

Making Decisions During a Drought: Some Economic Factors

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Some factors that affect the decision making process

- **Knowledge** (things you can or do know)
- **Tradition** (things from your perspective)
- **Emotion** (things you feel)
- **Limiting Options** (things you refuse to do or think about)
- **Self Honesty** (integrity)



The First Issue Is Deciding “IF”

- Are you in a drought?
- When is the best time to make this decision?
- Hopefully you have a drought plan and have already started to implement it.



More Questions

- **Once you decide there is a drought, the next questions are:**
 - **How severe is it?**
 - **How long will it last?**
- **These questions may not be answerable, but they do affect the choices you have to make.**



Some Discussion

- **These questions require lots of thought and work for individual managers.**
- **No one can tell you which are the correct choices.**
- **Many of these choices may make the difference between success and failure.**
- **There are some systematic things you can do that may help you through the process.**



Things to clear the muddied waters

- **Decisions need to be based on facts, or the best available information.**
- **Choices should be made that align with your business and personal goals.**
- **The decision maker needs to understand the amount of risk his/her choices will create and the amount of risk he/she or the business can withstand.**



More things to clear the muddied waters

- **Objectivity will help you make the choices based on their merit.**
- **Ability to move past emotion and make a clear choice is difficult, but will help you move forward.**
- **Choices need to be made thoughtfully, in a time when there is no panic, when possible -- before crisis, not during.**



A Simple Foundation for (Good) Business Choices

- **To remain in business, “Costs” must be less than “Revenues.”**
- **In the short term this may not always be the case.**
- **The Question of “Cash Flow”**
 - **This may require careful planning using credit, or reserved resources.**



Drought Creates Business Stress

- It is a temporary shift in factors that can affect costs including:
 - Feed
 - Labor
 - Capital
 - Resource reserves
 - Future resource availability



Possible Revenue Impact Areas

- **Seasonal trends**
- **Cyclical trends**
- **Local/Regional/National Market effects**
- **Institutional effects**
 - **Tax law**
 - **Disaster Relief**
 - **Insurance?**



Other Factors that Influence Economic Decisions/Choices

- **Personal Goals**
- **Business Goals**
- **Beliefs about your current environment**
- **Understanding of your options**
- **Availability of other resources**



Working through a simple example

- One question that everyone should probably think about: what is my expected profit given the drought?
- If profits are severely negative, operators should consider alternatives to continuing production or find ways to cut expenses.



