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Good Cattle Prices: What to do with the Extra Spending Money

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When cattle prices are high, producers must decide whether to pocket or spend those extra proceeds. The list of choices for spending these funds is often long. So, where should producers start when money is burning a hole in their pockets?

Expenses and Debts

Cashing a big check from cattle sales may create some wide grins, but those smiles will be only temporary if profits and economic sustainability are not also achieved. The profit equation is simple: Profit = returns – expenses. Returns must exceed expenses to turn a profit. No matter how many dollars per pound that calf sold for, it does not create an economically sustainable enterprise unless operational expenses can be covered.

In situations where high levels of expenditures are incurred in bringing in large returns, profitability may or may not occur. What does occur though is a large cash flow both in and out of the operation. Cash flow is an important consideration even for a profitable cattle enterprise. Although the operation may be profitable for the year, the monthly and weekly cash flows may not balance returns with expenses. For instance, cattle sales are often seasonal with many animals selling at once and creating large cash flows into the operation at those times. Yet production expenses may mount prior to those sales creating a need to dig into cash reserves, liquidate assets to generate funds, or borrow money to meet expense obligations. Expenses may also not be evenly distributed throughout the year. Large purchases may occur at certain points in time, such as when winter annual forage seed is purchased, a commodity shed is filled with feed, or groups of cattle are bought. Advance planning is crucial to properly manage cash flows without compromising operational goals or becoming overburdened with debt.

Reinvesting in the Operation

A major decision that should be made is whether or not to take profits for personal use, to pay down debt, or to reinvest them back into the cattle business. Use caution when investing back into the business during periods of high cattle and other input prices. Make sure the long-term business plan indicates the need to invest. Many producers see high cattle prices and buy, buy, buy in the hopes of many years of good returns. Then when profitability wanes, they sell, sell, sell, often on a lower market. Unless, the cattle operation produces adequate returns from an investment from the initiation to the liquidation of that investment, then rethink the investment before it is made. A good investment ultimately produces profitability over the investment period, whether it short or long term.

Cattle and input prices are not the only important considerations in deciding how to invest returns and whether or not to make major changes to the size and strategy of the cattle business. An operation that has assembled quality cattle genetics must consider the importance of retaining those genetics if thinking about selling off cattle. Semen and embryo storage provide some flexibility beyond just keeping live animals.

If cattle inventories are bolstered or depleted, then changes to the amounts of land, equipment, and other inputs into the operation may need to change as well. When cattle numbers are increased, then sufficient inputs must be put in place to support the additional cattle or risk overextended inputs. Available grazing acreage must match grazing needs or else additional forage or feed must be supplied to meet production targets. In the case of decreasing cattle inventories, assets that are no longer needed for cattle production can be sold if owned or released if rented, put towards other uses, or idled.

Once decisions about expenses, debts, cash flows, and the scale of reinvestment or liquidation are made, then focus on the specifics. If reinvestment in the cattle business is the goal, there are several focus areas that may be worth considering to put money earned in the cattle business back to work. Some examples are listed here.

Upgrading cattle genetics
- Sires
- Breeding females

Improving the forage base
- Pasture or hayfield renovation
- Soil fertility

Repairing, replacing, or expanding infrastructure
- Cattle handling facilities
- Fencing and lane systems
- Hay and feed storage buildings

Acquiring productive assets
- Cattle
- Land
- Equipment
- Human resources

Investing in technology
- Computerized record-keeping systems
- Websites
- Scales
- Artificial insemination equipment

It may be tempting to splurge on unnecessary items that will not contribute to productivity and profitability. So, justify each transaction in the context of the goals of the business. If one of the goals is to produce profits for personal use, then profit taking is in line with operational goals. If the overriding goal is to grow the business, then consider strategies to acquire productive assets. If the ultimate target is long-term profitability, then plan ahead for future times when obtaining profits might be more challenging. For more information about beef cattle production, contact an office of the Mississippi State University Extension Service or visit *msucares.com/livestock/beef*.