



Livestock Management and Marketing Considerations in Dealing With Drought

LIVESTOCK MANAGEMENT AND MARKETING CONSIDERATIONS IN DEALING WITH DROUGHT



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Three Biggest Mistakes Cattlemen Make During a Drought



1. Do nothing hoping it rains or that additional land can be rented or hay purchased.
2. Early weaning AND marketing calves hoping that cows won't have to be liquidated.
3. Once culling begins, saving young cows (less than 4 yrs) instead of more productive (4-7 yrs) cows.

Adapted from Gill and Pinchak. "Destocking Strategies During Drought". TX A&M University.

The Basics

1. Most cattlemen have a finite amount of money to put into an operation.
2. Money comes from 3 places:
 1. Cash on hand
 2. Sales of assets (feed inventories, cows, equipment, real estate)
 3. Borrowed capital
3. Assets-Liabilities = Equity
4. Good managers will do what it takes to maintain equity or only lose a small amount that can be made up relatively quickly

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Short-term cash flow survival strategies

1. Determine feed needs and costs for 60,90,120, 180 and 365 days under various weather scenarios.
2. Determine the amount of feed you have and the amount of cash required to make up this difference.
3. Examine short-term survival strategies.
4. Consider total liquidation and returning later



Longer-term Considerations

- How long will it take to recoup your losses?
 - Amount of losses this year
 - Profitability in coming years
- How much will it take to restock?
 - Current status of genetics program
 - Current phase of cattle cycle



4 Most Popular Questions (or should be)

1. Should I early wean?
2. Should I feed cows or calves?
3. How much can I afford to pay for feed?
4. Which cows do I sell/cull?



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Question 1- Should I early wean?

YES

- Depending on severity of conditions, especially 1st calf heifers and calves over 400-450 pounds.
- Among other things consider cow age and Body Condition Score (BCS). Wean before BCS = 3 or low 4.

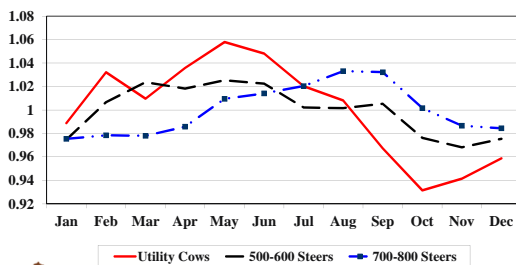


Question 2 – Should I feed cows or calves?

1. What is the value of gain?
 1. $VOG = \frac{\text{Future Value} - \text{Current Value}}{\text{Pounds of Gain}}$
2. What is the cost for feeding cows vs. cost of feeding calves?
3. What are the risks?
4. Is there a way to do both?



There are differences in price trends for cows, calves and feeders



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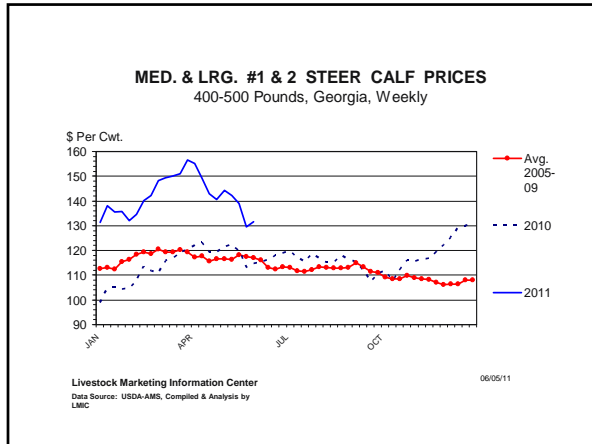
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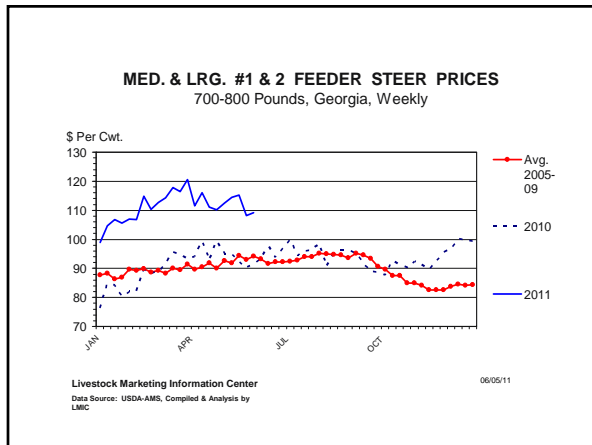
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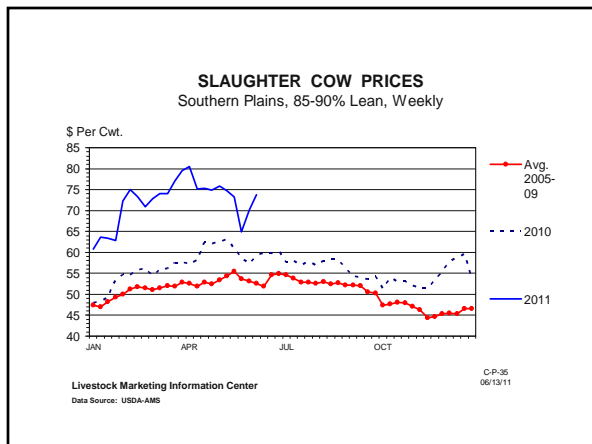


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Price projections June through September

1. Look for cow prices to remain the same or decline some.
2. Calf prices (200-500 pounds) should stay steady to declining slightly.
3. Feeder (500 pounds +) steady to increasing.
4. Fed/slaughter/live cattle steady to increasing.



