Making Decisions During a Drought: Some Economic Factors

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July 31, 2012
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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 all ready 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 question may not be answerable, but they do affect the choices you have to make)
Some Discussion

• These question require lots of thought and work for individual managers
• No one can tell you what are the correct choices
• Many of these choices may make the difference between success and failure
• But 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 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 the 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 effect cost these areas include:
  - 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
Let's work through a simple example

• One question that everyone should probably think about is what is my expected profit given the drought?
• If profits are negative enough I should consider alternatives to continuing production or find ways to cut expenses.
One tool that can be used to estimate profit is a simple budget. One such example of a budget tool 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

Profıt

Deterministic
Changes in Assumption

- Increased hay fed by 1.75 tons
- Price range increased by 100 dollars plus
- Lowered calf weaning size on average by 100 pounds
Profit Estimate as the Result of Drought

CDF

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

Prob

0  0.1  0.2  0.3  0.4  0.5  0.6  0.7  0.8  0.9  1

Profit

Deterministic
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 case early preparation cost less than last minute solutions
Summary (continued)

- Know your costs and be honest with yourself
- Be open to many different ideas
- Be careful of extreme solutions
- Get information and help from other stakeholders and professionals
Thank-You

Discussion or Questions