62
custom work	74.15	6.18
other supplies, misc	125.35	10.45
op int paid	176.66	14.72
paid labour	676.20	56.35
contributed labour	825.14	68.76
rent	0.00	0.00
taxes, ins	141.69	11.81
deprec	762.62	63.55
lease pymnts	0.00	0.00
capital int	130.50	10.88
<b>cash costs</b>	<b>2573.97</b>	<b>214.50</b>
<b>total prod costs</b>	<b>4340.02</b>	<b>361.67</b>
<b>gross margin</b>	<b>1112.89</b>	<b>92.74</b>
<b>return to equity</b>	<b>-653.16</b>	<b>-54.43</b>
Investment		
land	21276	
buildings	12899	
machinery	1347	
livestock	0	
<b># horses</b>	<b>20</b>	

# Stabling-out enterprise

**Total revenue** for this group providing out door stabling services is **\$208** per horse per month (Table 3).

- average **cash costs** for these stables is **\$124** per horse per month
- average **total production cost** is **\$189** per horse per month
- average **gross margin** for this group providing stabling-out services is **\$85** per horse per month
- average **return to equity** is **\$19** per horse per month

The investment in buildings for this case study group is \$5060 per horse. This investment includes approximately 40% of the investment in an indoor arena. The balance of the investment is supported by other enterprises such as boarding in, lessons and rentals.

An important consideration for a business that focuses on boarding out services is whether an arena can be justified. This case study illustrates the importance of utilizing the arena for other activities.

**Table 3. Stabling out**

	<b>\$/horse</b>	<b>\$/month</b>
boarding/serv	2513.64	209.47
other	0.00	0.00
adjmnts	-9.61	-0.80
<b>total revenue</b>	<b>2504.03</b>	<b>208.67</b>
feed bedding pasture	303.80	25.32
<i>non cash feed</i>	<i>169.68</i>	<i>14.14</i>
vet, med	83.31	6.94
fuel	75.82	6.32
rep & maint	223.32	18.61
utilities	189.77	15.81
advert & show exp	25.77	2.15
prof fees	33.39	2.78
custom work	10.68	0.89
other supplies, misc	97.77	8.15
op int paid	91.96	7.66
paid labour	133.53	11.13
<i>contributed labour</i>	<i>262.85</i>	<i>21.90</i>
rent	0.00	0.00
taxes, ins	136.03	11.34
<i>deprec</i>	<i>351.79</i>	<i>29.32</i>
lease pymnts	0.00	0.00
capital int	82.53	6.88
<b>cash costs</b>	<b>1487.69</b>	<b>123.97</b>
<b>total prod costs</b>	<b>2272.01</b>	<b>189.33</b>
<b>gross margin</b>	<b>1016.34</b>	<b>84.69</b>
<b>return to equity</b>	<b>232.02</b>	<b>19.34</b>
Investment		
land	3681	
buildings	5060	
machinery	668	
livestock	135	
<b># horses</b>	<b>30</b>	

# Lessons

Considerable variation exists among stable businesses offering riding lessons. This case study example illustrates the lessons enterprises operated by **recreational stables** (Table 4).

Some of these stables gave lessons on horses provided by the stable while at other stables, the clients provided their own horses. Thus, it is not possible to calculate revenue and cost on a per horse basis as was the case for the training, stabling-in and stabling-out enterprises.

In this case, revenue and expense are calculated as a per cent of revenue received for the primary service provided, referred to as stable services revenue (%SSR).

This case study enterprise shows an unprofitable situation. Gross margin is positive at about 20.9% of SSR. Contributed labour (88.9%) and depreciation (65.47%) combined amount to about 154% of revenue.

In other words, a positive cash flow is being generated but not nearly enough to cover the combined cost of contributed labour and depreciation resulting in a significantly negative return to equity (-52.81% of SSR).

For this enterprise to have long term viability, the return to equity must be positive.

