RISK MANAGEMENT PROFILES

Triple Creek Ranch: Strategic Growth into Direct Meat Marketing

Mark and Sarah Peterson didn't start Triple Creek Ranch with the intention of becoming a significant player in Alaska's local beef market. In 2015, they purchased their 200-acre property outside Palmer, Alaska, starting with just 10 head of Shorthorn-Hereford cross cattle. Through careful management and strategic reinvestment, they've grown to their current 30-head operation, finishing all their cattle for Regional Prime Processing.

"We started small because we wanted to learn the business without taking on too much risk," Sarah explains, sitting at their kitchen table overlooking the Matanuska Valley. "Looking back, that was probably the smartest decision we made."

Currently, the Petersons employ several risk management strategies: i) Forward contracts with Regional Prime Processing for 80 percent of their finished cattle, ii) Participation in USDA's Noninsured Crop Disaster Assistance Program (NAP) for their pasture, and iii) Cash reserves equal to six months of operating expenses

Their operational success has positioned them well for potential expansion, but they face critical decisions about their future direction.

The Buy Local Movement

The Petersons have been well aware of Alaska's buy local movement which has gained significant momentum since 2020. While attending a producer meeting, they learned that direct-to-consumer food sales increased 185 percent between 2019 and 2023 and accounts for approximately $48 million in annual sales statewide. After attending the meeting Mark and Sarah reflected on the number of times friends, family, and community members asked if they sold any of their beef directly to consumers.

"Thinking back on it, we have seen an unprecedented demand for locally produced beef,"

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E. Dennis-University of Nebraska-Lincoln, J.E. Tranel-Colorado State University, J.P. Hewlett-University of Wyoming, and J. Parsons-University of Nebraska-Lincoln.

notes Mark. “Five years ago, we had maybe two or three phone calls a year. Now we have several phone calls a month.”

> **“We started small because we wanted to learn the business without taking on too much risk”**
>
> **Sarah Peterson**

Recent surveys conducted by the University of Alaska at Fairbanks shows that 78 percent of Alaskan consumers prefer locally produced food when available, 65 percent are willing to pay a premium of 15-25 percent for local beef, and 83 percent cite food security as a major reason for buying local from producers.

Strategic Options and Risk Analysis

Reflecting on this current local foods movement, the Petersons came up with three potential strategic paths forward.

Option A: Maintain Current Operations (30 head)

Current Strategy - Selling to Regional Prime Processing: The Petersons currently finish and sell 30 head of cattle annually. They have an established relationship with a processor, with agreed upon pricing. The Petersons know the operational requirements to produce at this level. However, there is limited potential to grow the business further. The Petersons are also vulnerable to changes in the pricing offered by the processor, as they rely on that single buyer for their finished cattle.

Key Metrics - Average finish weight: 1,300 lbs - Current price agreement: $2.85/lb base + quality premiums - Annual production: ~39,000 lbs live weight - Existing labor: 1,800 hours annually - Current facilities at 85 percent capacity

Option B: Expand Current Model (45 head)

Scale Up Processing Plant Sales: The Petersons are evaluating a potential 50 percent expansion of their cattle herd to capture greater economies of scale and gain more leverage in price negotiations with their processor. To accommodate this growth, they would need to lease an additional 300 acres of grazing land at a favorable rate. The expansion would also necessitate investing in expanded cattle handling facilities, increased feed storage capacity, and additional equipment to support the larger herd size.

Furthermore, the Petersons would require sufficient working capital to finance the purchase of the additional cattle. While this growth plan entails significant upfront investment, it offers the opportunity to materially enhance the long-term profitability and sustainability of the Petersons’ cattle operation if they can secure the needed resources at an economical cost.

Option C: Transition to Direct Marketing (30 head)

Develop Direct-to-Consumer Program with Expansion - The Petersons are evaluating a strategy to grow their business by creating a direct-to-consumer sales channel under a private label brand to capitalize on the Buy Local movement in Alaska. This approach could significantly increase profit margins but requires some operational changes, investments in developing their brand and customer service capabilities, and ensuring regulatory compliance.

Regional Prime Processing is a federally inspected plant and has indicated they would be willing to custom process the cattle for the Petersons for a processing fee plus dollars per cwt. fabrication fee. While this option offers the potential to capture more value, it also entails the greatest risks and operational disruptions as they know little about the meat processing business.

Comprehensive Risk Analysis Matrix

To assist them in their decision making, the Petersons chose to hire a RightRisk consultant to help them conduct a risk analysis and how future changes would impact their current risk management strategy. Not surprisingly, risks are different across the different strategies, Table 1.

Table 1. Risk Analysis by Strategic Option

Risk Category	Option A (Current)	Option B (Increase Production)	Option C (Direct Marketing)
Market Risk			
Price Volatility	Medium	Medium	Low
Buyer Diversity	Low	Low	High
Contract Security	High	High	Low
Production Risk			
Feed Management	Medium	High	Medium
Health Management	Medium	High	Medium
Quality Requirements	Medium	Medium	High
Financial Risk			
Capital Requirements	Low	Medium	High
Cash Flow Timing	Even	Even	Variable
Operating Costs	Medium	Medium-High	High
Operational Risk			
Labor Requirements	Medium	High	Very High
Management Complexity	Medium	High	Very High
Weather Impact	Medium	High	High

