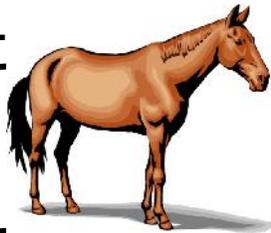


Notes from....



Serrano Creek Ranch Equestrian Center

JUNE 2013

25200 Trabuco Road, Lake Forest, CA 92630

Office Phone 949-768-5921

Email: <SerranoCreekRanch@msn.com>

Joseph Schumpeter, an Austrian economist, popularized the term "creative destruction". At its most basic, "creative destruction" describes the way economic advances arise out of the destruction of some prior economic order. Usually a down turn of the economy (such as our current "great recession"), changes in technology (think internet), or changes in demand (spam – the canned kind!) were sources of destruction of the current order. Back then, this was heavy with the "end-of-capitalism" among these Marxist thinkers. Ironically, today, the term has been adopted by capitalists to explain the benefits of going through tough times as a sign of the health of capitalism innovation.

Anyways, enough about Austrian School of Economics. On a simpler level, organizations need to be on the lookout to make sure they don't end up being a buggy whip maker. While they might make the best of the best, market forces will still drive them out of business. This is especially true in the horse world, as perennial institutions of the like of El Toro Tack and Feed are closing their doors after decades of service.

Historically, to be successful in the horse stable business, all you needed was land and pipes. The County's population's demanded more stables than were available. Since 2008, that has not been that case. All stables now have vacancies, and they must compete against a plethora of new entertainment activities. If there is one thing about the horse world, it is that it attracts "outdoorsy" types that enjoy horse sweat, dust, manure, leather, heat, etc. As new generations "come online", horses do not have the automatic attraction they once did, as the youth tend to be more "indoorsy".

So how do we make horses, and Serrano relevant in today's world?

We sell our manure to customers who would otherwise have no connection to horses. So the



Joseph Alois Schumpeter, 1883-1950

"yuck" factor of piles of manure is now being replaced as a means to a great garden. Most of the compost customers never knew that Serrano existed, until they came here to purchase. Once here, they witness the beauty of horses, and a lot of lesson information is subsequently passed out.

For twenty plus years, I have watched the healing properties of horses. Over that time I've seen struggling teens and adults that were able to find themselves by partnering with a horse. Parents tell stories of daughters that wouldn't get out of bed before noon, suddenly finding purpose, and being at the stable at six in the morning. Adults that have survived any number of traumas, find peace and a connection that is not available anywhere else. From here they all are better able to face life's challenges. Until now, we've kept this wonderful aspect of horses a secret. We've known it, but have never articulated it to the general public. Instead we rely on Hollywood's graciousness to make a movie that will inspire the next generation.

Luckily, in the last decade, there has been a movement to use horses as part of a healing therapy program. These wonderful aspects that we've all seen for years, is now formalized into specific activities which can lead to breakthroughs that otherwise weren't possible. Organizations have been formed to create and promote these techniques. These equine specialists have skills specifically designed to work with psychologists to safely incorporate the unique gifts inherent in horses so as to offer an alternative to healing life's many scars. This new trend is part of a larger effort to use animals of all types.

Initially the use of animals for this work was viewed with derision. Now as countless professional articles have attested, the role of horses is well documented. As an example, the Veteran Administration is putting a lot of resources in using equine therapy programs to help vets who are suffering from PTSD. These programs are becoming standard fare for many Orange County stables. While horses are haven't pulled wagons for decades, they are very well equipped to pull folks from the depths of despair. The new horse power is healing power.

It takes a special person for this very different role that so different from teaching lessons. They must have a calm nature about themselves, as well as being very patient and sensitive to the emotional state of others. A chance meeting brought Heather Valdez and the stable together. She was looking for work as an English trainer; thinking that she would never be able to do what she really wanted as a facilitator of equine therapy. When I causally mentioned the equine therapy concept, sparks flew. Once you meet her, you'll appreciate her concern for both the mental as well as physical welfare of those in dealing with a tough set of circumstances. It's role is to create an environment that allows folks to better themselves in a wide range of competences such as: developing relationships by building trust, learning to introspect, creating strong boundaries, to name just a few. Typically, these exercises are done on the ground and could to the casual observer, that seem like nothing is taking place. But for the participants, the

experience can be very real.



In another direction, the stable (wait that should be The Stable, since we live in The OC) was approached to consider allowing another equine service to be based here.

Ashley McKenzie has a vision that there is a large population of senior / retired horse in The OC, that are loved by their owners who are not ready to send them out to pasture. These horses need some assisted care from their busy owners, who would like to keep them nearby so they could visit them. She would provide the daily care and attention for these emeritus equines out of respect for the years of devotion they provided their owners.

