

# Grazing Herd Management during Drought:

## Livestock Management, Marketing and Tax Considerations in Dealing With Drought

### Livestock Management and Marketing Considerations in Dealing With Drought

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### Outline

- How long do I hold on?
- Marketing alternatives
- Tax implications of weather forced sales

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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.

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### 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.  $\text{Assets} - \text{Liabilities} = \text{Equity}$
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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### Pulling the trigger – Deciding when and what to sell

- Two considerations
  - Short-term profitability (cash-flow)
  - Potential for long-term returns (will you ever recoup the additional expenses)?
    - How much will it cost to stay in?
    - How much will it cost to get back in?
    - Genetic status of herd.

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### Short-term cash flow survival strategies

1. Decrease operating expenses
2. Increase Income
3. Decrease fixed expenses
  1. Refinance loans
  2. Change rental agreements
  3. Liquidate assets
    1. Cash
    2. Machinery/livestock
    3. Real Estate

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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

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### Short-term cash flow survival strategies – Applications

1. Decrease operating expenses
  1. Wean calves
  2. Cull unproductive cows
  3. Evaluate alternative feeding strategies
2. Increase income
  1. Cull open cows
  2. Cull unprofitable cows
  3. Sell heavier-weight calves
  4. Cull younger cows (less than 4 yrs old)
  5. Sell everything including existing hay supplies and come back later.

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### Short-Term Profitability (Cash-flow)

Net Cash Flow = Revenue – Expense – Payments

Net Cash Flow = Calf Sales + Cow Sales – Feed Costs – Other Costs – Pmts

Where calf sales or cow sales = Wt. X Price

Drought Math

400# calf X \$1.15/# = \$460

1,100 pound cow x \$0.48/# = \$528

Cost per day = \$1.00/day for calf gaining 2#/day

Cost per day = \$1.40/day for dry cow to maintain weight

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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

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### 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

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### Annual Payments to Recoup \$5,000 Dollar Loss on 50 Cows

Years	Annual Payments	\$/Cow	\$/Calf Marketed
1	\$5,400.00	\$ 108.00	\$ 125.58
2	\$2,803.84	\$ 56.08	\$ 65.21
3	\$1,940.17	\$ 38.80	\$ 45.12
4	\$1,509.60	\$ 30.19	\$ 35.11
5	\$1,252.28	\$ 25.05	\$ 29.12

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# Grazing Herd Management during Drought:

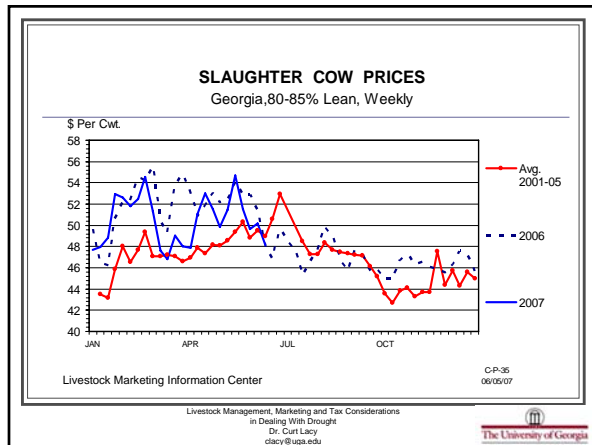
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Annual Payments (\$/Female) for Replacement Females at Various Amounts and Years

Years Financed	Female Replacement Cost			
	\$ 800.00	\$ 950.00	\$ 1,100.00	\$ 1,300.00
1	\$864.00	\$1,026.00	\$1,188.00	\$1,404.00
2	\$448.62	\$532.73	\$616.85	\$729.00
3	\$310.43	\$368.63	\$426.84	\$504.44
4	\$241.54	\$286.82	\$332.11	\$392.50
5	\$200.37	\$237.93	\$275.50	\$325.59

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## Marketing Strategies for Cows and Calves



## What Determines Cow Value

1. Percent Lean Meat Yield
2. Live weight

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### 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.)

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## Cull Cow Marketing

- When
  - Before October 1
- What
  - Cows in good flesh (BCS 4+)
  - Cows without obvious defects
- How
  - Local market
  - Direct????
    - Live weight
    - Carcass basis

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### Increasing Income Calf Crop

- Short-term backgrounding/creep feeding
- Retained ownership
  - Stockering
  - Custom-finishing
- Forward price part of your production

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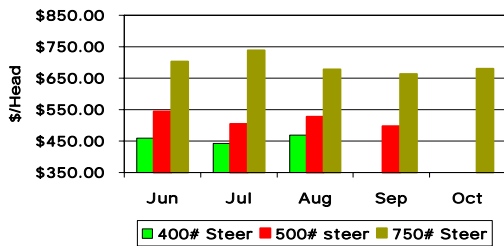
### Should I sell calves now or later?

Expected value of calf

$$\begin{aligned} & - \text{Current value} \\ & - \text{Cost to background or finish} \\ & = \text{Profit} \end{aligned}$$

If profits (expected) are **Positive** → **STOCKER/RETAIN**  
If profits (expected) are **Negative** → **SELL NOW**

### What You Can Sell for Today-Futures Based Price Projections



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### Should you sell calves now or later?

Date	Weight of Calf	Sales Price	Revenue	Cost of Gain	Additional Value	Net Income	B/E Sales Price	B/E COG
20-Jun	425	\$ 1.15	\$ 488.75					
20-Jul	485	\$ 1.13	\$ 548.05	\$ 30.00	\$ 59.30	\$ 29.30	\$ 1.15	\$ 0.99
19-Aug	545	\$ 1.05	\$ 572.25	\$ 60.00	\$ 83.50	\$ 23.50	\$ 1.01	\$ 0.70
18-Sep	605	\$ 1.00	\$ 605.00	\$ 90.00	\$ 116.25	\$ 26.25	\$ 0.96	\$ 0.65
18-Oct	665	\$ 0.95	\$ 631.75	\$ 120.00	\$ 143.00	\$ 23.00	\$ 0.92	\$ 0.60
17-Nov	725	\$ 0.91	\$ 659.75	\$ 150.00	\$ 171.00	\$ 21.00	\$ 0.88	\$ 0.57

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### Custom Finishing

Scenario	Profit (Loss)	Feed COG	Total COG	Breakeven Sales Price
Custom Finish 500#	(\$9.15)	\$58.99	\$82.75	\$94.30
Custom Finish 700#	(\$10.31)	\$58.99	\$90.05	\$92.51

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### 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.

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### Computer Decision-Aids

- Alternative Feedstuffs Calculator
- Marketing Alternatives Calculator
- Budgets
  - Cow-calf
  - Stockering
  - Custom Finishing

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### Management & Marketing Summary

- Don't wait too long to begin liquidating.
- Sell cows before they get too thin.
- Sell cows before light calves.
- Consider adding weight to calves before selling.
- Every situation is different.

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