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MANAGING RISK ON THE AVERAGE SIZED COW-CALF OPERATION

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IMPLICATIONS

It has been said "life happens." Usually that refers to circumstances that happen in one's life or in the life of a ranching business. These circumstances can include weather events like drought, severe snow, floods and fire. There are a number of tools that can be used to reduce the risk that ranches incur. The proactive ranch leader will take steps to manage risks. It is an ongoing process and must occur every year in order for risk to be minimized. Workforce risk and succession must also be taken into account. Ranches that don't take risk management steps are "at risk."

Risk management has been talked an as a necessary tool in the cattle business for years. Many times this discussion only refers to pricing of cattle. While this is very important, there are many of aspects for the cattle business that need risk protection measures. Some areas that will be covered here are weather events, succession, sudden loss of leadership and marketing. One dictionary definition of risk management is: the technique or profession of assessing, minimizing, and preventing accidental loss to a business, as through the use of insurance, safety measures, etc.

One of the biggest areas of risk that the ranch leader has to manage for is a weather event. Depending on the area of the country in which your ranch is located, the predominate weather event will change. For example, areas of the Southeast and some of the Southwest don't have to develop a snow plan. The ranch leader will have to determine the priority of types of weather events to plan for. Northern tier ranchers have to deal with snow events while others may not. It is important to know what the 40 year averages are as you make plans for a severe weather event. If a leader plans and manages for the worst event in memory, it will nearly impossible to manage for a profit.

Drought is, perhaps, a more common problem. It seems that ranchers are constantly dealing with the threat of drought. In northern Wyoming, a drought plan might look like this: As always, the spring rains hold the key to what the season will hold. Studies of the forty-year averages show that seventy per cent of the areas precipitation should come in the March-June period. With this in mind, the critical date might be May 15. This will hold for both cropping and grazing. For grazing, the flexibility comes with the replacement heifers, feeder heifers and feeder steers on grass. Should precipitation be low the leader begins by adjusting numbers of cattle in this order:

1. Feeder cattle on grass (May)
2. Number of replacement heifers (May)

3. Dry and cull cows (June)
4. Early weaned calves (August-September)
5. Bred cows (September-October)

The list above is only possible with a livestock class mix, enterprise mix that is compatible with drought planning. A safe stocking rate limit needs to be established for the main "keeper" herd based upon what the manager thinks is safe as determined by a six or seven year average. The other classes offer a way of making decisions to destock quickly if the need arises.

For the farm enterprises like corn and spring planted crops, acreage will be adjusted as the situation warrants. Again, the critical date might be May 15 in northern Wyoming but would be different in another area.

If land condition is good going into a dry period, the land condition will be affected for a shorter term. Adequate fencing can help provide control of livestock and ensure promote of a healthy grassland. The manager needs a systems approach to grazing and has a plan. The grazing plan's goal, of course, is to provide for a positive trend in range condition. Good monitoring is needed in order to measure progress. The most important aspect of a grazing plan is "REST". Plants need time to recover from grazing if they are going to have good roots that lead to good production and water usage.

Water is always a critical part of livestock production but it really becomes critical in dry years. Designing a water supply based upon a worse case scenario is the exception to a former statement in this paper warning about planning for the worst. A well thought out water system will really help during good years but it will really pay during drought. It will help to stretch limited feed sources further.

Getting through a drought will always be easier if the ranch leader has been a good financial steward. Good budgets, profit and loss statements and cash flow statements from the past as well as future projections make decision making much easier and it helps with good relationships with bankers and other interested in the business.

Other weather events are not as long term as drought but need to be thought through just the same. For example, what if that 100-year snow event happened? How would you cope? It is good to have at least worked through these scenarios with those involved in your business.

