2.7 All Industries, Unite

Here is the deal. You will put some cash in, and you will get four times your money back that if there is no snow at Detroit's airport in December. Would you agree to this deal?

Sounds like a risky gamble. Ah, how the first impressions can be misleading. It wasn't a gamble to Mike Betts, whose company, With a Grain of Salt, sells de-icing compounds. Betts likes snow a lot since it allows him to sell more of what he sells. Bloomberg Businessweek reported that he actually paid $65,000 for the deal described above and he would have made $260,000 if there was no snow in December.

The actual snowfall in December? 9.3 inches and Betts said bye-bye to his money. But it didn't matter. The contract was just insurance for him – he sold more products because of that snow. Had it not snowed, then he would have sold less, but would have made money with the contract. A risky gamble? If anything, Betts *reduced* his risk by making this deal.

The coffee example in 2.6 showed how the *coffee* industry can manage risk. The example above shows how people can manage *weather* risk. The industries and contracts are different, but the goal is the same. Achieve more certainty.

You may not care about the prices of coffee beans. I don't (at least as long as what I pay for my cup doesn't change). Chances are you don't care about snowfall in Detroit either. But someone out there does, because their business, small or big, depends on it. Naturally, they will decide how much risk they want to take, and if they take more (or less) risk then they want to, they will use whatever risk management products are available to manage their risk.

Are you an airline that lives or dies by the price of oil? There is a product for that. A farmer who can't sleep at night because you are worried about the price of wheat? There is a product for that. Care about gold prices because you make jewelry? There is a product for that. A homebuilder in New York that needs more certainty with respect to home prices? There is even a product for that.

These are just examples, of course, there are many more areas. Also, in each category, there are many different types of products: futures, forwards, swaps etc. At its core, however, they all have one thing in common. They are tools to manage risks.

It seems like there is a product for everything, huh? There are a few exceptions. For example, the law explicitly bans onion futures, and has done so for a long time. If you are movie financier trying to unload some of the risks associated with your investment for the next blockbuster (hopefully!), you are out of luck, because the law also bans contracts on movie box office futures. If you face a major risk in the next elections dependent on whether a Democrat will take office or a Republican, again, you are out of luck. There is a fascinating story behind each of those, and we will review these cases in detail in Chapter 4. In the meantime, some food for thought. What do you think about risk management in the sports industry?