

## **Risk in Grain and Farm Supply Cooperatives**

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At the recent OACC CEO and Board Retreat I presented my risk analysis research on grain and farm supply cooperatives. One of the key responsibilities of the cooperative board and CEO is to understand and monitor the cooperative's risk exposure. Unfortunately, analyzing risk is inherently complex. My research involved 10 case study grain and farm supply cooperatives. I looked at six years of actual financial data along with the associated information on grain, fertilizer and petroleum volumes. There are numerous take home messages.

The first conclusion from the research is that risk profiles vary dramatically across cooperatives. While I think of grain and farm supply cooperatives as being similar, profit centers varied dramatically across the case study firms. The ratio of grain margins to total margin varied from 20% to 75%. When it comes to risk and sources of risk, your cooperative is unique and each board and manager should examine their cooperative's situation.

The second insight from the research is there is not a simple relationship between risk and business profile or size. There were cooperatives with a high portion of grain with high amounts of grain related risk and those with low levels. When the cooperatives were divided into three size groups based on total sales, there were high and low risk cooperatives in every size group. Growing and diversifying the cooperative is important if it adds value to your members. Those actions won't necessarily reduce your risk profile.

I'll be sharing more insights from my risk research in future newsletters. With the caveat that no cooperative is average, the average risk buckets are interesting. When taken as a whole, grain volume represented over 20% of the risk in overall cash flow. Variation in grain margins and realized storage income was around 13% while variation in fertilizer volume and fertilizer margin collectively accounted for around 9% of total risk. Those percentages obviously don't total near 100% emphasizing the fact that commodity related risks are not the only factor.

I'll be sharing more insights from this research. I hope that is not at the risk of boring you!