Price protection or managing risk of price movement is always a concern for the ranch manager. Today, there are a number of avenues that can be taken to reduce price risk. Critical to this discussion is relationship building. A good trusting relationship with buyers is critical in planning for market risk reduction. Without good relationships, it is hard to be proactive about finding solutions. With that said, alliances offer one way of reducing risk from price volatility. Country Natural Beef, for example, offers a set price that all of the members of the cooperative agree on each year. Others offer a producer a window of opportunity to sell or place cattle with a price formula plus the incentive. Some programs offer a basis contract, which allows a producer an opportunity to price cattle months in advance and the buyer takes a position on the futures board.

Videos have become an important tool to market cattle. They provide a wide variety of buyers and the seller can also sell the cattle several months in advance of delivery. This can help avoid selling cattle during the normal “Fall Run”, for example. Traditional forward contracts and the futures markets offer price protection also.

Management succession is an area that offers great risk. Steps must be taken to have a solid plan in place for future leaders. Advisory boards are one tool to help with succession. The author recently wrote the following article for Drovers Magazine:

Have you ever wondered about what limitations exist in you operation or what happens if the leader of your business is not available? I have been fortunate to have worked with some great advisors. Part of the answer the first question is simply the ability and knowledge of the leader. Most of us with a little gray hair have learned that if we are around people that think differently than we do and with their different experiences, they can cause us to think outside of the box.

Advisory boards can be of great benefit because they are focused on your business. Board members could include people who you work with like a banker, major supplier, BLM range conservationist and accountant. If they understand more about your vision, they will be much more helpful to you when they provide professional services for you. This brings us to the purpose of your board. Boards focus on strategic direction. Where do you want/need to be ten years from now? What trends do you see in the market place that you need to adjust to? Are your costs of production in line with what you expect prices will be and your return on investment goals? Are you waging a war on costs?

There are other advantages to an advisory board, also. Accountability is one that may not sound attractive but there some real benefits. We all have had times when we wanted to work on the business or do some business planning but it never got done because there were fences to be fixed, cows to tend or weeds to spray. If you know that you have an advisory board meeting on a certain date, peer pressure will cause you to prepare. Your business will benefit simply because you have taken the time to formally plan.

Advisory boards aid in management transition and/or they provide risk management if something happens to key leaders. By that, I mean that most ranch businesses have one primary leader. If there is an advisory board who understand the leaders vision the board can advise those who are managing in the interim period.

How many and who should be on your advisory board? I have found that six or seven members function well. My preference is to think strategically with regards to "who". What kind of expertise would benefit the company the most? You don't need seven "grass" guys. You might have a fun discussion but a lot of strategic areas will be left out. If the leader's expertise is cattle, maybe someone who is good at raising hay would be a good fit. If you have a few employees, maybe some who has been successful with many employees would add a lot to you business.

Where should you meet? I have found and I encourage my clients to meet "off ranch". Accountants, banks and hotels usually have rooms that will accommodate meetings like this. Many times these rooms can be used at no cost. By meeting "off ranch", you and your team will be more focused. The kitchen table is fine for some discussions but phones can ring along with other distractions. Meeting off-ranch will bring a sense of importance or urgency to your meeting.

The first time I tried this approach; I invited our feed supplier, BLM manager and county agent along with three of us on the ranch. I was amazed at the results after a couple of years. We began to understand each other and the different perspectives that added value to our ranch.   This kind of board might only meet once per year and serve mainly to make sure we all knew what the year might hold. Later, my boards contained people good at finance, ranching and marketing.

For families, boards offer a great opportunity to include off-farm family members in the discussions.   If they live somewhere else and have different occupations, it is hard to be connected and to feel involved.   A family member/future heir will not be surprised by business performance if there are formal board meetings were business performance is discussed.

The bottom line is that your business can grow and prosper only as much or to the knowledge level that the leader has attained. Multiple heads/ideas, experiences and perspectives cause a multiplied effect on strategic thinking and, wow, the business and our lives are enhanced. In addition, family unity can improve by having regularly held board meetings that are focused on a common vision.

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