



# Cornhusker Economics

## Beef Cow Operations During Drought: Dealing with More than Dry Conditions

The most recent drought conditions have grown to cover a large portion of the west and the central United States, as shown in Figure 1. Those depending on rain continue to watch and hope that conditions will change, while implementing and considering various strategies to preserve their livelihoods. Those who have been in the business for years have seen other occasions when dry conditions limited forage production and created hardship. Each occurrence has varying outcomes, depending on the many factors faced by individuals. While drought may produce the same dry conditions for many, its effects are individualized. There are as many strategies for dealing with drought as there are individuals who ranch. Rather than write about specific response strategies, I believe it would be beneficial to better understand and helpful to discuss the cow/calf business and surrounding factors, during these dry times.

First and foremost is that droughts are not created equally, nor are they equally distributed, as can be seen by the map in Figure 1. We have all heard about incidents where adjacent tracts have been affected differently during the same general weather conditions. While possibly located in the same general vicinity, each ranch has a unique bundle of resources including soil, topography, vegetation, etc. Furthermore, each operation has unique attributes including location, resource endowment, condition at the time drought occurs, access to additional resources, and, probably most significantly, the manager's abilities to prepare for and manage under such harsh conditions.

In addition to the physical challenges posed by a drought, there are the financial stresses. A ranch requires all the things that make a business thrive, e.g., capital, labor, and management. This is why, depending on the condition of that business just prior to entering a drought or any other challenge faced by the operation, the store and availability of resources, as well as the skill of the manager, all play a key role in ranch survival. For instance, a beginning

rancher with a substantial debt load will have a much more difficult time remaining viable compared to a rancher who is debt free, simply due to the availability of capital assets. Their two ranches would likely and should have very different strategies for dealing with a drought. What often makes drought so devastating is the accompanying factors, such as the depression in local cattle prices and the scarcity of locally available forage resources.

There are other factors that can amplify the hardship created by dry conditions. The cattle cycle may prove to be friend or foe, dependent on how it synchronizes with any drought event. If, in general, cow values are really high, one could find a benefit in selling at least some cows, and repopulating when prices fall. But if that is your strategy, it doesn't seem to be a reliable one. Cycle effects are real, however, and can make a difference in the final outcome, especially if the opposite case occurs. No one likes to sell undervalued cows and repurchase them at overvalued prices. It is easier to want to sell cows when one believes that they are at peak value and that they can be repurchased at a lower value.

Unfortunately, the severity of a drought ultimately leads to poor business performance; this is true since a ranch's primary resource is the range or pasture used to produce calves. So, if one is looking for a strategy to face an ongoing drought that's actively hurting the operation, that is sort of like worrying about the horses getting out of an already empty barn. Therefore, drought strategies or, shall we say, business resiliency planning, should be a continuous part of being in business.

Ranching uses and is based on an unstable set of conditions, like forage production variation, price fluctuation and cycles, disease challenges, etc. It is not a

# U.S. Drought Monitor

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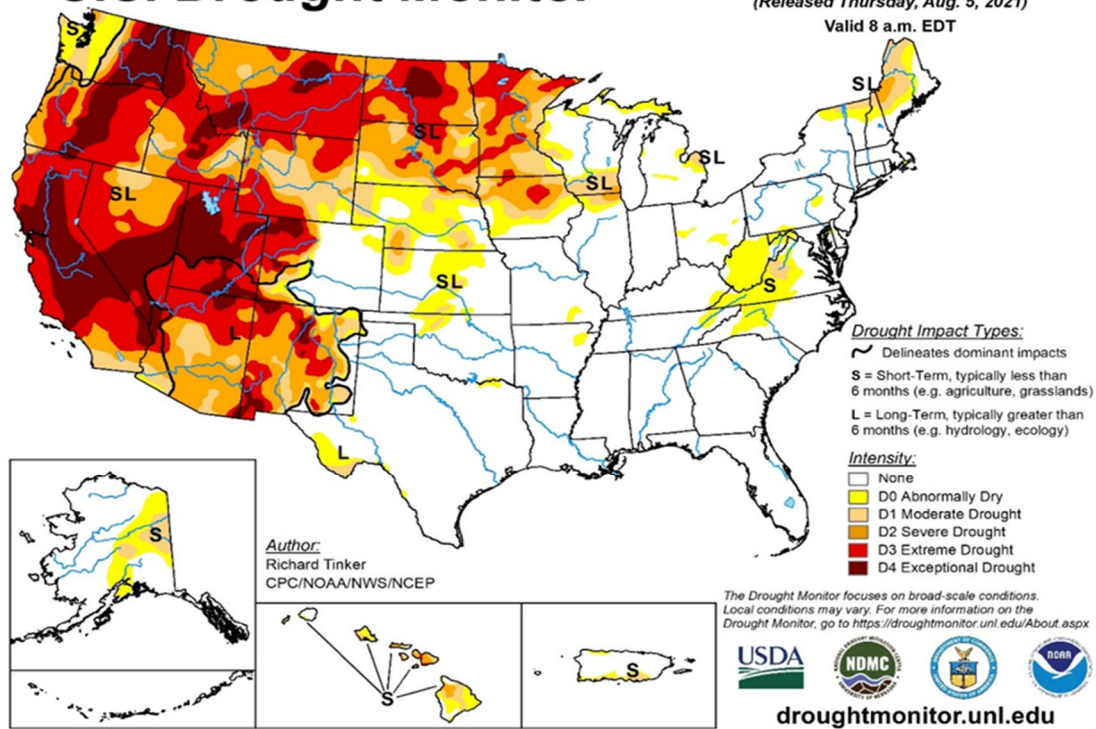


Figure 1. U.S. Drought Monitor Map

matter of *will* something happen that will create financial stress to the ranch, but *when*. From my perspective, thoughts should remain critical as to whether you are adequately planning and preparing for the next challenge you or your operation will face. No one can plan or prepare for every bad thing, nor should they. No one knows in certainty what they will face, but they do know that challenges will come sometime and that should inspire some preparation. While we give lip service to the idea of a drought plan, if drought is a reality for your operation, it should simply be a part of your business plan.

A large part of a successful business is its longevity through thick and thin. No one can say better than you what is best for your operation, yet to increase the odds of being successful, the annual decision process must factor in, not only that year, but also the coming years. Your growth strategy should consider the possibility of drought, your land purchases based on the same premise, culling strategies, cattle numbers, and should be designed to be flexible. The above are just a few examples of preparing for drought among the myriad of challenges that ranches face.

I wish to use an analogy to illustrate my point: there are two consumers who both just received credit cards. Consumer One figures his current salary, how much he can afford to pay monthly, and leverages his credit card, thus allowing him to live on the edge of his means. Consumer Two only uses the credit card for purchases that he has the cash to pay

for, and never pays a monthly interest fee. After some time passes, they both have an accident and are injured on their way to work, both unable to work for six months or longer. Which consumer is in a better financial position and will likely financially recover sooner from the accident? In this circumstance, I want to be Consumer Two.

Business stress planning requires the same kind of thought, making choices that allow for dealing with events beyond your control and preparing for likely events, while not knowing when, but knowing that it is probable they will occur in the future. This does not imply that being in business can be made riskless, but rather recognizes that there are inevitable risks and that wisdom dictates making appropriate plans and adequately preparing to face challenging conditions. Business resiliency is no accident and requires preparation, strategy, and, sometimes, good fortune.

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