

**Agriculture is risky**, yet many growers don't regularly assess or plan for the whole range of risks that can impact their operations. Provided here are resources and information to help you effectively assess and manage the complex mixture of risks and opportunities facing your operation.



## What Is Risk?

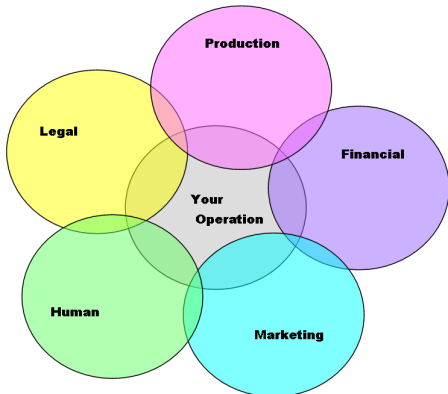
Risk keeps you from getting to your goals. Risk doesn't just come from the obvious sources, like pests, bad weather, market fluctuations, and equipment breakdowns. It also comes from illness, injury or death; from stress and relationship breakdown; from unexpected regulatory hurdles or liability issues.

There are five types of agricultural risk: production, financial, marketing, human, and legal.

## What Can You Do About Risk?

**Mitigation:** You can anticipate unfavorable events and act to reduce the chances they will occur. Keep farm equipment in good working order; stay healthy and reduce stress; stay knowledgeable about new production methods, marketing options, legal issues.

**Contingency Planning:** You can plan in advance to reduce negative consequences when something bad does happen. Create an emergency plan in case of injury or illness; carry health, disability, and liability insurance.



## Interconnection and Overlap

Risk management in one area may have repercussions in others. Various plans (financial, production, marketing, human-resource, emergency and safety, business) and record-keeping mechanisms should be created bearing this in mind. You will never completely eliminate risk. The question is, what are the right tools for you to manage risk and achieve your goals?

## **General Risk Management Resources:**

[http://ucanr.org/sites/placernevadasmallfarms/Resources/Managing\\_Risk/](http://ucanr.org/sites/placernevadasmallfarms/Resources/Managing_Risk/) Managing Risk. Foothill Farming website, UCCE Placer/Nevada

[http://agecon.ucdavis.edu/people/faculty/shermain-hardesty/docs/reducing\\_market\\_risk\\_for\\_specialty\\_crops/](http://agecon.ucdavis.edu/people/faculty/shermain-hardesty/docs/reducing_market_risk_for_specialty_crops/) Risk Management Resources for Specialty Crop Producers, UC Davis Agriculture and Resource Economics

[http://hortmgt.dyson.cornell.edu/pdf/risk\\_mgt/smallfarms/Dont\\_break\\_a\\_leg.PDF](http://hortmgt.dyson.cornell.edu/pdf/risk_mgt/smallfarms/Dont_break_a_leg.PDF) – “Don’t Break a Leg: Managing Risk on Your Small Farm. Cornell Small Farms Program

[http://farm-risk-plans.rma.usda.gov/pdf/risk\\_management\\_checklist.pdf](http://farm-risk-plans.rma.usda.gov/pdf/risk_management_checklist.pdf) – USDA Risk Management Checklist

[http://farm-risk-plans.rma.usda.gov/pdf/swot\\_brochure\\_web.pdf](http://farm-risk-plans.rma.usda.gov/pdf/swot_brochure_web.pdf) USDA Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis

## Goal Setting

Assessment and management of your risks depends on your operation’s goals. You will need a clear idea of what those goals are, so here are some questions to ask yourself:

- Are my goals written, reasonable, and measurable?
- Are they attainable in my lifetime? (It's OK if they're not – you just need to include that long-term vision in your planning.)
- Have I shared my goals with my family and employees? Have they shared their goals with me?
- Are we on the same page as far as what we want to accomplish and how to do it?

## Risk Tolerance

The strategies you choose to manage risk will depend on your own attitudes about and tolerance of risk. Once you understand your personal risk tolerance, you can align your planning and practices to your tolerance level.

