

Ranching For Profit

Putting Profit into Agriculture

Newsletter #65

February / March, 2000

It's raining cats and dogs today. What better time could there be to talk about drought?

Long-range weather forecasts suggest that we are in for several drier-than normal years in sequence. Let's hope the forecasters are wrong. But right or wrong, we must realize that drought is a normal part of ranching. There are times in any environment when we expect fast growth and get only slow growth, times when we expect slow growth and get no growth. But it won't be the drought that determines whether you profit or lose, but rather how you position your business relative to the drought risk and the decisions you make once the drought hits. Let's be ready.

DROUGHT PROOFING YOUR BUSINESS

Once you see the tidal wave, it's too late to react.

FOR LAND

1. Develop and maintain a desirable, drought resistant, ecological state

Soils with a high proportion of plant cover are more resistant to capping than soils with low cover. Soils with high organic matter absorb and hold more water than soils low in organic matter. Broad-leafed grasses require less water per pound of growth than narrow-leafed grasses or weeds. Through good management we can increase cover, increase the organic matter and shift species composition to a more desirable, more drought resistant state.

2. Cross fence to control where & when livestock graze and increase density

Plants grow more slowly during drought. That means paddocks need more rest. To get longer rests without increasing the graze period you'll need to increase the number of paddocks available per herd. We can accomplish this by combining herds or subdividing existing paddocks. Both of these strategies increase stock density. Increasing density will generally increase the distribution of livestock in the paddocks and improve the uniformity of grazing.

Combining herds has the added advantage of creating a larger herd which will make it easier to achieve herd effect. Herd effect can help break capping and increase the effectiveness of whatever rain does fall.

3. Develop a long-term secure water supply

Fencing to control the grass isn't much use if there's no water for livestock to drink. With less rain it's inevitable that stock ponds will dry up. The muddy holes that are left are hardly a good place for healthy animals to drink. (Whether or not in drought, getting livestock out of the ponds is good policy. Research by Alberta Agriculture shows a 5-30% weight advantage in calves and yearlings that had access to troughs as opposed to ponds.)

Adequate water storage is essential drought insurance. It helps you sleep at night and it's tax deductible. We recommend four times one week's requirement for the herd. Since you are likely to combine herds in drought, adequate delivery rate from the tank to the trough is important.

FOR LIVESTOCK

1. Have enterprises that are compatible with drought risk

The oldest rule of good range management is to adjust the stocking rate (forage demand) to match the carrying capacity (forage supply). In drought, when carrying capacity drops, you must drop the stocking rate as well. Overstocking can lead to the range shifting to an undesirable ecological state, poor animal performance, red ink and depressed people.

The first step in drought proofing the herd is to have the right herd (correct species and classes of livestock) for your environment. Some classes (e.g. stocker cattle) are more easily disposed of (or increased in flush years) than others (e.g. registered cattle). In a drought prone environment, locking yourself into expensive breeding animals which you cannot, or will not, dispose of is inviting disaster.

2. Have a destocking plan in writing.

Don't wait until you are down to the last blade of grass to make destocking decisions. The dust and heat of the sorting gate is no place to formulate strategic plans or think through the economic and financial consequences of your decisions. Discuss and develop the policy now, and put it in writing.

3. Know & act on your critical dates

I'll bet there's a date on your ranch by which, if it hasn't rained, or if there isn't significant growth, you know you are in trouble. Even if it were to rain after that date, you'll still be short of feed.

Determine your critical date. Initiate your destocking plan on that date. Let everyone know what the date is and what will happen when it comes. Being caught with cattle on hand once everyone else has started selling leads to poor prices and overstocked ranches. The sooner you react, the better the prices and the more feed you'll have left.

FOR MONEY

1. Put yourself in control.

Stay on top of the economic and financial numbers. Know the gross margin of each class of stock. Base the extent to which your business is leveraged on the risk of drought. Producers in drought prone areas need to operate with a higher proportion of equity.

Income is likely to increase early in the drought when you destock. Have a plan to manage the capital. Later in the drought income will plummet. Now is the time to develop low cost strategies for production.

2. Have Reserves

Use the good years to build equity and financial reserves. Consider diversification with off-farm investments. Make your banker a partner to your plans. Keep him informed.

FOR PEOPLE

1. Develop a positive attitude about drought

Accept it. Drought is a normal part of ranching. Become informed so you can drought proof your property and your business. No one else will do it for you and it won't happen on its own. Become one of the people who actually benefit during drought.

2. Have A People Plan

Stress kills people. You are not alone. Build associations so you can share your burdens. Put aside money for relief from the drought.