**Table 4. Lessons**

	<b>\$ Average</b>	<b>% SSR</b>
boarding/serv	8081	100.00
other	1483	18.36
adjmnts	0	0.00
<b>total revenue</b>	<b>9565</b>	<b>118.36</b>
feed bedding		
pasture	1428	17.67
<i>non cash feed</i>	1564	19.35
vet, med	204	2.52
fuel	482	5.96
rep & maint	2409	29.81
utilities	747	9.24
advert& show exp	100	1.24
prof fees	93	1.15
custom work	99	1.23
other supplies, misc	635	7.85
op int paid	120	1.48
paid labour	0	0.00
<i>contributed labour</i>	7191	88.99
rent	0	0.00
taxes, ins	950	11.76
<i>deprec</i>	5291	65.47
lease pymnts	0	0.00
capital int	602	7.45
<b>cash costs</b>	<b>7868</b>	<b>97.36</b>
<b>total prod costs</b>	<b>21914</b>	<b>271.17</b>
<b>gross margin</b>	<b>1697</b>	<b>20.99</b>
<b>return to equity</b>	<b>-12349</b>	<b>-152.81</b>
Investment	average/enterprise	
land	9983	
buildings	92567	
machinery	7448	
livestock	18600	

## The group average

The total study group, consisting of 13 participants, represents a wide diversity of size of operations. The larger operations had total revenues in the \$300,000 to \$400,000 range while the smaller operations had revenues in the \$30,000 to \$50,000 range. About half the group operated a competitive stable while half operated a recreational style of operation.

Table 5, the 2006 Statement of Farm Revenues and Expenses, provides the complete detail of average farm level revenue, expenses and profitability. The farm level statement of revenues and expenses is essentially a sum of its enterprise parts. At the enterprise level, a standard value of contributed labour is assigned to assist operators in determining, strategically, the best activity in which they should invest their time. At the farm level, however, the "return to contributed labour" is included in Net Income. As such, this statement of the stable's overall profitability can be interpreted as a return to operator's equity, labour and management.

To assist various-sized businesses to relate to this average, the various revenue, expense and profitability, figures are expressed as a percentage of stable services revenue (%SSR). Stable services revenue is boarding fees plus other service fees such as training and showing. For example, a stabling business with \$80,000 in revenue would be able to compare its feed and bedding cost to the 16.5% and its gross margin to the 25% reported in the total group result, which is shown in the following table.

The bottom line on the Statement of Revenues and Expenses is Net Farm Income. It is the return left over after all costs are accounted for except contributed labour and a return on investment. This statement provides a footnote evaluation of contributed labour by calculating the number of hours of labour provided to produce each \$1,000 worth of production (17.8) and the net income earned per hour of labour provided (\$2.80/hr).

Gross Margin is a measure of the cash flow generated by the stabling business. It is the cash available to provide for family living expenses (withdrawals), debt repayment, purchase of capital assets such as equipment or buildings (replace or expand) and savings (maintain or increase equity). Gross Margin is Value of Production minus Cash Costs. Cash Costs are all of the Direct Costs plus rent, etc., taxes, etc., lease payments and capital interest.

This study group had a Gross Margin of \$37438 and a Net Income of \$8684. A positive cash flow is being generated, but when a calculated amount of depreciation is applied, there is only a small amount remaining as compensation for the approximately 3000 hours of labour contributed by the business owner and family (\$2.80/ hour) and the equity invested in the business.