Given that Serrano has a disproportionately large number of 24' x 24' pipe corrals, it seems a natural for retiring horses to leave the small confines of barn stalls to come



to Serrano for our larger pipes. For the owners knowing that their horses are being cared for, that any chronic medical issues are lovingly addressed, and that they are receiving daily exercise, seems, to me like a great opportunity. For Serrano, this provides another way to access the stables facilities and maintain boarding income.

With equine therapy program, and the large number of beginning lesson takers, there is a real opportunity for these retired horses to remain semi-active members of a stable economy. Just like people, we know that horses like to have a purpose. The greatest expense, and impediment to growing a lesson program is the expense of having lesson horses. So if Ashley's retirement program can provide a valuable service, as well as be a supply of beginner / therapy horses that can offset the retirement costs, then there is a natural synergy between these three segments.



You'll be noticing some more changes at the stable . . .

In the last few years we found having a second tractor greatly improved the productivity of the stable's staff. Labor is the biggest expense of the stable, so anything we can do to make it more efficient is welcome. With a second tractor two jobs can be going on simultaneously. In the past when we had a single tractor, employees would often wait for their turn at the tractor to do their work, so there was a lot of wasted time. At other times a second tractor was able to greatly reduce the time an arena was closed to repairs. And lastly the second tractor allowed for the stable operations to continue, even though one was down for service.

In the last year, and especially the last few months, the yellow tractor has been giving ample notice that it needs a new engine. It may last several more years, or may die tomorrow. Only the tractor gods know. Tractor repairs

are quite costly, and putting a new engine in a 25 year-old tractor is not a good idea, as eventually there are lots of parts besides the engine that are set to break. In the past I've done more than my share of sending good money after bad to keep equipment alive that was well past its life expectancy.

Adding to the calculation are new state rules regarding diesel motors. In short, because the engine technology of the yellow tractor is so old, we would need to junk it by the end of the decade. So at best we're looking at an extended useful life of just over 6 years.

Yet another factor is the amount of time that the white tractor is working and the type of work it does. At the time we purchased this one, it was the best available for the best price. In a perfect world we would have chosen one that was slightly smaller. Due to its size, it consumes quite a bit of diesel, and yet much of its work is dealing with the manure which is quite light. The new tractor has a motor that's 33% smaller with much better fuel economy due to improved technology. It is also far quieter, and has far less visual mass, so as the employees go about the daily work, the disturbance of the tractor will be far less. This should make the tractor / equine / rider interface much more pleasant.

Because of the recession, very little equipment has been purchased in the last five years. Consequently what little newer, used equipment is for sale, is quite expensive. As a result of the stable paying its bills on time, we have an excellent credit rating. Kubota was running a special that was ending in May with



zero interest, zero down. This made buying new equipment far cheaper than purchasing high priced used with a conventional interest rate. As the economy, and especially construction improve, such sweet deals will surely evaporate. Then it would be even more expensive to replace the then expired yellow tractor.

And finally the Japanese Central Bank has been on a campaign to make the Yen cheaper. This means that for a short time, importing things like tractors will be cheaper for awhile. Putting all this together, we had a small window of opportunity to get a great price on a new piece of equipment.

A favorite TV show mine is about a group of struggling construction workers who go to Alaska to mine gold. In the first season they showed up with their junk equipment and spent most of the season driving hundreds of miles to purchase parts for the repeatedly breaking down equipment. While they waited, the crew stood around- sometimes for days. In the second season they showed up with new equipment, having figured out how expensive cheap equipment is and how cheap expensive equipment is. Nothing's worse than planning to have a productive day, and then ending up underneath a greasy undercarriage. It's during these days that you wonder what were you thinking when such a good deal presented itself.

In the coming months we'll be addressing some long term frustrations for our stable population. If not already, within a few weeks we'll be installing two sets of speed bumps to slow down the Indy 500 racers that visit us. The first will be by the turn-out pen, and the second approximately at the end of the front trailer parking area. Both these areas are pinch points in the driveway, so drivers won't be able to drive around them.

The bumps are made of rubber, and are somewhat portable. The thinking of buying just two sets is that having gone through two bumps, drivers will get the message and continue to motor at the appropriate speed. If we bought additional bumps, it would begin to interfere with the internal operations of the stable. Because they are portable, they can be relocated should the need arise, or if better ideas come forth.

Also on the list is to improve the back gate situation (aka park access gate). There are always issues about the gate being locked too late, or locked too early. Also park visitors wander in even though the sign says not to, folks walking their dogs through the stable; the list is quite long. So this summer we'll be installing a locking gate that will be controlled with keypads inside and outside the stable. There are several considerations to examine, the most important being safety. We need to make sure that what we purchase won't close on riders. Some have audible alarms before

closing, others can be made very sensitive to reverse if they encounter resistance. We want to make sure that we get it right the first time. Once installed, this will go far in creating a greater sense of security.

