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Big Horn County producers use budget tools from RightRisk.org – Part III

By James Sedman and John Hewlett

In a previous installment in this series, we have examined the partial budgeting process through the Riff brothers' farming operation.

Specifically, we looked at purchasing a strip-till machine. The Riffs knew the machine would save time and reduce soil erosion by cutting trips through the field, but they were not sure without analysis if the machine would be worth the $25,000 price.

They used the partial budgeting tool at RightRisk.org and created a simple partial budget showing that the purchase of the machine would generate a net gain of $108 per acre on their 200 acres of sugar beets. Now the Riffs can examine the risk management implications of their purchase.

Partial Budgeting and Risk Management Planning

Partial budgeting can be an essential part of risk management planning because breaking down an individual change or decision can help determine the risk management needs for an enterprise. Examining previous risk management decisions, such as crop insurance purchases, can provide insight about the effectiveness of the strategy or decision.

In this case, the Riffs determined they would net an extra $108 per acre in revenue due to the machine purchase. To view this another way, the brothers gained an extra $108 per acre in revenue to add to their crop insurance revenue coverage.

	B	C	D	E
1	RightRisk™ Partial Budget For:		Previous year risk management strategy	
4	Positive Effects		Negative Effects	
5	Added Returns		Added Costs	
6	Indemnity per acre	$ 474.53	Insurance premium (per acre)	$ 66.00
57	Total Reduced Costs	$ -	Total Reduced Returns	$ -
59	Total Positive Effects		Total Negative Effects	
60	(Added Returns + Reduced Costs)	$ 474.53	(Added Costs + Reduced Returns)	$ 66.00
62	Net Benefit of: Previous year risk management strategy			$ 408.53

In a previous profile (available at RightRisk.org under Producer Profiles), the Riffs used multi-peril crop insurance (MPCI) to insure against losses in their sugar beet production. Looking at this purchase as a partial budgeting question, the Riffs spent $66 per acre in premiums to acquire $1,090.13 in insurance coverage at 85 percent coverage, $51.30 per ton price, and an actual production history (APH) yield of 25 tons per acre.

In the resulting indemnity situation, the Riffs' production was 12.5 tons per acre. Their total indemnity payments the previous year came to $474.53 per acre. If we plug these figures into the partial budget tool, we see a net return of $408.53 per acre.

This is a considerable return on investment in terms of the crop insurance purchase. Assuming that production and premium costs do not change this year, the Riffs should still realize a net gain from buying the strip-till machine in terms of their risk management planning – the net gain will cover the cost of their crop insurance premium even if no loss occurs.

This is also an example of how two seemingly unrelated business decisions (the strip-till machine purchase and crop insurance coverage) can complement each other to offer a net benefit to an operation.

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For more information

To access the risk management budgeting tools, log on to RightRisk.org and click "Risk Mgt Tools" under the Resources tab. Producers can choose from simple or complex partial budgeting tools, enterprise budgeting tools, and whole-farm budgeting tools. RightRisk.org lists numerous other risk management-related resources including producer profiles, tools, and interactive courses designed to expand a producer's risk management perspective.

Distance to markets, regional prices figure into best marketing plan for small lots of calves

By Bridger Feuz

Many producers spend much marketing time and energy working on getting truckloads of calves sold each fall. However, there always seems to be 1-20 head of stragglers that need to be marketed each year.

Often, these stragglers are considered a nuisance, and little thought and effort is given to proper marketing, with the closest auction barn being the primary destination. That may be the best strategy, depending upon where you live in Wyoming and how many calves you are marketing; however, producers may be foregoing significant revenue.

Evanston Producer Example

To best illustrate potential differences in revenue, let's take the example of an Evanston producer. The analysis should be applicable to most western Wyoming producers with just a few adjustments for mileage.

Evanston producers typically market calves at one of three auctions: Anderson Livestock Auction in Ogden, Utah, Riverton Livestock Auction, or Torrington Livestock Markets. The closest auction in Ogden is a 150-mile round trip; round trips are 450 miles and 850 miles to Riverton and Torrington, respectively. If the IRS mileage rate of $0.55 per mile is used, the cost to each destination is: Anderson – $82.50, Riverton – $247.50, and Torrington – $467.50.

Table 1: Average Prices Received (cwt) October-November 2011

	Anderson Livestock	Riverton Livestock	Torrington Livestock
500-550 lbs	$132.21	$155.91	$158.58
700-750 lbs	$119.13	$133.34	$140.63

Significant Price Differences

Prices can vary significantly between the three markets. For this analysis, I used USDA – AMS data for October and November of 2011. Table 1 shows the average price for a 500-550 pound steer calf and a 700-750 pound steer for each of the markets.

There are significant price differences. On average, 500-550 pound calves in Riverton brought $23.70 cwt. more than 500-550 calves at Anderson Livestock, while 700-750 pound calves in Riverton brought $14.21 cwt. more than at Anderson Livestock. It is interesting that 500-550 calves selling at Torrington were only slightly better than Riverton at $2.67 cwt.; however, 700-750 pound steers showed a larger margin between the two auctions of $7.29.

Include Mileage Costs

To determine if price differences warrant a different marketing strategy, we need to include mileage costs. Table 2 shows the net return of 1, 2, 5 and 10 head of steers using the market price for the given auction and accounting for mileage.

If an Evanston producer has one head to go to market, the best option is Anderson Livestock for a 525- or a 725-pound steer calf. If an Evanston producer has 5 or 10 head of calves weighing 525 pounds, Riverton Livestock Auction returns the highest net amount. If an Evanston producer has 5 head of steers weighing 725 pounds, there is a near tie between Riverton and Torrington. Finally, if an Evanston producer has 10 head of steers weighing 725 pounds, Torrington Livestock would return the highest net amount.

Certainly, producers may incur other differences in costs. Time away from other activities is a cost, and a trip to Torrington may require an overnight stay. If nothing else, more meals would be purchased on a Torrington trip.

Which auction is right for an Evanston producer depends on a number of factors, but significant differences in net returns do exist between markets.

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Table 2: Net Returns

Head	Avg. Wt.	Anderson Livestock	Riverton Livestock	Torrington Livestock
1	525	$611.63	$571.01	$365.06
2	525	$1,305.75	$1,389.52	$1,197.63
5	525	$3,388.13	$3,845.04	$3,695.31
10	525	$6,858.75	$7,937.58	$7,858.13
1	725	$781.16	$719.21	$552.08
2	725	$1,644.81	$1,685.92	$1,571.67
5	725	$4,235.78	$4,586.05	$4,630.42
10	725	$8,554.06	$9,419.60	$9,728.34