

# **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 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



# Lets 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 a simple budget. One such example of a budget tool is the Cow Calf Cost Cow-Q-Lator**

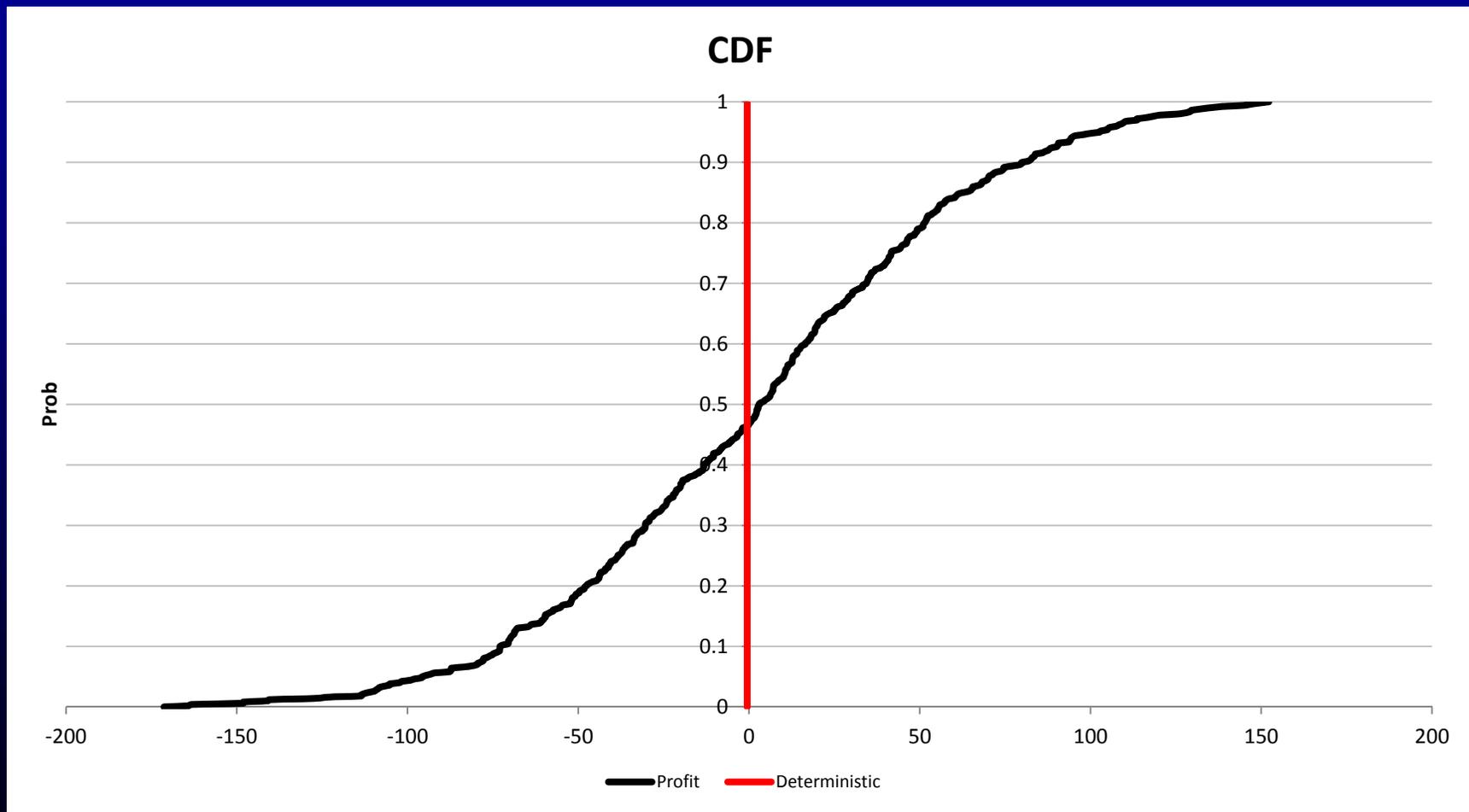
**[www.agmanagerstools.com](http://www.agmanagerstools.com)**



