Tool 1.7

Farm business risk assessment template

RISK ASSESSMENT CRITERIA

0	No risk or not applicable.
1	Very low risk. Unlikely to have any measurable impact.
2	Low risk. Business likely to survive impact relatively unchanged.
3	Moderate risk. Could cause significant temporary setback.
4	High risk. Could cause significant permanent setback.
5	Extreme risk. Has the potential to destroy the business.

This template is designed to help prioritise the operating risks in your farm business. Look at each of the 12 risk areas one at a time. Each risk area is split into two components. Place a score from 0-5 as per the Risk Assessment Criteria for each component.

1. HUMAN RESOURCE

You should look firstly at yourself, the manager of the business. Are you the main problem or are you right on top of the job, constantly honing your skills? Hard question this! Can you answer it honestly? Next, look at the availability of a skilled labour pool. This can come in the form of individuals suitable for permanent or casual employment, or in the form of contractors or contract services. Is there a big pool available? How good does the pool look? What is your track record of finding, employing and retaining first class staff?

Owners/managers	
Employees	

2. PRODUCTION

Is your production system efficient? How competitive is your cost of production? A competitive cost of production is a ticket to play if you are in the commodity business; it is a given. Unless you have it together here, the rest is irrelevant. If your cost of production is uncompetitive, why is it? Is the problem a lack of operating scale, a poor production plan, expense over-runs or what? Obviously you cannot properly address this important area of risk unless you know your five year average cost of production for each product and the volatility inherent in it. Having cost of production data for one or two years is a good start and is way better than having none. If your cost of production is uncompetitive, is it because your output is too low or your inputs are too high?

Output too low	
Input too high	

3. DEMOGRAPHIC

This can come in two forms. The first form is associated with remote location where community infrastructure is suffering making it difficult to access essential services and attract competent staff. The second form is associated with closer settlement where a real estate premium on land values may be making it difficult to either expand operations or justify staying there. The same form of demographic risk can be created by higher value industry springing up in the district which can afford to pay a significant premium for land over and above its traditional use value.

Remoteness	
Proximity	

4. ENVIRONMENTAL

This also comes in two forms. The first form is the environmental health of the farm. Are there any major environmental issues that are constraining production and profitability? For example, salinity, acidification, woody weeds and soil erosion are serious constraints to production. The second form of environmental risk is external. What are the prospects of government or semi-government bodies imposing constraints on your operating activities to satisfy environmental requirements?

Health	
Impositions	

5. CLIMATE

This should be appraised on the basis of frequency and severity. Frequency is self explanatory, for example if you experience rain at harvest six years in ten, you have a frequent problem. Severity involves the failure of a particular season, drought, floods and severe frosts. Also, heavy rain at harvest is a severe climate problem. Relying on memory or guessing is not good enough so, ideally you need to access 100 year records and perform an analysis. If the risk of drought or flood or frost is, say 20% that means that on average you can expect one of these events every five years. If this is the case, you are then able to factor the economic consequences into budgets and forecasts.

Frequency	
Severity	

6. ECONOMIC

This is the risk posed to the business by general movements in the economy. For example, a change in interest rates or a recession can have financial implications for some farm businesses and the market for the products if demand is down. In general, businesses that produce commodities are more sensitive to economic risk than those businesses that enjoy pricing power. Specific economic risk is industry dependent. Is the industry deeply cyclical? When it troughs is your business still profitable?

General	
Specific	

7. GEOGRAPHIC

This refers to your location. Is your location constraining you in any business sense? For example, if you are in a remote location, does this remoteness significantly increase your cost of production? What other constraints does geography impose? For example, if you own upper river valley country, contiguous expansion through land purchasing can be very difficult. Specific geography refers to the quality of your land. Is it swampy, sandy, steep or rocky to the point where production potential is severely constrained?

General	
Specific	

8. MARKET

This refers to the overall trading conditions for the enterprises that you are involved in. If you are a horticultural producer, what is the inherent risk in the horticultural market? Overall, is it a local risk where there is a growing tendency for corporate agriculture to out compete individual growers for the available markets or is it from overseas?

Domestic	
International	

9. PRICE

This looks at the degree of price volatility over a period of time. The full spectrum of volatility needs to be carefully appraised, preferably so that price deciles can be derived. If price deciles are available, they can be used in budgeting and forecasting and are valuable when doing a full assessment of the financial risk of the business. Is the long term real price trend falling faster than you can lower your cost of production? Can short term price volatility send you into the red?

Long term	
Short term	

10. TECHNOLOGICAL

There are two forms. The first is the prospect of the current product being made redundant by technology. A classic example is the handheld calculator which made the slide rule redundant. A second form of technological risk involves the adoption of technology by the business. Does it have a good track record of adopting and using good, proven technology or, have initiatives in this area generally resulted in failure and lost productivity?

Redundancy	
Adoption	

11. FINANCIAL

There are two forms, debt and profitability. Is the debt low and manageable or high enough to put the business at risk? Is this position planned and temporary or a long term chronic problem? How much debt can the business afford to carry and where is the current level in relation to it. Is the business profitable enough to provide working capital for all the events in its life? Most importantly, does it generate enough profit to enable adequate provisioning of major future events like succession and retirement if they are on the horizon?

Debt	
Profitability	

12. FAMILY

How do you all get on? Do you talk openly and honestly, often enough? Is there a thorny issue serious enough to impair business performance? Can most issues be resolved sensibly and amicably through mutual respect and tolerance or is the pressure gradually building to finally explode and blow the business to bits? How about succession? Is it well planned and are all parties still talking?

Short term	
Long term	

Source: Adapted from Holmes Sackett and Associates AFBR Business Risk Calculator