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# Making Good Management Choices During a Time of Crisis

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# CORNHUSKER ECONOMICS

## Making Good Management Choices During a Time of Crisis

| Market Report   | Yr Ago   | 4 Wks Ago | 8/10/12  |
|---|----------|-----------|----------|
| <b><u>Livestock and Products,</u></b>   |          |           |          |
| <b><u>Weekly Average</u></b>  |          |           |          |
| Nebraska Slaughter Steers,<br>35-65% Choice, Live Weight.....                                 | \$116.90 | \$114.57  | \$119.63 |
| Nebraska Feeder Steers,<br>Med. & Large Frame, 550-600 lb....                                 | 150.48   | 167.83    | 155.82   |
| Nebraska Feeder Steers,<br>Med. & Large Frame 750-800 lb....                                  | 142.11   | 143.81    | 143.61   |
| Choice Boxed Beef,<br>600-750 lb. Carcass. ....   | 176.65   | 187.33    | 181.46   |
| Western Corn Belt Base Hog Price<br>Carcass, Negotiated. ....                                 | 102.63   | 95.96     | 88.05    |
| Pork Carcass Cutout, 185 lb. Carcass,<br>51-52% Lean.....                                     | 109.83   | 89.39     | 92.63    |
| Slaughter Lambs, Ch. & Pr., Heavy,<br>Woolled, South Dakota, Direct. ....                     | 184.75   | 120.75    | 111.75   |
| National Carcass Lamb Cutout,<br>FOB. ....  | 407.98   | 333.77    | 322.53   |
| <b><u>Crops,</u></b>  |          |           |          |
| <b><u>Daily Spot Prices</u></b>   |          |           |          |
| Wheat, No. 1, H.W.<br>Imperial, bu. ....  | 7.08     | 8.13      | 7.83     |
| Corn, No. 2, Yellow<br>Nebraska City, bu. ....  | 7.19     | 7.85      | 7.83     |
| Soybeans, No. 1, Yellow<br>Nebraska City, bu. ....  | 13.30    | 16.04     | 16.41    |
| Grain Sorghum, No. 2, Yellow<br>Dorchester, cwt. ....   | 12.00    | 12.98     | 12.91    |
| Oats, No. 2, Heavy<br>Minneapolis, MN, bu. ....   | 3.61     | 3.92      | 3.88     |
| <b><u>Feed</u></b>  |          |           |          |
| Alfalfa, Large Square Bales,<br>Good to Premium, RFV 160-185<br>Northeast Nebraska, ton. .... | 185.00   | 212.50    | 242.50   |
| Alfalfa, Large Rounds, Good<br>Platte Valley, ton. ....                                       | 110.00   | 175.00    | 220.00   |
| Grass Hay, Large Rounds, Good<br>Nebraska, ton. ....  | 75.00    | 147.50    | 155.00   |
| Dried Distillers Grains, 10% Moisture,<br>Nebraska Average. ....                              | 196.50   | 274.00    | 302.50   |
| Wet Distillers Grains, 65-70% Moisture,<br>Nebraska Average. ....                             | 68.00    | 100.00    | 115.50   |
| <b>*No Market</b>   |          |           |          |

This issue is the *third* in a series addressing drought conditions, economic impacts and resources for Nebraska agriculture.

Recent developments of dry weather patterns across Nebraska have created crisis situations for many farm and ranch businesses. Each business faces crisis with a set of unique choices and challenges as a result of their unique set of resources, circumstances and skill sets. An agricultural business usually faces two types of crisis, those that come on quickly without warning and require instant actions and those that can be anticipated and expected. As an observer and a farm management professional, my job is to provide expertise to those who manage agricultural businesses. In this light, there are some key elements that can provide a firm foundation for those who manage these businesses.

The first element is knowledge and an understanding of the various risks you, as a business operator face. These risks can be anything and can range from production risk to health risk. Knowing and understanding these risks before they occur provides the information needed to focus on what to prepare for in their possible occurrence, and have in place plans and resources needed to meet the challenges they bring.

The second element is to decide on a systematic approach to deal with and mitigate the various risks that have been identified for you and your operation. Not every risk can be known or anticipated, nor are all risks worth mitigating, but preparation and planning

can go a long way in helping to assure business and life style maintenance.

The important thing to remember about these first two elements is that they are in a continual flux, and it requires effort to be constantly seeking and planning into the future. Being completely prepared for any crisis is probably an impossible task. But being prepared for those crises that are likely to occur may make the difference between business sustainability and business termination.

The first two elements are things to do prior to a crisis. The remaining elements addressed here are associated with actions or decisions made during a crisis. A crisis such as drought offers the opportunity to make choices at various stages. Those choices made early may be harder to make versus those made later, but are usually associated with greater flexibility and lower impacts to the business. Choices made early are difficult due to the uncertainty of the drought itself, while those made later are made under conditions that may be desperate, with very limited options and large negative impacts.

Early, well thought actions are likely to lessen the chance of having to make rushed, last minute choices which could have large devastating effects on the business. For example, the choice to decrease cattle numbers early may help conserve limited feed resources and provide a limited income during the period of the drought, whereas waiting until feed resources are virtually gone may result in complete herd liquidation. Each farm and ranch has different resources and understanding about those resources and key periods for decision making. This leads to element three, which is to identify early warning signs and to make choices as early as is practical.

The fourth element is to identify as many options as possible. Many times we limit ourselves by what we think. It is important to be open about the options and to objectively consider them. This does not mean to seriously consider options that have little chance of working or that are different for the sake of being different. This leads to the fifth element.

Any choice that is made should be based on the best information available, and using the most appropriate technique to derive the outcome. If a cow-calf producer is considering a reduction of use in his pasture resource, then it is important that the cost of

this decision be estimated and compared to the benefits. In the case where the cost of keeping or weaning the calves exceeds their value, then other avenues may need to be explored. It is important in many cases to get the advice of those who hold an interest in your business, such as a banker or other stake holders. In the case of crops, the decision to harvest or not is determined by knowing the value of harvesting versus the cost of harvesting. If harvesting provides a basis for an indemnity payment by an insurance policy, then the value of the indemnity plus the value of the crop harvested must exceed the cost of harvesting. If this is not true, then incurring the harvest cost causes the producer to lose even more money than he/she would if they did not harvest. In some cases a decision must be made that results in a loss. In these cases the decision should be one that minimizes that loss.

In many cases, farm business operators have access to extension professionals that may help with the technical information and tools needed to make some of the decisions during a crisis. For example, there are some simple cost calculators available at: <http://www.agmanagerstools.com>. These calculators provide information relative to feed cost, corn stalk residue grazing and production cost and breakevens. Local county extension personnel have the skill and expertise necessary to use these tools.

One of the most important things to remember during a crisis is to meet it head on. Hiding from a crisis only delays and usually compounds the issues. If you are struggling with making a decision, get some advice from a professional that understands your situation and choices, and please remember good decisions don't just happen, they are worked out.

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