

Risk vs. Reward: 'The Basics'

One in a series of risk-mitigation articles from the Canadian Beef Breeds Council in collaboration with Brian Perillat of Meyers Norris Penny.

Have you ever had a top prospect bull calf die, or fail their fertility test? Have you had to manage through a long drought or an extra cold calving season? Or, at the summer fair watched your (or someone else's) show animal run through the midway wearing the trimming shoot head gate?

If you have had these experiences, then you are aware that there are 'risks' associated with operating a purebred cattle operation. Purebred breeders in particular are exposed to a wide variety of risks associated with their business; these may be related to market volatility, weather, disease, fertility, human error, or government policies; but they tend to be linked to financial risk, which could mean losing a significant amount of the equity you have in your business, or being unable to pay bills or make bank payments.

Most people tend to associate risk with negative outcomes, but risk can be both negative and positive. Producers generally try to protect themselves from negative risks including falling cattle prices, winter storms, lack of rain, bull infertility, sickness or accident, human error and liability issues. Meanwhile, farmers and ranchers are generally optimistic because of the positive 'risk' such as rising cattle prices, excellent calf crop, and lots of rain resulting in good pasture and hay crop. It is important to be aware of the impact of positive and negative risks, because some risk management strategies may limit both the negative risk and the positive risk.

Given the changing dynamics in the cattle industry, and the challenges everyone has faced over the past few years, it is a difficult balancing act to manage the risks while trying to continue to move your genetics business forward. At times, in the short term, producers may not be able to avoid a loss. The key to managing through this is to minimize these losses, and to have a strong operational plan when things turn around. In order to do this, it is critical to understand and pay careful attention to managing the financial risks of operating your purebred business.

The first step in managing financial risk (and remember virtually all risks will ultimately have an impact on your bank account) is to keep a good set of farm records to allow you to measure and analyze your current operation, and its performance. This information is critical to measure the impact of some of the risks you face, and to help make management decisions. Good records provide benchmarks to compare yourself to the industry as well as to compare how you are doing over time. Ultimately, record keeping and measuring performance is critical because of one simple concept: "You can't manage what you don't measure." Records, whether financial or pedigree or performance are fundamental to the success of any purebred operation.

The Canadian Beef Breeds Council has established business resources specifically suited to the needs of purebred producers. These include business management tools, website information and links, and WebEx sessions—all designed to lay the foundation in helping producers mitigate risk. These resources were developed in response to the Council's Purebred Risk Assessment (PBRA) Project that determined key risks facing the sector and established initiatives in response.

Visit the CBBC website and start first with the Financial Assessment Tool. The financial assessment tool provides a 'snapshot' of your operation today. It calculates your Net Worth (Total Assets – Total Debts) and compares you against industry benchmarks—in terms of the financial health of your business. It is a simple and straight-forward tool that will measure how much risk you may be facing because of too much debt, or possible cash flow problems. It will also create some profitability measures for your overall farm operation, and express your profitability so that it can be compared to industry standards and alternative investments. For example, what is the return on investment you are getting from your farm compared to returns that are available through other investment opportunities?

Traditionally, in the cattle industry, producers tended to accept the bad risk with the good risk. They manage their way through the tough times by living off their equity (wealth) they created in the good times. Historically, this was mainly done by having a management plan based on a strong production system. Over time this business model has changed and today strong management is no longer based on productivity; instead—management has to focus on profitability and the associated risks.

Canadian Beef Breeds Council (CBBC) is a national non-profit organization that supports and promotes the Canadian purebred beef cattle industry and represents members on issues of common interest. The membership includes national beef breed associations that in turn represent 10,000 producers of purebred breeding stock; associate CBBC members include exporters and other service providers.

The Council, in providing service to the purebred beef cattle sector, has developed unique business tools, resources and educational programs and materials for producers, and is establishing a national beef information exchange system in collaboration with industry partners.

In representing members, the CBBC annually develops and executes a strategic international market development plan, incorporating key features of the Canada Beef Advantage branding program, including the ongoing process of leadership in animal health and food safety. In collaboration with, and in support of, members – the Council promotes the Canadian purebred beef cattle industry globally.

Brian Perillat is a Farm Management Consultant based in the Red Deer office, working with the livestock industry.

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Visit the **CBBC Producer Business Resources** website to find information, tools and links for purebred beef cattle producers, including:

- Financial Assessment Tool
- Access to Capital
- Preparing For Your Lender
- Loan Products
- Investment & Equity Capital
- Cost of Production, Product Pricing and Benchmarking Workbook
- Sales Price Reporting Workbook

Go to: www.canadianbeefbreeds.com and click on the calculator image



Canadian Beef Breeds Council 320, 6715 - 8th Street NE Calgary, Alberta T2E 7H7

T 403.730.0350 F 403.275.8490 E info@canadianbeefbreeds.com www.canadianbeefbreeds.com