

Section B

Business Management

Meeting the Challenge: Lessons from previous droughts

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Critical Restocking Decisions	Neil McLaren
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Meeting the challenge

Make decisions and set dates to implement decisions early

The key factor which separates high income earners from the rest is the ability to make timely decisions. Every farmer should have a least an informal response plan in his/her head, for example, a series of planned steps. Some decisions will turn out to be wrong, but more will be right than wrong. Furthermore, recognition that a decision was wrong will often reveal an opportunity.

For example, quitting stock just before rain falls may be viewed as a wrong choice (although it was the right one to make at the time), but one which could open a raft of opportunities, such as buying in trading stock, taking on grazers, allowing pastures to recover, and/or improving the performance of the remaining stock. Studies show high income earners have fewer regrets about decisions made than average earners – this may be because they always make the right decisions, or more likely, because they don't dwell on the wrong ones.

Plan the whole winter

It is a waste of money to feed too many stock for a period until money runs low, then decide that some stock have to go. Matching feed demand with cash and feed supply while maintaining flexibility is a characteristic planning exercise of strong businesses. Making early decisions is more likely to result in better per head performance and better profit than not making a decision until being forced to by circumstances, when no choices remain.

Update and revise plans regularly

Circumstances will change, so must the plan. The important thing is that there is a plan and decisions are made from the best assessment of events at the time. As conditions get tougher, reviews should be more frequent, even weekly.

Cut losses quickly

In the words of Christchurch farm accountant Pita Alexander, strong businesses recognise a bird in the hand is worth four in the bush. This may particularly apply when buying in feed.

Businesses will individually have a point at which it is better to cut losses and sell stock rather than continue buying feed. It is likely that strong business determine this point during the earliest stages of drought and before any feed is bought in.

Prioritise stock classes for destocking early

This is part of the plan, so farmers know in advance which stock go when a trigger point is reached. For example, the order for many sheep farmers has been wether lambs, aged ewes, ewe lambs, ewe hoggets, mixed age ewes, and finally two-tooths. The use of technology may help make this decision, for example, pregnancy scanning will allow removal of dry stock, and separation for reduced feeding of single-bearing sheep.

Sell stock early

High income earners have preferred to sell stock rather than buy in feed or grazing off in previous droughts. A study showed 65 percent of above average farmers surveyed, sold capital ewes which in normal circumstances would not be sold. They prioritise, plan sales and carry them out at predetermined dates, always matching feed demand to supply to maximise profit.

Plan the recovery

Immediately rebuilding stock numbers when everyone else is doing the same thing will inevitably raise stock prices. Identify and explore other suitable options. For example, if stock prices are so high that there is no profit for the coming year, an option may be to put the equivalent funds into a term investment and bring in grazers, make hay, grow crop or whatever. Perhaps there are some non-farming options for the short-term which are more profitable than buying stock at temporarily inflated prices.

Buy the best stock possible

High income earners recognise that quality breeds quality.

Feed stock as well as possible

Concentrate on per head performance to maximise profit in the medium term. The best stock, fed well, will produce better offspring, giving better growth rates of both trading and replacement stock, and therefore better future reproductive potential.

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