Adding a Sheep Enterprise to a Cow-Calf Operation, A Producer's Perspective

In this month's BeefWatch Producer Perspective Podcast, Brock Terrell from Hay Springs shares how his family added a sheep enterprise to their operation. Some of the topics that Brock discusses in the interview include:

- The process the Terrell family went through to acquire their band of ewes.
- How the sheep enterprise complements their cow-calf and cropping enterprises.
- The labor requirements of having sheep and how they find shepherds.
- How the Terrell family evaluates adding enterprises to their operation.

The BeefWatch podcast is the audio companion to the monthly BeefWatch newsletter and also features bonus interviews such as the Producer Perspective. The BeefWatch Podcast is available at iTunes and Stitcher. You can also subscribe by copying and pasting *http://feeds.feedburner.com/unlbeefwatch* into your favorite podcast app.

Characteristics of Financially Resilient Farms

By Robert Tigner, Agricultural Systems Economist Educator

During the last 10 years, the economic environment that US farms have faced has been extremely variable. During the 2009-2012 period incomes and net returns increased and in 2013-14, they peaked. Production costs rose with the increasing income and began to decline in 2013, however, not as rapidly as revenue declined. Farm profitability declined due to the narrowing margins for grain production. The question for farmers is “What management strategies will consistently produce profits?”

Factors of Success Despite Downturn

First let’s look at what works for some real farms. Nicholas Paulson and Dale Lattz, agricultural economists at the University of Illinois, have used Illinois farm data to separate Illinois farms into profitability thirds, as well as time periods 2010-12 (higher prices) and 2014-16 (lower prices). They found a few management strategies that consistently produced higher returns.

The third with the highest profit farms produced more gross revenue per acre than either of the other two groups through a combination of slightly higher yields and price per bushel for corn and soybeans. Both yields and prices were 5-7% higher. None of the farms strove for the highest possible yield, but rather the most profitable yield. During 2010-12 the top third farm group had $112 more return to land and operator than the middle third group of farms. During that period high profit farms had nearly the same per-acre direct costs of production as the middle third farms, but in 2014-16 their costs were $6 less. High profit farms had lower per-acre machinery, depreciation, and repair costs, $17 lower in 2010-12 and $10 lower in 2014-2016. The top-third high profit farms had lower per-acre overhead costs too, $8 less in 2010-12 and $18 less in 2012-16.

The relative importance of revenue versus costs for higher profits also varied during the two time periods. For farms in the higher profit third higher revenues contributed more during 2010-2012 and lower costs contributed more to higher returns in 2014-16 compared to the other farms in the comparison.

Thus the “Take Home Message” from this data set is twofold. Capturing higher revenue during times of rising commodity prices is more important than managing costs. However, farm operators must not lock in costs during these good times that can't be reduced when prices decline. During times of declining commodity prices, controlling costs is more important.

Steps to Resiliency

Now that we are in a period of tight profits and cash flow, here are some suggestions for managing in this tough economic environment:

1. **Control costs.** Evaluate inputs to ensure there is a positive return to their use. For instance, soybean seeding rates might be reduced with little change in yield, but at a much lower cost. Review nitrogen (N) rates to ensure you are using the correct rates and not adding economically unbeneficial N. Look for good feed sources that are less costly but provide the same nutrients. Can you work with neighbors to jointly buy inputs such as seed to get bigger discounts?

2. **Renegotiate cash rent rates.** This can be hard to do since Nebraska property taxes have risen recently, but one way to manage this negotiation is to include flexible lease provisions in case of high yields or prices.

3. **Reduce capital spending**. Most farmers have already done this, but if the purchase reduces costs and cash flow, it may be a good purchase. Otherwise, repair machinery.

4. **Reduce family living costs.** Family living costs rose during the good times in ag, but now family budgets should be reviewed. The nice-to-have items will likely be dropped in favor of the must-haves such as health insurance. Review cell phone plans, satellite TV, the Sirius/XM subscriptions, and any automatic payments. Do not use credit cards for family living. Credit card use could lead to even more debt that can't be serviced.

5. **Increase revenues**. If you have unused or minimal use assets, such as the extra semi, consider renting them to someone else. Make sure you capture all variable costs first and some or all fixed costs of the asset. Have a crop marketing plan that considers today's marketing environment and your cash flow needs. Execute the plan.

6. **Increase non-farm income.** Many spouses already work off-farm to get benefits and health insurance, but everyone in the farm operation may have to do so too. Consider what your skills are and whether the non-farm income will reduce farm income. You may find that planting is delayed, which could be more costly than the additional non-farm income. Can a side business be added? Maybe you have a hobby that can produce income.

These suggestions could take some very serious conversations and open communication within farm families, but the viability of the farm is at stake.

Source: Cropwatch.unl.edu