**Table 5. 2006 Statement of Farm Revenue and Expenses**

Farms Reporting 13		
Category	Total \$	%SSR*
Boarding Fees	98877	66.2
Service Fees	50017	33.5
Custom Service/Ferrier/Vet	485	0.3
Breeding Stock Sales	10903	7.3
Cull Stock Sales	342	0.2
Other Livestock Sales	668	0.4
Crop//Feed Sales	1249	0.8
Miscellaneous Revenues	5367	3.6
Less:		
Breeding Stock Purchases	0	
Working Stock Purchases	0	
Other Livestock Purchases	0	
Adjustments:		
Product Inventory	5904	4.0
Accounts Receivable	(202)	(0.1)
<b>Value of Production</b>	<b>173610</b>	<b>116.2</b>
Feed, Bedding & Pasture	24715	16.5
Veterinary, Medicine & Breeding Fees	13550	9.1
Seed/Fert/Chem/Crop Insurance	622	0.4
Trucking & Marketing	1733	1.2
Fuel	5292	3.5
Repairs & Maintenance	12590	8.4
Utilities	7590	5.1
Advertising/Show Expenses	11642	7.8
Professional Fees/Association Dues	2501	1.7
Custom Work & Specialized Labour	1727	1.2
Other Supplies/Services/Miscellaneous	8072	5.4
Operating Interest Paid	2983	2.0
Paid Labour & Benefits	25266	16.9
Adjustments:		
Supply Inventories	0	
Accounts Payable	277	0.2
<b>Direct Costs</b>	<b>118560</b>	<b>79.4</b>
Land Rent/ Livestock Rent/ Share Payments	592	0.4
Taxes, Water Rates, Lic. & Insurance	9576	6.4
Equipment & Building:		
a) Depreciation	28477	19.1
b) Lease Payments	3344	2.2
Capital Interest	4376	2.9
<b>Capital Costs</b>	<b>46366</b>	<b>31.0</b>
<b>Cash Costs</b>	<b>136172</b>	<b>91.2</b>
<b>Total Production Costs</b>	<b>164925</b>	<b>110.4</b>
<b>Gross Margin**</b>	<b>37438</b>	<b>25.1</b>
<b>Net Income</b>	<b>8684</b>	<b>5.8</b>
<b>Investment</b>		
Land	805317	
Buildings	389181	
Machinery	95654	
Livestock	97069	
<b>Contributed Labour</b>		
Hours/ \$,000 Value of Production	17.8	
Net Income/ Hour	2.80	
* %SSR = Percentage of Stable Services Revenue		
** Gross Margin = Value of Production less Cash Costs		

A business owner may be tempted to focus on Gross Margin as the measure of viability and reward for the business. A strong Gross Margin is essential, but the element often missing from a viable business plan is a plan for ongoing replacement of depreciable assets such as equipment and buildings.

The depreciation expense calculated in the Statement of Revenue and Expenses is an estimated amount using a depreciation rate of approximately 10% per year for equipment and 5% per year for buildings. The challenge for stable owners is to develop a plan for ongoing replacement of depreciable assets. This can be particularly difficult for long life assets such as buildings. The key requirement is that equity in the business increases over time, so there is the ability to replace facilities when required.

## Budgeting and evaluation

The information in this factsheet is intended to help individual stable owners evaluate their business. Beginning businesses can use this information to prepare budgets to project potential viability of their new business. The revenue and expenses reported in this factsheet can be adjusted to suit the circumstances of an individual business.

A useful technique for evaluating a business is the SWOT analysis (strengths, weaknesses, opportunities, and threats). Strengths and weaknesses focus on the internal characteristics of the business and include such things as abilities of the owner and staff, customer acceptance of services offered, operating costs that may be above average or below average and investment costs (benchmarks). Opportunities and threats focus on circumstances occurring outside the business such as the overall economic climate, changing trends in consumer interests and rising input prices.

## Return to equity

A positive return to equity is a requirement for the long term viability of a business. The positive return indicates that the business is able to generate enough revenue to cover cash expenses and also non-cash expenses such as contributed labour and depreciation. This situation means the business is able to maintain or increase owner's equity which will enable replacement of facilities and/or expansion.

Businesses may experience negative return to equity from time to time and still remain viable in the short term, but a positive return over the long term must be the target.

## Contributed labour and investment in facilities

Contributed labour and investment in facilities are two factors that have an important effect on the economic performance of the horse stable businesses in this study group. The hours of labour contributed to the business by the owner and family, in most cases, far exceeded what would be a normal work year (approx 2000 hours).

An integral part of most horse stable businesses is a riding arena. Customer demand seems to require that an arena be provided. Given that a high level of contributed labour and investment in facilities is a prime characteristic of many stabling businesses, it will be useful to focus on ways of achieving maximum efficiencies in these two areas.

Stable owners can benefit from doing a critical evaluation of the specific labour tasks they are performing. Generally speaking, the owner would want to focus on tasks that provide the highest payback and that put his/her particular skills to best use. Other tasks can be hired or contracted out (however, availability of hired labour was often identified as a problem). The management responsibility of the owner is to see that labour (contributed and hired) is used as efficiently as possible.

Utilization of the riding arena presents an opportunity for improved efficiency in many cases. Stable owners can benefit from developing opportunities for increasing revenue by generating usage of the arena. Once the arena is in place, the investment has been made, and there is an ongoing commitment for maintenance and operating expenses. In most cases, additional usage will not result in increased costs.

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