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

CDF

Prob

Profit

Deterministic
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

CDF

Profit

Deterministic

Prob

-600 -500 -400 -300 -200 -100 0 1

0 0.1 0.2 0.3 0.4 0.5 0.6 0.7 0.8 0.9 1
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.