

RIGHT RISK™**UNCERTAINTY****R I G H T R I S K N E W S****Buy Hay or Sell Cows?****Evaluating Drought Management Strategies in Today's Beef Industry**

For many beef producers, drought creates a difficult financial decision. As forage supplies shrink and grazing capacity declines, producers must decide whether to purchase supplemental feed or reduce herd size through liquidation.

The choice is especially challenging in today's market, where cattle prices remain historically strong and productive breeding females represent valuable assets.

Each choice involves operational and economic tradeoffs. Purchasing hay preserves future calf production and avoids the cost of rebuilding the herd but increases feed expenses and cash-flow demands. Selling cows reduces immediate feed requirements and generates cash but lowers future production and may make herd rebuilding costly if cattle prices remain high.

Because drought decisions can affect profitability for years, producers should evaluate more than current feed costs or sale prices. Profitability, cash flow, risk exposure, tax implications, and long-term herd value all influence the economic outcome. The Colorado State University Extension Buy Hay or Sell Cows? decision tool helps producers compare these alternatives over multiple years and identify the strategy that best fits their operation.

**Understanding the Risks**

The buy-hay-versus-sell-cows decision is fundamentally a risk-management decision. Weather conditions, feed costs, and cattle prices over the next several years are uncertain, so producers should evaluate alternatives based on both expected returns and potential risk.

Producers who purchase hay and retain cows preserve future calf production and avoid herd-rebuilding costs. However, they assume the risk of having more cows moving forward into an uncertain future. These risks include potential for prolonged drought and persistently higher feeding expenses, as well as the risk of weaker cattle markets developing.

Producers who liquidate cows reduce feed requirements and improve short-term cash flow but may limit future profit potential when the drought subsides. If cattle prices remain strong, they will face higher replacement costs and the short-term cash flow relief they experienced during liquidation could become long-term cash flow stress with more investment dollars required to rebuild to previous cow herd capacity levels.

How Much Risk is Right for You?



Cash-flow considerations are often critical. Purchasing large quantities of hay may require substantial up-front expenditures, while returns from retained cows are realized later through future calf crops. Liquidation can create tax liabilities and permanently reduce an operation's income-producing capacity. Because operations differ in forage resources, financial position, and management goals, no single strategy is appropriate for every producer. In many cases, the best approach may involve a combination of strategies rather than an all-or-nothing decision.

Know Your Cow Costs

One of the most important inputs in any drought-management decision is the annual

cost of owning a cow. These costs include variable expenses such as feed, pasture, veterinary care, minerals, labor, fuel, interest, and breeding costs, as well as fixed costs including depreciation, facilities, taxes, insurance, and overhead. While drought often focuses attention on rising hay prices, hay represents only one component of total ownership costs. Without accurate cost information, it is difficult to determine whether purchasing feed, leasing additional pasture, or reducing herd size is the best economic strategy.

Knowing annual cow costs also allows producers to evaluate break-even calf prices, estimate expected returns from retained cows, and compare alternative drought-management strategies. Because a cow's value depends on her ability to generate future income in excess of ownership costs, inaccurate estimates can lead to poor decisions.

Underestimating annual cow costs can overstate the profitability of retaining cows and purchasing supplemental feed. It may also create cash-flow shortfalls when actual expenses exceed projections. For example, underestimating costs by \$300 per head creates a \$30,000 annual error in a 100-cow herd and could substantially alter the outcome of a buy-hay-versus-sell-cows analysis. Ultimately, sound drought-management decisions depend on accurate cost-of-production information.

Looking Beyond Purchased Hay: Alternative Drought Strategies

Hay is not the only option available during drought. Before purchasing large quantities of supplemental feed or making major herd reductions, producers should evaluate all available forage and feeding alternatives. Crop residues, annual forages, cover crops, byproduct feeds, leased pasture, and strategic supplementation may provide lower-cost sources of nutrition than delivered hay. Management practices such as early weaning can also reduce nutritional requirements and lower total feed demand during critical periods.

Producers should also consider the long-term health of their forage resources. Maintaining excessive stocking rates during drought can reduce plant vigor, increase weed pressure, and slow pasture recovery after precipitation returns. In some situations, a moderate herd reduction combined with supplemental feeding or leased grazing may provide a better balance between short-term feed costs and long-term resource sustainability than either feeding all cows or conducting a large-scale liquidation.

Because forage resources, financial reserves, labor availability, and production goals vary among operations, drought management is often most effective when producers evaluate multiple alternatives and combine strategies that fit their specific circumstances.

Tax Implications and Long-Term Consequences

Taxes can significantly affect the economic outcome of a buy-hay-versus-sell-cows decision. Purchasing additional hay generally creates a deductible operating expense, while selling breeding females may generate taxable income, particularly when cows have been held for many years and have a low tax basis.

Federal tax provisions may provide relief for producers forced to liquidate livestock because of drought. IRC Section 451(g) allows qualified producers to defer income from excess livestock sales to the following tax year. IRC Section 1033(e) allows qualified taxpayers to defer recognition of gains when animals are replaced within the allowable replacement period, which may be extended when drought conditions persist in designated areas. Producers should consult a tax advisor and resources available through RuralTax.org to determine whether these provisions apply to their situation.

Beyond tax considerations, producers should carefully evaluate the long-term effects of liquidation. Selling breeding females may improve short-term cash flow, but it also reduces future calf production and can be costly to reverse. With cattle inventories historically tight and replacement females expensive, rebuilding a herd after drought may require substantial time and capital.



Comparing Alternative Strategies

The Buy Hay or Sell Cows? spreadsheet, available at ABM.extension.colostate.edu, helps producers evaluate drought-management decisions using operation-specific information. Users enter data including herd size, calf crop percentage, weaning weights, annual cow costs, hay feeding requirements, expected livestock prices, hay prices, and anticipated herd reductions.

The tool allows producers to compare alternatives such as purchasing supplemental feed, selling cows, selling pairs or 3-in-1s, or implementing a combination of strategies over a multi-year planning horizon. It projects revenues, expenses, cumulative cash flows, and the economic value of retaining cows in the herd. By evaluating both short-term financial outcomes and longer-term herd value, the spreadsheet helps producers identify strategies that best align with their forage resources, financial position, and management objectives.

Final Thoughts

Drought creates difficult challenges for beef producers, but it also presents an opportunity to carefully evaluate resources, costs, and long-term business goals. Whether the preferred strategy involves purchasing hay, reducing herd size, utilizing alternative feed resources, or combining several approaches, thoughtful planning can help producers position their operations for future success.

While no drought-management strategy eliminates risk, informed decisions can reduce uncertainty and improve financial resilience. The Buy Hay or Sell Cows? decision tool provides a practical framework for comparing alternatives and understanding their economic consequences over multiple years. By combining accurate cost information with realistic market expectations and a clear understanding of herd value, producers can make confident decisions that protect both the near-term viability and long-term profitability of their operations.

With strong cattle prices and continued demand for beef, maintaining flexibility and evaluating all available options can help producers navigate drought conditions while preserving opportunities for future growth. Careful analysis today can help ensure that the operation is well positioned to capitalize on improved forage conditions and favorable market opportunities tomorrow.

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