Managing Risk in Your Cow/Calf Operation
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Many Types of Risk
• Production risk
• Market (price) risk
• Financial risk
• Legal risk
• Human risk
• Together these make up business risk

Risk Management Objectives
• Ensure survivability of business
  – Reduce risk to manageable levels
• Other goals may be important as well
• Cost effective
  – Cost of doing business
• Must meet changing needs over time
  – Reevaluate periodically and adjust as needed

Risk Management Tools
• Business Structure
• Management
  – Animal health management
  – Financial management
  – Cash marketing/timing
• Production/Marketing Flexibility
  – Feed/forage/water reserves
  – Retained ownership
• Insurance
  – Many forms
• Offsetting risk tools
  – Futures and options

What is Risk?
• Risk versus uncertainty
• Risk is a measurement of the impact of adverse outcomes
  – Risk = (probability of an event) x (consequences of the event)
  – Usually measured in monetary terms
• Risk management means the ability to reduce the probability of the event or to reduce the consequences of the event

Reducing the Probability of Adverse Outcomes
• Examples:
  – Vaccinations reduce the probability of disease outbreak
  – Forward contracting sales reduce the risk of price decreases
  – Safety equipment reduces the likelihood of injury
Reducing the Impact of Adverse Outcomes

- Examples:
  - Feed and water reserves to reduce the impact of drought
  - Using insurance to protect against losses
  - Hedging prices to reduce the impact of adverse price changes
  - Using multiple hay piles to reduce the impact of fire

Production Risk

- Adverse weather, disease/pest outbreaks that reduce production and revenue
- Usually addressed through management
  - Optimal feed/water reserves
  - Animal health program/biosecurity

Market (Price) Risk

- Prices (values) may decrease in the time lag between production decision and sales
- Input price volatility
- Can be managed by a variety of tools:
  - Timing of sales/purchases
  - Forward pricing products
  - Offsetting risk tools
    - Futures and options
    - Revenue insurance

Financial Risk

- Interest rates
- Leverage
  - Cash flow (liquidity)
- Solvency
  - Loss of equity
- Financial risk is often determined by the impact of production and market risk

Risk Interactions

- Production and market risk
  - Forward contracting
- Production/market risk and financial risk
- Diversity of activities and tools
  - Comprehensive risk assessment and plan

![Graph: Estimated Average Cow Calf Returns](attachment:image.png)
ANNUAL AVERAGE CATTLE PRICES
Southern Plains

SLAUGHTER COW PRICES
Southern Plains, 85-90% Lean, Weekly

PERCENT CHANGE IN COW PRICES
From November of Previous Year, S. Plains

Risk Management Considerations

- Optimal level of risk (Benefits versus costs)
  - Business (including lender)
  - Personal
  - Family
- Balanced approach to risk
  - Needed coverage (changes over time)
  - Appropriate application of tools
  - Avoid excess or redundant coverage
- Risk and profit potential are often positively related
  - Eliminating risk is not the goal
  - Maximize profits with an acceptable level of risk