

Knowledge is power in risk-mitigation

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

Risk is certainly not a new topic in the agriculture industry and it is a 'hot topic' in the purebred sector.

The livestock sector has faced several years of low or negative profitability. Therefore it is extremely important for producers to protect the assets they have and make the best of the production and market conditions they face. Given the low profit margins and the increased volatility of input and output markets in the livestock industry, most producers cannot afford to take a large amount of risk without the proper protection.

Risks are inherent in the purebred cattle business and how to deal with these risks may not always be clear. It is important to remember that risk management is not about eliminating the risks (which is ultimately impossible). Risk management is about being aware of the risks in your business, knowing the impact of the risk if a negative outcome was to occur, and being prepared or having a plan to deal with the risks you face.

The first step in a risk management plan is to measure and track your operation's performance. Without understanding your operation's performance it is almost impossible to determine the impact different risks could have on your business and to even determine where the key financial risks for your operation stem from. Also, through measurement of your operation's financial performance you may be able to take a proactive approach to *managing risk* by making decisions that benefit your operation by *reducing risk*.

The **Canadian Beef Breeds Council** (CBBC) has worked with industry to create purebred producer-specific business management tools to address some of the inherent risks in the purebred sector. These tools assist with the initial steps in risk management by helping to measure the performance of your purebred operation, with an opportunity to compare your operation to other purebred operations. The *Cost of Production (COP)*, *Product Pricing*, and *Benchmarking Workbook* was developed to assist purebred producers to measure the cost of production and profitability of their purebred operations. The tool not only looks at the profitability of the purebred herd in total, but looks specifically at the costs and returns of each profit center within the operation; these being the breeding herd, the replacement heifer program, the yearling bull program, and the two year old bull program.

This allows you to examine your operation in detail to understand which parts of your business are making money and which areas need improvement. Once the base operation is understood, you can then assess different scenarios for your operation in order to lower costs or improve profitability. From a risk perspective, if you are able to lower your costs without lowering your output (income) this would be a risk-enhancing strategy, as it reduces the impact of negative consequences without limiting upward potential of the operation.

Another key feature in the COP Workbook, is the pricing tool. It allows you to compare your current selling price of your animals (yearling

bulls, two year old bulls and heifers) to the break-even selling price of these animals. This allows you to assess under which conditions you are making a profit and when you are not. It may also show that while parts of your business may be making money, other parts could be losing money. Until you know this type of information it is difficult to make management decisions, or measure where the risks in your business originate.

The final output of the Cost of Production Workbook, is the benchmarking section. Benchmarking allows you to compare your operation's performance over time. From year to year, how is your operation performing, and how is each of the programs within the operation performing? Are the changes you are making improving the operation or do you need a different strategy? Benchmarking is extremely valuable when you are able to compare your operation to other purebred operations.

The included chart is an example of benchmarking results and shows how your operation compares to the purebred sector. This example chart (using sample data) shows that the operation has lower revenue per cow when compared to the average in the sector, and higher costs in the breeding herd, yet the yearling bull program, appears to be stronger than the average producer in the industry.

In order for CBBC to generate and publish sector benchmarks the Council has established a national database and is starting to collect summary information from purebred producers across Canada.

The COP tool generates a separate summary page report that can be submitted anonymously to the national benchmarking data base.

An equally important tool is the *Sales Price Reporting Workbook* which allows producers to track and compare their own purebred sales

year-over-year and to share data to help generate national purebred sales benchmarks by province and breed.

The sharing of data and the subsequent benchmarking reports will assist producers to compare themselves to others and will help the sector to verify the inherent higher value of purebred cattle compared to commercial animals. Lenders have confirmed to CBBC that this verification is essential in order to assist the sector to access capital based on the market values of purebred cattle.

Download the tools from the *CBBC Producer Business Resources* website, access other information, tools and resources and learn more about benchmarking.

HYPERLINK

<http://www.resources.canadianbeefbreeds.com>
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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. The PBRA project is primarily funded by Agriculture and Agri-Food Canada under the Growing Forward initiative's Private Sector Risk Management Partnerships (PSRMP).

Visit the CBBC Producer Business Resources for:

- Cost of Production, Product Pricing Workbook – version 3
- Sales Price Reporting Workbook – version 3
- Before Meeting with your Lender – check list
- Financial Self Assessment and Quick Calculator
- List of lenders and online catalogue of loan products
- Investment Capital and Equity Finance – overview
- Bull Calculator – demonstrate to your commercial buyer the added-value in a purebred bull
- Updates on planned new insurance coverage for purebred producers

Purebred Operation Benchmark Comparison