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



# Profit Estimate Prior to the Drought

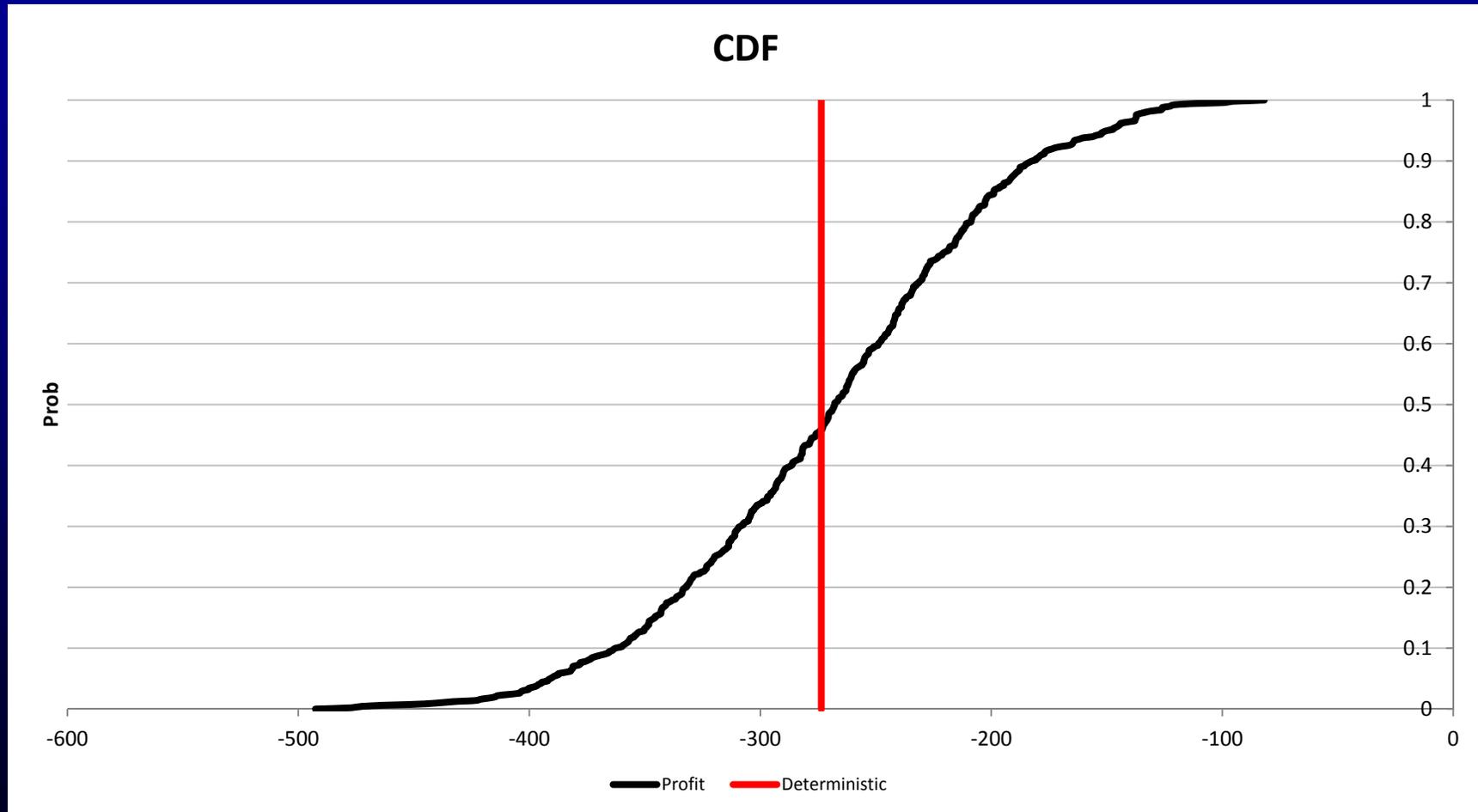


# Changes in Assumption

- Increased hay fed by 1.75 tons
- Price range increased by 100 dollars plus
- 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 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 stake holders and professionals**



**Thank-You**

**Discussion or Questions**

