Analyzing Rebuilding Strategies

Alternative Scenarios and Rebuilding Strategies

Prepared by: Paul H. Gutierrez
Objective Today

• Discuss some factors to consider when analyzing rebuilding strategies

• Have a conversation, learn from each other
Analyzing Rebuilding Strategies: Factors to Consider

- Prior financial position
- Degree and timing of liquidation
- Off-ranch income
- Family living Expenses
- Replacement Heifer Prices
- Calf sale prices
- Annual cost per cow/production expenses
Possible Scenarios

• Land Tenure
  – Rent all land
  – Own land with debt, and
  – Owned land without debt

• Herd Liquidation/situation
  – Complete herd liquidation,
  – Half or more herd liquidation
  – Less than half herd liquidation
  – No herd liquidation
Possible Strategies

• Rebuild slowly with mix of heifer and stocker steers, including stocker heifers with some retained as replacements, and a small number of purchased cow/calf pairs;
• Rebuild slowly with leased cows
• Rebuild quickly by purchasing bread heifers and/or cow/calf pairs.
• Stockers only
Financial Considerations

- Revenues per unit of production
- Expenses per unit of production
- Net Cash Flow
- Cash reserves—current and future
- Assets, and
- Owner Equity
Rebuilding Slowly

• Summer stockers as source of income and replacement heifers, plus small number of cow/calf pairs:
• Advantage: debt financing of replacement females is moderate and stockers provide annual cash flow.
Rebuild Quickly

- Purchase bread heifers/cows and cow/calf pairs
- Advantage: rebuild target herd in few years
- Likely to produce largest amount of debt
- Option for producer with strong initial cash reserve position
Leasing Cows

• Producer will likely incur least amount of debt, but takes several years to reach target herd size.

• Cash flow is much less
Bottom Line

• Will your strategy Cash Flow!!
  – Know you cost of production
  – Manage your level of production
How much does she cost you?
How many pounds weaned per cow exposed?
Key Cow-Calf SPA Measures, SW and New Mexico, 2005-2010

<table>
<thead>
<tr>
<th>SPA Performance Measure</th>
<th>Top 25% Producers</th>
<th>Low 25% Producers</th>
<th>New Mexico Average SPA Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pregnancy %</td>
<td>88.6</td>
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<td>90.1</td>
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<td>Calf Crop Weaned %</td>
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<td>517</td>
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<td>Pounds Weaned per cow exposed</td>
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<td>Annual Cost per Cow</td>
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Unit Cost of Production and the Profit Equation

Profit or loss = Revenue – Expenses, or
Profit = (price x production) – expenses

Where:

• Price = f(supply and demand)
• Production = f(no. and weights)
• Expenses = f(supply and demand-direct, indirect and interest exp.)
Unit Cost of Production or Breakeven Price

- Profit = (Price x Production) – Expenses

- Price or Unit Cost of Prod. = (Expenses) / (Production)
## Key Cow-Calf SPA Measures, SW and New Mexico, 2005-2010

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Contact Information

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KSU-Beef Replacement is available online at:
http://www.agmanager.info/livestock/budgets/production/default.asp

NMSU: Cow/Calf Budget Template
http://aces.nmsu.edu/drought/index.html

College of Agriculture, Consumer and Environmental Sciences