MANAGING DURING DROUGHT

FOR LAND

1. Increase rest periods

In drought grass grows slow when it ought to be growing fast. When it should be growing slow, it grows even slower. That means pastures need more rest...at least 80-120 days on most rangelands.

2. Decrease graze periods

Longer rest periods mean longer graze periods. Long graze periods cause overgrazing which weakens plants and causes range deterioration. Additionally, the longer the graze period the lower the plane of nutrition because livestock select the best feed first.

Shorten the graze by increasing the number of paddocks available to the herd. You can increase the paddocks available per herd by fencing, but money may be tight in times of drought. Another way of increasing the number of paddocks per herd is to combine herds. As mentioned earlier this also increases stock density, and makes it easier to create herd effect, both critical in drought.

Remember: in drought, the negative effects of poor management are intensified. The positive effects of good management are also increased.

FOR LIVESTOCK

1. Decrease stock numbers early

Early reduction in stock numbers means you get higher prices and have more feed left for the remaining animals. Consider early weaning. There are two ways to reduce stocking rate: get rid of animals or reduce the requirements of the animals you have.

Of course some times we make the wrong call. Stan wrote about a client in Kansas whose critical date had come and gone with no rain. As a result he sold 3000 steers. A week later it rained, and rained, and rained. There are two types of regret he said: regret that you did and regret that you didn't. It was frustrating to discover he had sold too early. But he also said that it was an easier mistake to live with than it would have been if he'd had to keep the cattle too long into a drought.

2. Never, ever drought feed

Drought feeding is expensive and since you don't know how long the drought will last, you could be paying for the animals several times over. Drought feeding leads to overstocking, deteriorated pastures and bankrupt ranchers. One alumnus recently repeating the school told the class, "Trying to feed your way out of drought is like trying to borrow your way out of debt."

3. Beware of "free" money

Government subsidies, supposedly intended for the good of the people on the land, are a major handicap. Subsidies to maintain stocking rates, purchase feed, and keep people going for one more year are a major disincentive for many to develop effective alternatives. These policies have encouraged overstocking and desertification, economic peril and financial disaster.

FOR MONEY

1. Replan your stock flow & cash flow

Conditions have changed. You have probably destocked which means the stock flow has changed. Sales will probably increase and occur earlier than anticipated. That means fewer stock at year's end in the stock flow, and less cash in the cash flow. You'll need strategies to preserve capital and cut costs as you hunker down to get through what could be some lean times. Plan ahead. Your banker needs to know what your new plan is and your accountant needs to know how you will handle the tax burden.

FOR PEOPLE

1. Put your contingency plan into effect

Hauling water, feeding livestock and crying in your beer won't ensure survival. They tend to reinforce the feeling of panic and deplete your bank account. Get out of the trenches and into the command post. This is a time when you need to make critical decisions on selling stock and managing the land so it doesn't deteriorate.

Are you ready for the drought? Here's a quick self-exam to see.

DROUGHT PREPAREDNESS SELF-EXAM	YES	NO
Desirable potential ecological states identified for the ranch		
Desirable, healthy states dominate the ranch or are increasing		
Range sub-divided into paddocks (possible to have >30 per herd in drought)		
Adequate water storage & delivery (4 times 1 week's requirement)		
Enterprise mix compatible with drought risk		
Debt & liquidity compatible with drought risk		
Stock flow/cash flow calculated for the year ahead, updated monthly		
Gross margins known for all enterprises		
Critical dates known and communicated to all		
Grazing chart kept up to date & stock days per acre per inch of rainfall monitored		
Written destocking plan		
Written policy for managing capital from drought induced sales		
Written plan for low cost drought production methods		
Adequate financial reserves		
Appropriate off-farm investments		
Drought people plan in place		
Banker informed and kept current on drought plan		

Looking for an agenda item for your next WOTB meeting? How about using it to develop your drought plan.

AFRICA TOUR

The RMC tour of Zimbabwe and South Africa, originally scheduled for August, has been moved to the winter season (summer in Africa). It will most likely be held in January 2001. We hope the date change will make it possible for more RFP alumni to attend the meeting.

The tour will include visiting some of the first grazing cells ever built. You will visit cattle, sheep, goat and game ranches. One ranch you'll visit uses stock densities of 1200 cattle per acre...that's right 1200/acre! There will be plenty of sight seeing too, including world famous game parks, traditional African villages complete with native dancing & local cuisine, and the magnificent Victoria Falls. If you think you might be interested in attending this once-in-a-lifetime trip please book the time on your calendar now. Stay tuned for more information.