

What is Risk Management?

Effective risk management is an important aspect of farm and ranch businesses. Risk management involves choosing among alternatives that reduce the financial effects of the uncertainties of weather, yields, prices, government policies, global markets, and other factors that can cause wide swings in farm income. Risk management education, within the context of the enabling legislation for the Extension Risk Management Education Program, is defined as training that improves the ability of agricultural producers and their families to effectively manage risks. Five general risk types associated with farm and ranch businesses are described below.

Five Types of Agricultural Risk

Production risk derives from the uncertain natural growth processes of crops and livestock. Weather, disease, pests, and other factors affect both the quantity and quality of commodities produced.

Price or market risk refers to uncertainty about the prices producers will receive for commodities or the prices they must pay for inputs. The nature of price risk varies significantly from commodity to commodity.

Financial risk results when the farm business borrows money and creates an obligation to repay debt. Rising interest rates, the prospect of loans being called by lenders, and restricted credit availability are also aspects of financial risk.

Institutional risk results from uncertainties surrounding government actions. Tax laws, regulations for chemical use, rules for animal waste disposal, and the level of price or income support payments are examples of government decisions that can have a major impact on the farm business.

Human or personal risk refers to factors such as succession, disability, estate problems, wellness, or human relationships that impact the viability of the farm such as divorce, sibling rivalry, and intergenerational issues. Labor relations or labor supply are another area of human risk that can impact the financial well-being of the farm or ranch business.

Risk Management Target Areas

The Extension Risk Management Education Program identifies target areas within the five types of risk. The target areas below define the focus of the risk management education projects we fund.

Improved understanding and use of:

- Insurance products
- Product and enterprise diversification
- Market analysis and outlook
- Cash and futures pricing tools
- Marketing strategies, plans, and clubs
- Direct, wholesale, and processing markets
- Contract production, branded or certified marketing, and value-added enterprises
- Financial records, analysis, and bench marking
- Capital and financial assets
- Credit
- Tools for managing legal liability
- Leases, contracts, and negotiating skills
- Plans and tools to address succession, estate planning, health, and well-being

Improved:

- Business and strategic planning
- Employee recruitment/management/retention
- Interpersonal/family/professional/landlord relationship skills
- Ability to manage changes in policy and regulation
- Understanding of the economic risks associated with new production technologies

Internet Resources for more Risk Management Information

A seminal publication that has helped define agricultural risk management is [Introduction to Risk Management](#) by the Risk Management Agency, December 1997. Additional online resource materials can be found at the [National Ag Risk Education Library](#). An excellent publication in the General Risk section of the library is [An Introduction to Risk in Agriculture](#) by Dennis A. Kaan, Colorado State University, September 2000.