

Risk Management is More Than Just a Numbers Game

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■ Introduction

Risk is measured in many different areas. In order to be successful, farm managers must be able to determine what the risks are, measure the potential for problems, and make decisions that will alleviate or mitigate the risk to an acceptable level.

The five key areas of risk management are:

- Financial
- Marketing
- Production
- Industry
- Human resources

Managers must have an understanding of each of these areas in order to be highly successful. All areas must be headed in the right direction or failure may occur.

For example, a farm may be extremely good in production management, however, if the farm has not considered the marketing component, and in turn has no marketing plan, the farm may not be able to sustain a drop in prices for a period of time. That period of time may be determined by the farm's financial status.

Risk measurement also needs to be addressed within each of the key areas. A farm may be producing in the top 10% for pounds of pork produced per sow per year. However, they may also be in the top 10% for costs to produce that pound of pork.

■ The Key Success Factors for Mitigating Risk for Each of the Above Areas

Financial Management

- Defined goals
- Has a plan (strategic, business and operational)
- Proven ability to accurately meet projected net income
- Accurately prepared financial statements and using projections to analyze and monitor performance
- Clear understanding of financial statements and the impact of key ratios, ie. (current ratio, debt-to-equity, and debt servicing ratio)

Marketing Management

- Aware of all marketing options
- Proven marketing strategy and plan consistently using most effective methods
- Knowledgeable on market prices and trends
- Consideration given for pricing on input costs

Production Management

- Using detailed production records
- Effective herd health monitoring program
- Knowledge of production costs

Industry Management

- Evaluation, selection and operation of new technology
- Obtaining information on industry cycles and outlook
- Strategic alliances with suppliers and processors
- Awareness of environmental issues and conforming to policy

Human Resources Management

- Clear communication of ideas and expectations
- Meet health and safety standards

- Sound recognition and reward systems
- Succession plan

By implementing or using the key success factors a manager will be informed and better able to make decisions to minimize risk.