**One tool used to estimate
profit is the Cow Calf Cost
Cow-Q-Lator**

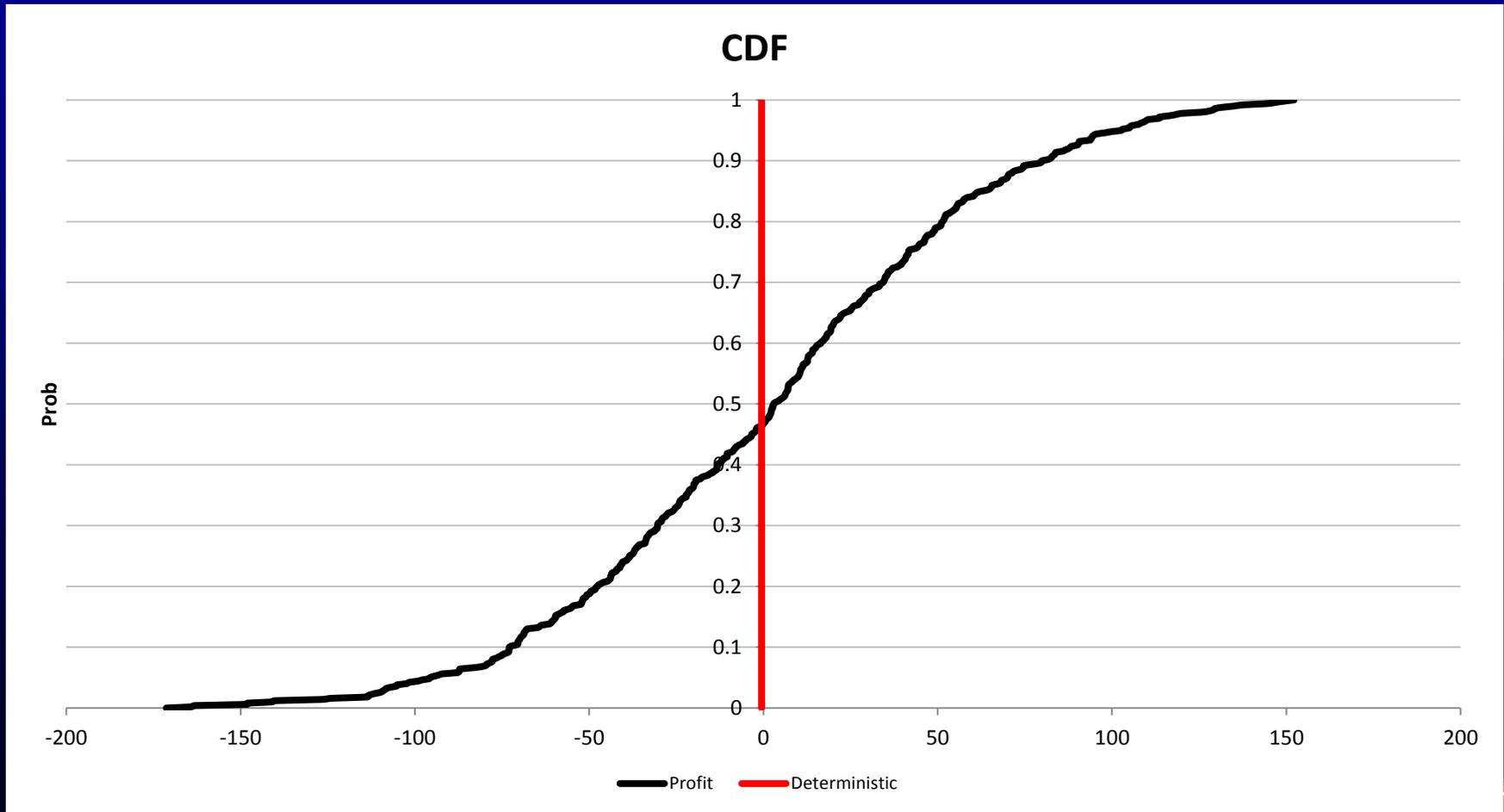
www.agmanagerstools.com



- Calf Cost Cow-Q-lator NSimetar(1).xls



Profit Estimate Prior to the Drought

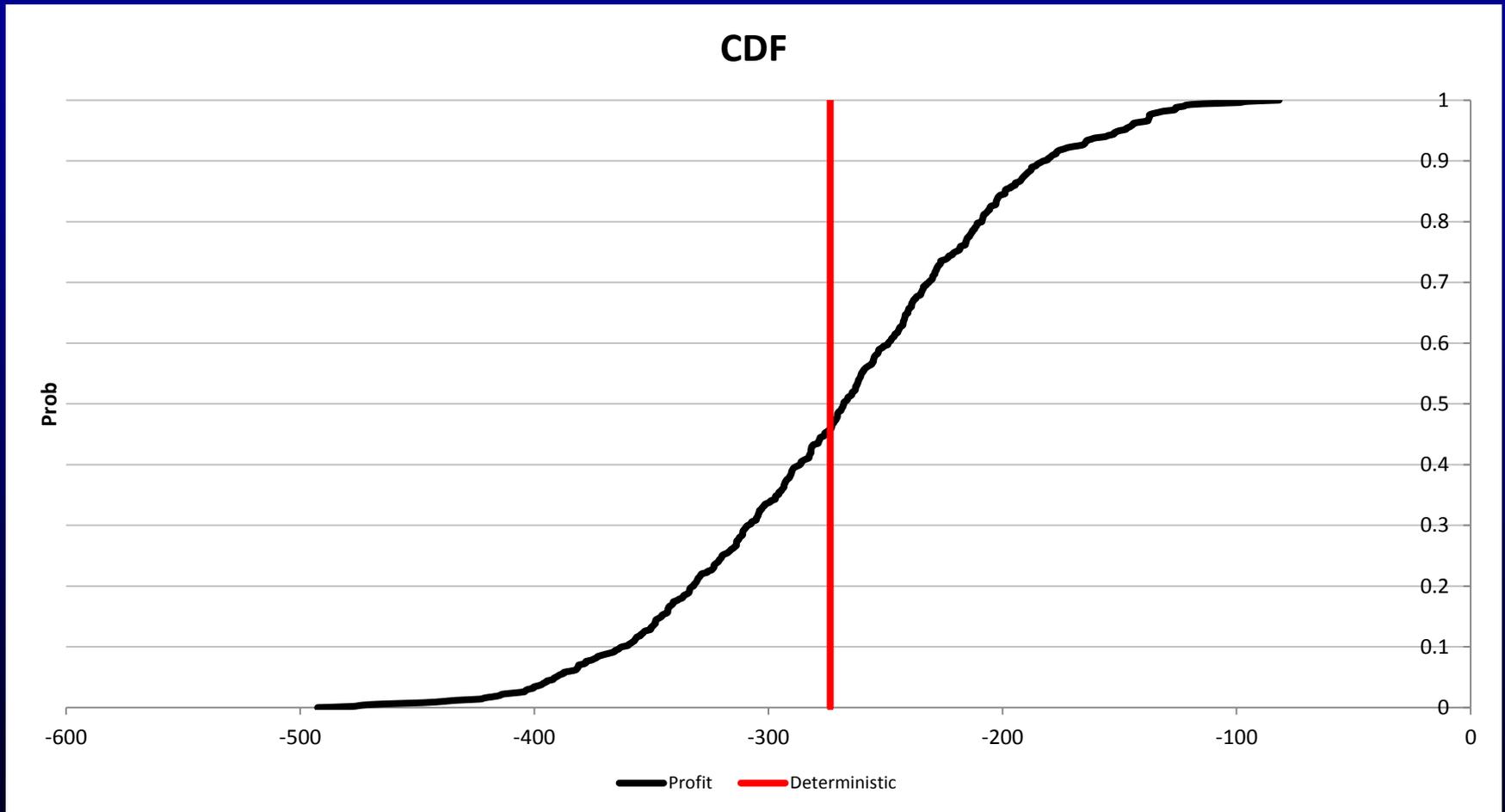


Changes in Assumption

- Increased hay fed by 1.75 tons
- Price range increased by \$100+
- Lowered calf weaning size on average by 100 pounds



Profit Estimate as the Result of Drought



Summary

- **To make good choices, knowledge about the outcome of those choices needs to be created.**
- **Choices should be considered long before choices make themselves.**
- **In most cases early preparation costs less than last-minute solutions.**
- **Know your costs and be honest with yourself.**

