



Connecticut Farm Risk Management and Crop Insurance Program

Managing Production Risk

INTRODUCTION

PRODUCTION RISK INCLUDES ANYTHING THAT DIRECTLY AFFECTS THE QUANTITY AND QUALITY OF YOUR PRODUCTION. ACCORDING TO THE USDA, THE MAJOR SOURCES OF PRODUCTION RISKS ARE CROP YIELD VARIABILITY, WEATHER, PESTS, DISEASES, TECHNOLOGICAL DEVELOPMENTS, GENETICS, MACHINERY EFFICIENCY, AND THE QUALITY AND PRICE OF INPUTS.

New Technology

Technology is perhaps the most difficult aspect of production risk to overcome due to its everchanging nature. The technological understanding among generations differs vastly. Developments occur in all areas of agriculture from year to year. To mention a few, there have been significant advancements made in irrigation, pest control, crop seeds, fertilizer, and machinery.

It is important to be aware of any advances that pertain to your enterprise. These changes can make your farm operate more efficiently and reduce your farm's overall production risk. It is essential to opt for technologies that will reduce costs and ultimately increase your farm's profitability.

Crop Insurance

A significant way to reduce the financial risk associated with farming is for you to purchase crop insurance, which is subsidized and regulated by the USDA Risk Management Agency. On the condition that an adequate amount of protection is purchased, crop insurance's purpose is to help farmers withstand and recover from disasters. For example, crop insurance can protect you from the loss of crops due to flood, drought, pests, and many more devastating events that can affect your harvest yield. There are also policies that can protect you from the loss of revenue.

The level of crop insurance is directly related to your average level of output. The type of insurance you purchase is based on the types of crops you grow and the desired level of coverage. Regardless of the fact that

insurance is renewable each year, you should still do an annual evaluation to determine whether or not you have an appropriate level of coverage. It is recommended that you consult a professional in order to ensure that you are adequately covered under the proper types of insurance.

There are a number of insurance agents and companies in Connecticut that will help you to obtain the appropriate type and amount of insurance coverage. The USDA provides a list to help you start your search for an agent. It can be accessed via the internet at <http://www3.rma.usda.gov/apps/agents>.

Value-Added Production

Value-added production is a process where you take your raw product and bring it to the next stage of production or higher. This can be as simple as joining a cooperative that processes your product for you or you can tackle creating a customer-ready product. This process is based on what your farm business is already doing and capable of taking on. A few potential options include processing and canning vegetables that are already grown on your farm, turning your fruit into jam and jelly, or processing your grain for sale as cattle feed.

The key to value-added production is understanding your farm's limitations and capabilities as well as your potential customers' demand. Obviously, some research may be required. If you already operate a farm stand, ask your customers if they would be interested in purchasing jam. Talk to your local grocer to see if he or she would be interested in selling your canned vegetables.

Managing Production Risk - *Connecticut Farm Risk Management and Crop Insurance Program*



University of
Connecticut
College of Agriculture
and Natural Resources
Cooperative Extension System



This information is provided by the Crop Insurance Education and Information for Connecticut Agriculture Project, a cooperative effort of the University of Connecticut Cooperative Extension System, Connecticut Department of Agriculture and the U.S. Department of Agriculture Risk Management Agency. An equal opportunity employer. To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, Stop Code 9410, 1400 Independence Avenue, SW Washington, DC 20250-6410 or call (202) 720-5964. If requested by a program participant at least 72 hours in advance, every effort will be made to provide special accommodations.

In addition, you need to consider what it would take for you to add a production process into your farm business. What are the equipment needs? Do you have enough space? Will this require an addition to already existing buildings? Do you have the available capital to invest in a new operation? Will you need to hire new employees? These are just a few of the questions that will be necessary for you to ask before deciding to branch out into value-added production. Only consider a new process if it promises to be profitable.

Enterprise Diversification

You may want to consider enterprise diversification as a way of managing your farm's production risk. Diversifying your farming products may allow you to prevent large variations in income from year to year. Do some investigating and see if there are other crops you can grow with the inputs you are already using, or you may even want to consider raising livestock, if you are not already doing so.

Prior to taking on an enterprise diversification endeavor, conduct an analysis to determine whether or not it will be profitable. You should only proceed if the venture will yield a profit. Also, if you are engaging the public, make sure you have adequate insurance to cover liabilities.

Agri-Tourism: One enterprising idea that has recently gained popularity is turning farms into tourist destinations. This can be accomplished by facilitating tours to the general public or to school groups as a way for students to learn about an agricultural process. You will be able to create extra revenue by showing people a true working New England farm.

Bed and Breakfast: Many people today are looking for innovative vacationing options, especially in quiet, secluded areas where they can escape every day stresses. People who are accustomed to urban living may find rural country life a novelty. Turning your farm into a bed and breakfast does require considerable labor and flexibility, but it can be a profitable enterprise if you have the time and resources to spare.

Recreational Usages: One downside to farm ownership is that it may not produce year-round income. During the winter, fields lay barren and unused. A way to make use of your property is to allow access to cross-country skiers. If you have a pond or hills on your property, you can also charge a small fee for skating and sledding. During other times of the year, you could provide hunting or bird watching opportunities if your property allows for it.

References

- Anderson, David P. and Charles R. Hall. 2000. "Adding Value to Agricultural Products." Agricultural Communications, Texas A&M University. Information retrieved from: <http://trmep.tamu.edu/cg/factsheets/rm1-8.pdf>
- "Introduction to Risk Management." 2005. USDA Risk Management Agency. Information retrieved from: http://www.rma.usda.gov/pubs/1997/irm_intr.html
- Koth, Barbara. 1995. "Bed and Breakfast: Hosting Travelers for Extra Income." Direct Farm Marketing and Tourism Handbook. Information retrieved from: <http://ag.arizona.edu/arec/pubs/dmkt/Bed&Breakfast.pdf>

CFRM-FS-2. Managing Production Risk. Prepared by

Elizabeth Olney*, Brianne Neptin* and Marilyn Altobello** Dept. of Agricultural and Resource Economics, University of Connecticut, Storrs. 2008.
(*Graduate Assistant, **Associate Professor).