

RISK ASSESSMENT

How risk applies to business

Traditionally, farmers have thought about risk as being associated with operations and pricing. But, risk affects farms in many more ways. Risk is often associated with change. As part of transition planning, it's important to think about the risks that may arise.

Risk is generally thought of as events that happen and results in business performance that are below expectations.

How risk can be managed

The process of transferring ownership and management to the next generation very often compounds risk.

Risk Management is the process of identifying, measuring and managing the uncertain events that can happen. Risk on a farm can be classified as:

- Business risk — associated with
 - operations
 - strategy
- Financial risk — associated with the financial aspect of the farm.
- Market risk — associated with the input and output markets of the farm.

Risk can be measured in two ways – the probability and the impact.

- Probability is the likelihood that a risk event will occur.
- Impact is the degree of the consequences that would occur if the event took place.

It can be scored as follows:

Impact	Descriptions	Score
Very High	Significant consequences on the achievement of stated goals and objectives.	5
High	Considerable consequences on the achievement of stated goals and objectives.	4
Medium	Modest consequences on the achievement of stated goals and objectives.	3
Low	Limited consequences on stated goals and objectives.	2
Very Low	Negligible consequences on stated goals and objectives.	1

Probability	Descriptions	Score
Very High	Almost certain to occur in the context of stated goals and objectives.	5
High	Likely to occur in the context of stated goals and objectives.	4
Medium	May occur in the context of stated goals and objectives.	3
Low	Unlikely to occur in the context of stated goals and objectives.	2
Very Low	Extremely unlikely to occur in the context of stated goals and objectives.	1

Why is this relevant?

A detailed and implemented process of risk management helps you to capitalize on business opportunities while protecting your farm from undesirable outcomes or severe losses. This is especially important as you and your family work through your transition plan.

How will this help transition planning?

- This helps to promote discussion and communication.
- The discussion requires that members of the family think about transition from a different perspective.
- The exercise helps to identify areas that may require specific attention.
- The exercise can help to minimize the potential for conflict. Risk associated with unfavourable events can cause stress within a farm family. People react differently to stress and it can lead to disagreements and conflict.
- Dealing proactively with risks that you have identified may increase the likelihood of a successful transition.

Instructions

A table in the forms appendix on pages 265-268 lists specific risks. It provides examples of these risks within the broader headings of operational business risk, strategic business risk, financial and market risk.

1. Complete the exercise as a group.
2. Under each risk category, read the list of risk examples and circle those that apply to your farm.
3. Add or describe risks that are specific to your farm (if any) in the space provided.
4. Use the scale descriptors from the tables above to decide the probability and impact of this risk category.
5. Refer back to your SWOT analysis and expand on your listed weaknesses and threats as

applicable.

6. Score the category by multiplying your probability and impact rating.
7. Total the scores in each risk category.
8. Focus your attention on areas with the highest scores.
9. Store the document for future reference.



EXAMPLES

Human Resource

Risk Category	Description	Probability	Impact	Score
Human	four Ds (death, divorce, disability, departure), management and ownership capacity, transition, performance and training	2	5	10
	Your Farm			
	<i>We are at risk if our succeeding generation does not grow their management capacity to match the demands/growth of the farm</i>			

Financial Risk

Risk Category	Description	Probability	Impact	Score
Financing and financial structure	Debt servicing capacity, leverage, liquidity, profitability	2	5	10
	Your Farm			
	<i>We are at risk if we take on too much debt and are unable make our payments.</i>			
Interest rate	Foreign exchange, cash savings, interest rates on debt, investment assets	4	5	20
	Your Farm			
	<i>We are at risk if interest rates rise significantly (more than 3 points.)</i>			
TOTAL				30

How does this apply?

Completing this exercise helps you to understand the broader aspect of risk that applies to your farm. You should consider developing a specific risk mitigation strategy for those headings and risk categories that have the highest scores.

Refer to this topic in the Critical Issue Action Plans topic on page 107 if you decide that a formal risk management strategy should be part of your transition plan.



PLANNING POINTERS:

- Farms encounter some risks that they cannot control, such as weather.
- Review your risk exercise annually.
- Being proactive about managing risk can result in better outcomes.
- Remember to refer to your risk exercise when you are developing your action plans.



WHAT TO WATCH FOR:

- When working through the exercise, try to step back and look at the risks to the farm from an outside perspective.



EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Risk Assessment exercise on pages 265-268.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Risk Assessment

Getting started:

Below is a table listing specific risks and examples of these risks within the broader headings of operational business risk, strategic business risk, financial and market risk.

1. Complete the exercise as a group.
2. Under each risk category, read the list of risk examples and circle those that apply to your farm.
3. Add or describe risks that are specific to your farm (if any) in the space provided.
4. Use the scale descriptors from the tables above to decide the probability and impact of this risk category.
5. Refer back to your SWOT analysis and expand on your listed weaknesses and threats as applicable.
6. Score the category by multiplying your probability and impact rating.
7. Total the scores in each risk category.

Operational Business Risk

Risk Category	Description	Probability	Impact	Score
Technology	Ability/cost to adapt, obsolescence, rate of change, role of science and biotechnology			
	Your Farm			
Human	4 Ds: Death, divorce, disability, departure, management and ownership capacity, transition, performance and training			
	Your Farm			
Legal / regulatory	Regulation compliance and changes, third party liability, environmental damage/compliance, licensing and reporting			
	Your Farm			
Production	Weather, pests/disease, theft/fire, operational practices			
	Your Farm			
Relationships	Landlords, lenders, customers, suppliers, contracts			
	Your Farm			
Distribution systems and channels	Transportation, cost, dependence on distributors			
	Your Farm			

Strategic Business Risk

Risk Category	Description	Probability	Impact	Score
Strategic positioning and flexibility	Industry consolidation, resource allocation and planning, organizational adaptation			
	Your Farm			
Marketing, reputation and image	Company image and brand, product reliability			
	Your Farm			
Competitive conditions	Market share, pricing wars, Commodity based; price-taker, world markets			
	Your Farm			
Governmental trade and farm policy	Provincial government programs, international policies (COOL, US farm bill etc.), supply managed			
	Your Farm			
TOTAL				

Financial Risk

Risk Category	Description	Probability	Impact	Score
Financing and financial structure	Debt servicing capacity, leverage, liquidity, profitability			
	Your Farm			
Interest rate	Foreign exchange, cash savings, interest rates on debt, investment assets			
	Your Farm			
TOTAL				

Market Risk

Risk Category	Description	Probability	Impact	Score
Input and output product prices	Price level volatility, input product availability, output premiums/ discounts			
	Your Farm			
Contract terms, delivery and payment	Delivery delay, buyer default, supply chain obstacles and change			
	Your Farm			
Market outlets and access	Number of markets, ease of access to markets, qualified supplier status, cost of market entry			
	Your Farm			
TOTAL				