

KEVIN GILBRIDE



ELIMINATING RISK

Mark Twain once said that everybody talks about the weather, but nobody does anything about it.

This is especially true for professional snow removal contractors. A contractor may have the best plow crews, the most efficient business systems and the latest equipment, but they're powerless to make it snow.

But what if you could eliminate the risk of an uncooperative winter?

Beginning Dec. 7, CME Group, the world's largest and most diverse derivatives exchange, will bring to market new snowfall contracts that will allow contractors to manage their financial risk related to the ups and downs of a snowfall season. Since 1999, CME Group has been in the business of providing weather risk management tools that enable businesses adversely affected by unanticipated temperature swings or high snowfall to transfer this risk. Their products include temperature, frost, snowfall and hurricane contracts. Regardless of your market, your contract portfolio or even the size of your operation, these new snowfall contracts will enable contractors to offset the financial loss of an underwhelming, or an excessive, winter, thus managing their exposure. That's the beauty in this product. *Snow Magazine* has partnered with Chicago Weather Brokerage (cwbrokerage.com), a firm that specializes in solutions for enabling companies to manage their exposure to unpredictable weather and who will be actively brokering these new snowfall contracts, to bring this new product to the professional snow removal market.

Take our market in Cleveland where over recent winters we've seen our fair share of snowfall ups and downs. Here the average winter snowfall, based on data collected by the National Oceanic and Atmospheric Administration (NOAA), is 55 inches.

In a low-snowfall scenario (see CHART A), a Cleveland contractor wants to protect against the loss incurred by a below-average winter. Let's say, according



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CHART A: A low-snowfall scenario

SNOWFALL THRESHOLD	CONTRACT COST (\$)	PAYOUT (\$)
40" or less	\$3,000	\$10,000
30" or less	\$2,000	\$10,000
20" or less	\$1,000	\$10,000

NOTE: Snowfall contract values are for example purposes only. Contracts are formulated based on snowfall probability in their respective markets. Values will differ based on market conditions.

CHART B: A high-snowfall scenario

SNOWFALL THRESHOLD	CONTRACT COST (\$)	PAYOUT (\$)
90" or more	\$1,000	\$10,000
80" or more	\$2,000	\$10,000
70" or more	\$3,000	\$10,000

NOTE: Snowfall contract values are for example purposes only. Contracts are formulated based on snowfall probability in their respective markets. Values will differ based on market conditions.

to his P&L statement, he loses money when it snows 30 inches or less.

To mitigate his risk, the contractor purchases a CME snowfall contract for \$2,000 (the value is based on snowfall probability in the Cleveland market) that protects against a snowfall total of 30 inches or less. That winter it snows a total of 29 inches, according to NOAA figures, and the contractor receives a payout of \$10,000.

In a high-snowfall scenario (see CHART B), let's say that same Cleveland contractor, because of the way his seasonal snow removal contracts are formulated, loses money if it snows in excess of 90 inches. So he purchases three CME snowfall contracts valued at \$1,000 each (a \$3,000 total investment) that pays out in the event snowfall totals reach 90 inches. That season it snows 95 inches, according to NOAA data, and he receives a payment of \$30,000, which offsets the financial loss he would have incurred due to the excessive snowfall.

In a final scenario let's say that same Cleveland contractor purchases a contract to protect against snowfall totals of 30 inches or less and two contracts protecting against totals of 90 inches or more. That winter the snowfall total for Cleveland, according to NOAA data, is 65 inches. While the CME snowfall contracts don't pay out, the snow fighter still made a healthy

profit through his snow removal contracts. The \$4,000 investment made prior to the start of winter afforded that contractor the peace of mind that he would be protected in the event that it was a bad winter.

Ultimately, you need to examine your financials, determine your thresholds and ask yourself: Is it worth giving up a little profit to protect against the possibility of a financially devastating winter?

How much is your peace of mind worth?

Together, *Snow Magazine* and the CWB are proud to bring this viable new tool to professional snow removal contractors. We believe snowfall contracts will not only offset the risk inherent in this industry, but will allow contractors to assist their commercial clients to better manage their financial risks in the event of an unfavorable winter.

Purchasing snowfall contracts is a win-win proposition for contractors because it normalizes their earnings stream, predictability of revenue and profitability. These contracts not only protect contractors' bottom lines, but they allow snow fighters to better serve their customers.

It won't be long before everybody in the snow and ice removal industry is talking about the weather... and finally doing something about it.*