### **Risk Tolerance Assessment Resources:**

[http://hortmgt.dyson.cornell.edu/pdf/risk\\_mgt/newsletters/How\\_risk\\_tolerant\\_are\\_you.pdf](http://hortmgt.dyson.cornell.edu/pdf/risk_mgt/newsletters/How_risk_tolerant_are_you.pdf) – How Risk Tolerant Are You? Cornell University

<http://eruralfamilies.uwagec.org/ERFLibrary/Tools/RiskAssess.pdf> – Enterprising Rural Families Risk and Resilience Assessment

## Five Types of Agricultural Risk

**Production Risk:** Anything that directly affects the quantity and quality of your production or anything that causes variation in your expected production yield.

### **Sources:**

- Weather (drought, flood, freezes, hail, wind, excessive rainfall or heat)
- Pests (insects and diseases)
- Production management (planting, harvesting, food safety)
- Infrastructure (on-farm and off-farm) malfunction or breakage

### **Tools for Managing:**

- Crop insurance, if available.
- Enterprise and crop diversification
- Investing in new technologies
- Producing an excess, especially if it can be stored
- Maintaining farm infrastructure and equipment
- Protected cultivation (greenhouses and tunnels)



**Financial Risk:** Arises from the cost of debt, cash flow needs, and building equity.

**Sources:**

- Production and price risks
- Inaccurate or incomplete estimates of cash flow, past performance, and future production
- Inflation, especially cost increases on key inputs
- Changes in interest and exchange rates



**Tools for Managing:**

- Financial planning
- Paying down debt as soon as possible, even if it's a little at a time
- Maintaining liquidity (cash flow)
- Establishing alternative sources of financing or income
- Appropriate business structure (corporation, partnership, etc.)
- Proper estate planning (transfer of ownership, retirement planning)
- Emergency assistance through FSA and other organizations



**Marketing:** Arises from uncertainty about costs, prices, and demand for your product. Derives from price risk, product quality, and market availability.

**Sources:**

- Price risk
- Loss of market access
- Loss of market share/advantage
- Improper or lax recordkeeping

**Tools for Managing:**

- Develop a marketing plan that relates to your farm business plan, financial and production plans, and other planning documents
- Perform regular market and customer research and analysis
- Price your products correctly for your markets and your efforts
- Explore alternative marketing strategies
- Consider value-added ventures

**Legal:** Stems from tort liability – being subject to a civil suit – which is of particular concern to direct marketers. Also arises from environmental liability, regulations, and the business structure of your operation. Legal issues cut across all other risk areas. **This information is for educational purposes only. It should not be used as a substitute or replacement for individual legal advice.**

**Sources:**

- Business structure – impacts taxes, estate planning and transfer, exposure to tort liability
- Bankruptcy and foreclosure
- Contractual arrangements
- Tort liability (being sued)
- Statutory obligations (regulations, including environmental)

**Tools for Managing:**

- Carry the appropriate amount of farm, business and product liability insurance. Direct marketers often face greater liability issues
- Develop good relationships with your neighbors
- Use good agricultural practices to reduce environmental risk
- Thoughtful and accurate record-keeping can prove regulatory compliance
- Use the right business organizational structure – look beyond sole proprietorship

**Human:** Arises from the four D's: disagreement, divorce, death, or disability of an essential owner, manager, or employee. Also includes risks related to illness and high stress and to poor communication and people-management practices. Humans also are sources of opportunity.

**Sources:**

- Yourself
- Your family
- Your employees
- Your neighbors
- Visitors
- Safety (chemicals, structures, machinery, manure/compost)

**Tools for Managing:**

- Goal-setting and planning with family and employees
- Formal, written human resources and safety plans
- Formal plans also help the operation function during an illness or other absence
- Managing your stress
- Estate and transition-planning
- Life, health, disability, and long-term care insurance with coverage levels appropriate to estimated risks

**More information and resources on all of these types of risk may be found on the Managing Risk page of the UCCE Placer/Nevada Foothill Farming website at [http://ucanr.org/sites/placernevadasmallfarms/Resources/Managing\\_Risk](http://ucanr.org/sites/placernevadasmallfarms/Resources/Managing_Risk)**



Development of this information is funded in part by grants from the USDA Risk Management Agency

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