Table 2. Financial Analysis by Strategic Option

Options	Year 1	Year 2	Year 3	Year 4	Year 5	NPV
Option A: Current						
Revenue	$128,646	$131,487	$134,399	$137,384	$140,444	
Operating Costs	$126,850	$129,387	$131,975	$134,614	$137,306	
Net Income	**$1,796**	**$2,100**	**$2,424**	**$2,770**	**$3,138**	**$9,559**
Option B: Increase Production						
Revenue	$201,208	$205,613	$210,128	$214,756	$219,500	
Operating Costs	$189,555	$193,346	$197,213	$201,157	$205,180	
Net Income	**$11,653**	**$12,267**	**$12,915**	**$13,599**	**$14,320**	**$51,300**
Option C: Direct Marketing						
Revenue	$194,738	$220,072	$249,206	$282,710	$321,239	
Operating Costs	$194,778	$206,277	$218,351	$231,028	$244,339	
Net Income	**-$40**	**$13,795**	**$30,855**	**$51,682**	**$76,900**	**$126,608**

What did surprise the Petersons was the amount of risk they were already willing to bear. "I used to believe that our established operation was secure and well-protected from significant risks," Sarah reflected. "But as I compared our current situation to the potential future paths, it dawned on me that the difference in risk might not be as stark as I once thought. Each option carries its own set of challenges and uncertainties, and our present course may not be as insulated as I had assumed."

Risk Management Tools and Strategy Analysis

The Petersons were pleased with the risk analysis they had developed. Historically, Mark was most concerned with production risks facing the operation and Sarah was most concerned with the market risk. They tried to mitigate some of the production risks by participating in USDA's Noninsured Crop Disaster Assistance Program (NAP) for their pasture.

Part of the market risk was mitigated by forward contracts with Regional Prime Processing for 80 percent of their finished cattle have cash reserves equal to six months of operating expenses on hand. Both were interested in how each of the future options could change the impact of their current risk management strategies.

Current Risk Management Program (Option A)

- NAP Coverage on Pasture: $825 annual premium
- Forward Contract Structure with Regional Prime for 80 percent of production, a value of $113,646
- Cash Reserves: 6 months operating costs ($62,175)

Expanded Processing Option Risk Management (Option B)

- NAP Coverage on Pasture: $1,225 annual premium
- Forward Contract Structure with Regional Prime for 80 percent of production, a value of $176,208
- Cash Reserves: 6 months operating costs ($93,260)

Direct Marketing Risk Management (Option C)

- Product Liability Insurance: $4,500/year
- Additional Protection Recommended: Livestock Risk Protection (LRP): Coverage Price: $1.85/lb. Coverage Level: 95 percent Annual Premium: $3,793 ($84.29/head) Protected Price Floor: $1.75/lb.

After analyzing each option, Mark and Sarah carefully considered the risk management options for their cattle operation, knowing that the right choice was crucial for their business's long-term success.

Option A, their current program, included NAP coverage on pasture ($825 annually), a forward contract with Regional Prime for 80 percent of production ($113,646), and cash reserves covering six months of operating costs ($62,175). Option B, for the expanded processing scenario, involved higher NAP coverage ($1,225 annually), an increased forward contract value ($176,208), and larger cash reserves ($93,260). Option C, for direct marketing, introduced new expenses such as product liability insurance ($4,500 per year) and recommended additional protection like Livestock Risk Protection (LRP) with a $3,793 annual premium.

"Finding the right balance between risk protection and cost is key," Sarah stressed. "We need to ensure we're adequately covered without overpaying for insurance. If we are going to be get rid of our forward contracts I like using Livestock Risk Protection to guarantee a minimum price" "Yes! But we must carefully evaluate the payoffs, probability, and potential consequences of the risks associated with each option," Mark responded.

After some discussion, they both agreed that they needed to analyze the financial payoffs for each scenario before making a final decision, confident that a well-designed

risk management plan would be essential to their success, regardless of the chosen growth strategy.

Financial Analysis and Break-even Points

The Petersons reached out to their local banker and learned about the Alaska Small Business Development Center that helps individuals develop financial statements for a proposed business. They reached out and got in contact with a consultant. After a few meetings the financial statements were created and they met to discuss the plan, Table 2.

Decision and Implementation Plan

After careful analysis of the potential risk, changes to risk management strategies, and the financial projections by each strategic option, the Petersons decided to pursue Option B - expanding their current operation with processor sales. This decision was driven by several key factors:

1. Builds on existing expertise and relationships
2. Lowest break-even gap after expansion
3. Most predictable cash flows
4. Manageable increase in operational complexity
5. Opportunity for future direct marketing transition

"Although expanding our operation will certainly increase complexity, it feels manageable compared to the other options. We're not trying to reinvent the wheel, just scale up what we already do well." - Mark Peterson

"While direct marketing isn't in the cards for us right now, pursuing Option B doesn't close that door forever. If we decide to transition to direct sales down the line, we'll have a larger operation and more resources to make it happen." - Sarah Peterson

With their decision made, Mark and Sarah created a three-phase plan (Preparation, Initial Expansion, and Full Implementation) to implement Option B and expand their cattle operation.

- In the first six months, the "Preparation" phase, they would secure an additional land lease, arrange an expanded processing agreement, update insurance coverage, and begin facility improvements.
- The "Initial Expansion" phase, spanning months seven through eighteen, would see the addition of the first eight replacement heifers, implementation of enhanced management systems, development of expanded feed storage, and completion of facility improvements.
- During the final "Full Implementation" phase, months nineteen through thirty-six, the Petersons would add the remaining seven replacement heifers, optimize operational efficiency, evaluate direct marketing opportunities, and refine their risk management strategy.

By breaking the implementation into manageable stages, Mark and Sarah felt confident in their ability to successfully

Resources

USDA National Agricultural Statistics Service (NASS) - Alaska Data, 2023

University of Alaska Fairbanks Agricultural Research, 2023

Alaska Department of Natural Resources Market Reports, 2023

USDA Risk Management Agency - LRP Program Guidelines

Regional Prime Processing Contract Terms, 2023

Alaska Direct Marketing Association Reports, 2023