AGRIBUSINESS RISK & RISK MANAGEMENT: TAKING CARE OF BUSINESS

A.M. Turay, Ph.D.
Interim Chair
School of Business
Kentucky State University
Goal of Presentation

- To give you an overview of the sources of risk and risk strategies to improve outcomes of Agribusiness.

- To discuss some do’s and don'ts, strategies and resources to minimize your risk while maximizing your potential to make money, hire staff, sell more, lose less, and increase customers.
Source of Risk: Overview

The Five Sources of Risk and Risk Strategies To Make a Profit

1. Production Risk
2. Marketing Risk
3. Financial Risk
4. Legal Risk
5. Human Resource Risk
Source of Risk: Overview (Cont.)

- Thinking of starting a new enterprise?
- The answer to these questions can help you discover any limited resources you might encounter.

1. What knowledge and management skills do I need?
2. What are added labor needs?
3. Where are the markets?
4. What does your answers tell you?
Source of Risk: Marketing Risk

Marketing Risk Involves:

(a.) Price and market uncertainty
(b.) Input costs
(c.) Outside forces
Outside Forces That Affects Prices & Market Risks Are:

- Weather
- Actions of US and foreign governments
- Farm Programs
- Regulations
- Embargoes
- Trade Tariffs
Personal Considerations for Handling Marketing Risks Include:

- Know your risk comfort level
- Improve your current marketing skills and learn new skills
- Develop an integrated management approach
- Develop a marketing plan
Ways You Can Handle Marketing Risks:

- Reduce by avoiding higher risk ventures
- Shift risk to others
- Maintain flexibility
Reduce Risk and Avoid Higher Risk Ventures

By:

- Knowing current market information
- Using key business partners
- Spreading out sales
- Using contract productions
- Creating and following your business plan
Shift Risks to Others By:

- Using contracts (cash, forward, deferred)
- Joining cooperatives
- Sharing leases
- Timing or modifying the type of sale
- Purchasing crop insurance
Maintain Flexibility By:

- Timing sales and/or purchase of outputs/inputs
- Placement where and from whom your sales/purchases are made
- Different forms of sales and input purchase
Source of Risk: Financial Risk

Financial Risk Develops From Regular Business Activity

- Costs and availability of debt capital
- Ability to meet cash flow needs
- Capability of generating additional equity
Other Financial Risk Can Be Attributed To:

- Poor planning
- Failure to maintain control of the operation
- Lack of financial understanding
Cost and Availability of Debt Capital

- Money or capital that comes from sources outside of the operation such as bank loans

Work with your lender to create a solid relationship and reduce your financial risk when:

a.) There’s an increase in interest rates or interest expenses from variable rate loans

b.) You need to borrow and access credit to maintain flexibility
Ability To Meet Cash Flow Needs

Typical Financial Obligations Include:

- Production expenses
- Debt payment
- Property taxes
- Insurance
- Family living expenses
Source of Risk: Financial Risk (Cont.)

Keep or Increase Your Profitability By:

- Maintaining effective and up-to-date records
- Implementing a professional financial plan
Source of Risk: Financial Risk (Cont.)

The Financial Planning Process

1. Determine Current Financial Situation
2. Develop Your Financial Goals
3. Identify Alternative Course of Action
4. Evaluate Alternatives
5. Create & Implement Your Financial Action Plan
6. Review & Revise the Financial Plan

a. Assess
   - Risk
   - Time Value of Money (Opportunity Cost)

b. Consider
   - Life Situation
   - Personnel Values
   - Economic Factors
Manage Your Financial Risk By:

- Determining your acceptable risk levels
- Putting controls and tracking mechanisms in place to maintain your acceptable risk levels
Other Ways To Manage Your Financial Risk Are:

- Budgeting cash inflows and outflows
- Maintaining accurate and up-to-date financial records
- Conducting a basic financial analysis
- Developing annual financial statements
Source of Risk: Legal Risk

Legal Risks Include:

- Business structure
- Contracts
- Tort Liability
- Statutory Compliance
Business Structure Has Many Forms
- Corporations
- Limited partnership
- Limited-Liability companies
- Partnership
- Sole Proprietorship
- Trusts

They all have an affect on:
- Income and property taxes
- Estate planning and transfers
Contractual Agreements are part of the day-to-day management of most agricultural businesses.

The **five types of contracts** that can affect your legal risk are:

1. Leases or crop-share arrangements
2. Federal program agreements
3. Insurance instruments
4. Labor
- Tort and tort-liability law is primarily concerned compensation to someone injured or damaged by a wrongful act or omission

**Include acts of:**

1. Negligence or intentionally caused damage related to:
   a. Farm injury
   b. Farm discharges

2. Non-disclosure of known farmstead hazards
- Statutory compliance is defined as meeting regulations imposed by government agencies on your operation

- Statutory compliance risks arise from the failure to follow regulations governing the operation of your business
Human resource risks may arise when business activities require working with other people. These would include but are not limited to personnel issues such as:

- Hiring and/or firing employees
- Injury, illness, or death
THANK YOU!

QUESTIONS/COMMENTS