

## Addressing the trigger points in a drought

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One of the biggest threats posed by droughts is to the individual's future livelihood through escalating levels of business costs and outlays. As an example of this, at the end of the 02-03 drought in north-west NSW, producers reported a reduction in equity levels of 10 and up to 25%. At the higher end, this undoubtedly impacts future viability. The general trend to increased land values however worked as a safety net for many producers subsequently. Croppers who missed this year's crop go without financial returns in the drought year. However cattle and sheep producers stand to lose 6 to 7 age groups of breeding stock all in one hit if feed or water run out and the stock become too weak to be marketed effectively. The capacity to cope with droughts is strongly influenced by the level of equity held in the business prior to the drought and the experience of operators in previous droughts

For most people associated with the land, a drought is still considered an emergency or an exceptional circumstance, especially when experienced in amongst a series of very dry years. However records over hundreds of years show us the inevitability of drought as a regular and cyclical part of our environment.

To this extent, we need to address the management of drought as a normal strategic planning exercise whereby a response clicks into place as a result of various 'triggers'. This would be the case for any other important risk management planning process encompassed by our business. Whilst there are seldom any winners in droughts, effective management to reduce the droughts impact happens the same way as at other times.

That is, an effective manager is an effective manager through good observations, sufficient analysis, strong planning, implementing strategies on a timely basis and monitoring the issues of concern.

Whilst droughts are said to creep up on people who live through them, there are in fact quite a number of 'trigger points' or signposts which upon reflection can indicate the severity of what's happening at the time. There are however no simple recipes or solutions with universal application - only individual assessment of the trigger points which are proven to have a significant impact on the individual businesses. At each trigger point there will be an appropriate individual response which relates to the current circumstances. Depending on whether it is early or later stage drought, there may be a range of options or very limited options. So an early recognition of your important trigger points is the first step to managing a drought.

### Some trigger points

- All is not well with rainfall patterns locally
- Soil moisture profiles are well below that required for effective plant growth
- Paddock feed production levels are less than previous years for the number of stock on hand
- No rain for 3 months, and probabilities of median rainfall during the next 2-3 months are less than 50%
- All is not well with climate outlook over a wide area of the country
- The annual pattern of rainfall is entering the 'dry season', or the 'storm season'
- Market prices deflate despite sound fundamentals and consumer demand. (this is in response to excess turnoff of stock) The indicator here is producer market intentions
- Pastures melt and any green material vanishes (less than 1000kg /ha. on inside country)



- Some dams below 40% capacity, rivers and natural water points dry up
- In rangeland areas cattle seek top-feed (browse trees)
- Older stock stand still in terms of growth rate
- Cattle condition slips, particularly for cows following calving
- Stock routes fill up with travelling stock
- Stock losses increase due to plant poisonings and susceptibility to disease organisms
- Whole of property has less than 800kg of DM/ha and the low ground cover puts landscape at risk of future erosion and deterioration
- Feedstuff prices escalate to import parity prices
- Feeding costs exceed cash flow from regular sources
- Feeding costs exceed cash flow from drought sales
- Drought incurred debt drops equity below 70%
- Low PTIC rate at routine pregnancy diagnosis
- Not talking to anyone?
- Not following your plan? Go back to it
- Accessing off farm income to meet daily living
- Off farm assets reduced by 20%
- Do you have other triggers for action to add here?
- .....
- .....

**Some business strategies worth looking at**

- Know which trigger points are most relevant to your situation
- Always carry and be ready to sell negotiable stock
- Get other stock categories market ready
- Avoid being trapped into having to sell 'unsaleable' stock (eg light cows under 180kg D.Wt.)
- Avoid feeding all stock. It's seldom worthwhile
- Work to a plan (your own personal drought plan)
- Know what you are going to do at the various stages, and do it.
- Estimate potential costs in advance for discussion with your financier. Do up a worst case scenario and also a best case. Then shoot for somewhere in the middle i.e. a most likely situation.
- Do a cash flow budget and readjust the overdraft with your bank

- Try and retain the strength of the business. That doesn't mean retaining all the stock. It might mean retaining selected trading stock that will be expected to grow in value over time. It could mean retaining key genetics i.e. a small proportion of the most productive cow families or their heifer progeny. It will certainly mean looking after the property's pasture base for future productivity so as not to outlay more money at the end of the drought replanting new pastures.
- Consider the individual people in the business and their ability to cope with the drought plan
- Seek current information you need to implement your plan
- Engage a friend who can act as a mentor to help you monitor and implement your drought strategy. It is usually more helpful if this person is a complete outsider to the business
- Follow the plan
- Remember to draw lines in the sand - for herd reductions and for outlays on feeding costs
- Don't take on more than you can handle. Drought feeding programmes are very labour intensive
- Don't be frightened to exchange stock for cash but think carefully about your priority selling order.
- Any dollars surplus to immediate needs can be invested for a return or placed in Farm Management Deposits for withdrawal at a later stage. Forced sales from drought can be isolated from tax liability.
- If you live in an area commonly known for shorter duration droughts i.e. if you are more likely to come out of drought earlier than some, you will have additional options for drought recovery which could include restocking at sensible values or taking on outside agistment. This should influence your immediate drought plan.
- Try to retain social contacts and regular communication channels. Rural counsellors are the best people trained to understand the current state of play with financial drought support programmes and immediate carry-on requirements.
- Risk management, including drought management is an individual call, since we all perceive risks differently and have varying desires to manage those risks
- You may have other option for managing – such as off farm investments or an alternative income stream, inter-property transfers, purchase of additional property with feed on it, an agistment contract etc

## Conclusion

It is important to develop a strategic approach to dealing with drought risks

Since options will vary for individual producers, try and identify your risk aversion profile.

- What are your personal and business risks?
- How do you manage them? How quickly do you need to act?
- Are you a high input or low cost producer?
- How do you see your future opportunities?
- Do you know your enterprise key profit drivers?
- How will this drought blow out your costs of production compared to your expected future returns?
- How do you monitor your enterprise performance in drought years?
- What changes to your business are timely to implement now?

These are all important questions, the answers to which form the basis of your personal drought plan and timeline. Knowing the risk component, you can deal with it by considering your own strengths, weaknesses, opportunities and threats to your business.

If you don't have a business plan, a marketing plan or a budget then you increase your risks enormously in drought times. In these times it is vital how you manage your overdraft, how you manage your natural environment and how you manage your service providers. You will also need systems in place to beat inflated prices and to monitor your equity position. If you have a drought plan you can use simple checks to see how you are currently going. Experienced producers use lateral thinking, they use a holistic approach and consider global market trends as well as climate forecasts.

## Further information

- Llewelyn D. et.al. "Review of drought preparation and business strategies for the North-West Slopes 2002-03" on [www.dpi.nsw.gov.au/reader/drought](http://www.dpi.nsw.gov.au/reader/drought)
- Lloyd M. et.al. "Breaking the dry spell- Action planning for drought management in the Inverell district" Macintyre Development Unit 2000 PO Box 18, Inverell, 2360

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