

## **Cattle Business in Mississippi – September 2011 “Beef Production Strategies” article**

### **Get Past Sticker Shock for Good Decisions**

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High prices are all around as cattle producers search for production inputs. Many producers experience “sticker shock” as they react to these prices. A common reaction is to avoid purchasing outwardly expensive items even if the result is that production output suffers. So when is passing on a purchase justified, and when should cattle producers bite the bullet and make a seemingly sizeable investment?

#### **Sticker Shock Examples**

Here are just a few scenarios of sticker shock in beef cattle production.

##### **1) The herd sire purchase**

Bull seems expensive → producer passes on quality bull for cheaper bull → cheaper bull has lower genetic merit → bull produces lower value calves and lower genetic merit herd replacements → income is reduced by more than what it would have cost to get the better bull in the first place → lower genetic merit replacements by the cheap bull calve → income is further reduced → now producer has even less money for purchases

##### **2) The feed purchase**

Feed seems expensive → producers buys lower quality and less feed → cows get thin, heifers cycle late, calves weight light → more calving difficulty with thin females → cows and heifers breed late or not at all → thin cattle more likely to get sick → fewer pounds of cattle to market → income is reduced → producer eventually has to purchase more and better feed to get remaining cattle back into shape but production targets may still be compromised

##### **3) The seed purchase**

Improved forage seed seems expensive → producers opts out of renovating pasture → forage yields, quality, and grazing animal performance suffer → producer sees neighbor with productive forage stands of improved forage → producer finally adopts this technology with the same or higher investment that would have been paid last year but has missed out on a year of its benefits

#### **Evaluate with Partial Budgeting**

Partial budgeting is a handy exercise that compares net returns (profit) between making or not making a particular change in the beef cattle operation. For example, deciding whether or not to artificially inseminate a group of cattle could be evaluated for its effect on profit by using a partial budget. A partial budget consists of 4 sections: increased returns, decreased costs, decreased returns, and increased costs. Increases in values in the first 2 sections improve profit, whereas increased in the latter 2 sections decrease profit. Most management changes will affect all 4 of these categories in the partial budget but to

varying degrees. The sum of all these effects is the bottom line change to profit and the economic basis for accepting or rejecting the proposed change to the operation.

Items that cause sticker shock are input purchases. Purchases raise the increased costs section of the partial budget. For illustration, if fertilizer is purchased, then this expenditure increases costs. Sticker shock items may, however, replace or lessen another purchase and so also improve the decreased costs section of the budget. If fertilizer is purchased, then less hay and supplemental feed may need to be purchased, thereby decreasing these costs. Thirdly, sticker shock items may affect returns in 1 or more ways. If fertilizer is purchased, then more and higher quality forage will likely be produced. This can lead to higher reproductive performance of breeding cattle consuming this forage and ultimately produce more calves to market later, thus increasing returns. The same use of fertilizer may improve growth performance of existing calves and result in more pounds per calf to market, also affecting returns. Of course, if more cattle are pregnant because of the fertilizer purchase, then fewer may be culled, and returns from cull sales would then be lower. The list of effects of a fertilizer purchase could go on, and all of these effects need to be included in the partial budget to make the best possible decision.

With partial budgeting, producers can truly evaluate the profitability of purchases that cause heartburn when looking at the price tag. This objective approach takes the emotional bias associated with sticker shock out of the equation. Then producers can make decisions on input purchases based on business sense.

### **Consider Other Impacts on Finances**

Additional expenditures make managing cash flow and borrowing even more critical. With more money going in and out of the operation, having enough available funds to cover current bills at any given point in time can be affected. In addition, purchases of sticker shock items may impact the timing of other costs and returns in the operation, also affecting cash flow.

Going back to the fertilizer example, fewer cull cows now vs. more pounds of calf now and later changes the timing of returns to the cattle operation. Likewise, more costs now with the fertilizer purchase itself may lessen other nutrition-related costs at a later time. So, even decisions determined to be potential profitable using the partial budgeting approach must also be acceptable in terms of cash flow in and out of the cattle operation.

### **Sticker Shock Can Change**

In the current market environment, input prices can move drastically in short time spans. For instance, prices for a particular commodity feedstuff can move \$20 per ton or more in as little as 1 week. Seasonal highs and lows are difficult to predict, and today's sticker shock-inducing price could be tomorrow's bargain. Producers must gather information and be prepared to make reasonable and timely purchasing decisions even with future price uncertainty.

For more information about beef cattle production, contact an office of the Mississippi State University Extension Service.