

STRATEGIC RISK

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Positioning your farm for long-term success

What are Strategic Risks

- Strategic risks are risks caused by exogenous market shocks
- Sources:
 - Government policy changes
 - Geopolitical Conflicts
 - Disease
 - Changes in consumer preferences
 - Shifting weather patterns
 - Technological uncertainties



Positioning your farm for long-term success

Farm Resilience to Strategic Risk

- Resilience is a farm's ability to anticipate, absorb, accommodate, or recover from effects of shocks or stresses in a timely manner

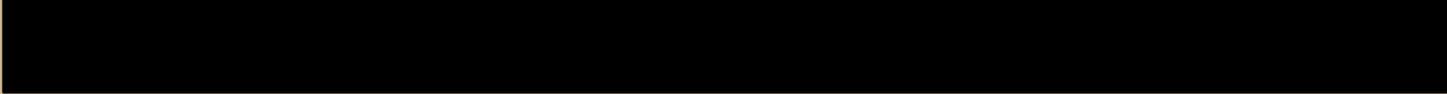
Agility

A farm's ability to quickly identify and capture business opportunities

Absorption Capacity

A farm's ability to withstand shocks from strategic risks

The Tradeoff Between Efficiency & Resiliency



Questions to ask

1. Do we have an efficient production system?
2. Can we produce below the industry average cost of production?
3. Does our farm have sufficient equity and liquidity to handle adversity or a cyclical downturn?
4. Do we have an adequate system for obtaining management information and monitoring business performance?

Impact on Financials

The Profitability Model

$$\textit{Return on Equity} = \textit{Earns} * \textit{Turns} * \textit{Leverage}$$

Or

Overall profitability is equal to the margins you get relative to your asset efficiency and capital structure

Earns and Turns typically counterbalance each other

The Five Managerial Levers a Farmer Can Pull

Output Price

Manage price you get for what you produce.

Yield

Manage how much output you produce.

Costs

Manage how much it costs you to produce.

Assets

Manage your balance sheet/What tools you use to produce.

People

Manage the people that help you with the four levers above.

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