	Base Alternative - Sell 450 pound calf in late June	Alternative 1 - Pre-condition and background w/concentrate and hay and sell 570# Aug.	Alternative 1+Retain Ownership and sell in Mar-Apr
Ranch Weight	450	570	4150
Market Shrink	0.00%	0.00%	0.00%
Pencil Shrink	0.00%	0.00%	0.00%
Net Sales Weight (lbs.)	450.00	570.00	1150.00
Sales Price (\$/Cwt.)	\$ 135.00	\$ 135.00	\$ 120.00
Gross Revenue	\$ 607.50	\$ 769.50	\$ 1,380.00
Sales Commission (percentage of gross)	4.00%	4.00%	0.00%
Yardage (\$/head)	\$ -	\$ -	\$ -
Other Marketing Fees - (\$/head for checkoff and other marketing expenses)	\$ 1.00	\$ 1.00	\$ 1.00
Transportation & Hauling (\$/head)	\$ -	\$ -	\$ 50.00
Total Transactions Cost (\$/head)	\$ 25.30	\$ 31.78	\$ 51.00
Additional production cost (preconditioning, etc) (\$/head)		\$ 75.00	\$ 675.00
Death Loss %		1%	2%
Total Additional Pounds		5,715.00	33,850.00
Total Cost Including Opportunity Cost and Death Loss		\$ 32,860.00	\$ 62,860.00
Total Dollars Received	\$ 29,110.00	\$ 36,517.14	\$ 65,121.00
Alternative advantage compared to base		\$ 3,657.14	\$ 2,261.00
Net Dollars Received Per Head	\$ 582.20	\$ 656.09	\$ 640.92
Dollars/head advantage		\$ 73.14	\$ 45.22
Breakeven Sales Price (\$/Cwt.)		\$ 116.46	\$ 111.55
Breakeven Cost per Head		\$ 148.14	\$ 730.22
Value of Gain (\$/Cwt)		\$ 129.61	\$ 106.38

Feeding Calves in a Drought

Risks

- Market risk
 - Cattle
 - Feed
- Lack of weight gain
- Morbidity/mortality
- Additional facilities required

Possibilities

- Additional income
- Wider marketing window
- Price improvement



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Question 3 - How Much Can I Afford to Pay for Feed?

- Depends on final value and amount fed.

$$BE \text{ Feed Price} = \frac{\text{Value of Gain}}{\text{Tons fed}}$$

From previous example, 600 lbs. of feed = ca. \$150/head

$$BE \text{ Feed Price} = \frac{\$150}{.30 \text{ tons}} = \$500/\text{ton}$$



Question 3 - How Much Can I Afford to Pay for Feed?

- Obviously would not pay \$500/ton in current market environment.
- Factor in risk and amount required.
- Can you trade time for cash?
- Very operation dependent.



Question 4 – Which Cows Do I Sell?

1. Open
2. Unprofitable
3. Old but still marketable
4. 1st & 2nd calf heifers
5. 4-7 year old cows



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Cull Unprofitable Cows

Annual Cow Profit = Calf Value - Total Cow Cost
Annual Cow Profit = (Calf Weight x Calf Price) - Total Cow Cost

☐ Yeah Buts:



- ☐ Must be able to match cows and calves
- ☐ Based on average cow cost
- ☐ Borderline young cows may get a pass



MARKETING STRATEGIES FOR COWS AND CALVES

Basic Marketing During Drought

1. Heavier feeders
2. Open, old or unprofitable cows
3. 1st or 2nd calf heifers
4. Lightweight calves
5. Cows 4-7 years old

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What Determines Cow Value

1. Percent Lean Meat Yield
2. Live weight



Marketing Classifications of Cull Cows

Classification	Lean Percentage of Trimmings	Body Condition Score	Premium (Discount) 2002-2006
Cutter/Canner	85%+	1-3	(\$3.50/Cwt.)
Boning Utility	80-85%	4-6	Base
Breaking Utility	Less than 80%	7+	(\$2.00/Cwt.)



Forward Pricing Part of Your Production

- Producers with 50,000# or more can use futures.
- Can use video auctions either through local markets or other to forward price calves up to 90 days+.
- Forward cash contract with order buyers and feedyards.
- Producers with less than truck load lots can utilize LRP to insure a minimum price.



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Dealing With The Drought Summary

1. Keep in mind where we are in cycle – Better to do good job with fewer cattle than HA job with a lot!
2. Cull all LIKELY non-productive mature cows (10yrs plus, open etc.)—remember relation between nutrition and putting a calf on the ground. Keep the productive factory in place - 4 to 7 year old cows.
3. If they ain't growing, they need to be going! Can wean 60 days plus.
4. Hold heifers – why?
5. Put emphasis on things will get you more NET money – Marketing, Management records (vaccinations, implants, feed products, etc.), Performance records. A SHARP PENCIL.



For information on current market information, decision-aids, publications and more visit:

www.secattleadvisor.com



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