Connecticut
Farm Risk Management and Crop Insurance Program

Managing Your Risk

Production Risks

- Crop yield variability
- Weather
- Pests
- Disease
- Technological developments
- Genetics
- Machinery inefficiency
- Quality and price of inputs

Marketing Risks

- Product prices
- Consumer demand
- Industry supply
- What is being marketed
- Where it is being marketed
- When it is being marketed

Financial Risks

- Cost and availability of debt capital
- Ability to meet cash flow needs in a timely manner
- Ability to maintain and grow equity

Legal Risks

- Business structure
- Taxes
- Estate planning
- Contractual arrangements
- Tort liability
- Statutory compliance
- Environmental regulations

Human Resources Risks

- Availability of farm labor
- Managing people
- Divorce
- Disability
- Death
- Disagreement

Why Manage Risk?

Farming is a high-risk venture that brings with it yearly uncertainties, which can include drought, flood, hail, pest infestation, fluctuating prices and yields, and many others. Farm profitability is directly related to how well your business can handle these risks. This is why having a solid risk management plan is so important.

Risk management includes contingency planning as well as anticipating adversity. Contingency planning requires you to take actions early on in order to reduce the negative consequences resulting from an unfavorable event. For example, you should have some form of health and disability insurance to prevent medical problems from resulting in financial hardship, thus protecting your farm. Anticipating adversity includes recognizing that unpleasant events can occur and acting to reduce the chances that they will happen. For example, you should keep equipment in good working order to reduce the chance that it will break down or deteriorate quickly.

What Risks Need to be Managed?

The Risk Management Agency of the United States Department of Agriculture (USDA) has identified five main sources of risk, including (1) production, (2) marketing, (3) financial, (4) legal, and (5) human resources.

It will be necessary for you to identify and understand what risks you face in each of these categories in order to build a plan to effectively manage them. Below is a list of each risk category with its associated considerations.

Building a Risk Management Plan

Risk management plans are developed on an individual basis and you need to build a plan that will work for you. The key is to select risk management strategies that meet the needs and goals of your farm. Listed below are some ideas to jump start your planning process. This list is not all inclusive as there are numerous other ways to reduce risks on your farm.

Crop Insurance

Crop insurance is an extremely effective way to reduce the risks associated with farm ownership. Insurance will help to ensure the profitability of your farming operation even if your crops fall victim to a major catastrophe. For example, crop insurance can protect you from the loss of crop 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. 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.

Business Plans

All businesses—including farms—should have a business plan that includes goals and strategies for reaching them. This business plan can help you identify your specific areas of risk and develop ways to reduce them.

As an overview, your business plan should include marketing strategies which address how and where you plan on selling your products. It should have a list of product prices. Having marketing and financial records that date back at least three years is a key way to manage the associated risks.

Professional Assistance

Seeking professional assistance is one of the best ways to ensure that your risk management plan is properly designed to effectively manage your farm. Call a lawyer when you need to have a contract drawn up. Consult a loan specialist when you are thinking about expanding your farm or building equity. Talk to someone who deals with human resources when you are seeking to hire and properly manage employees. Do not think that you have to do everything yourself. You can only benefit from utilizing people who deal with certain types of situations on a daily basis.

Enterprise Diversification

You may want to consider enterprise diversification as a way of managing your farm's risks. 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.

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. One enterprising idea that has recently gained popularity is agritourism. 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. There are countless alternative options for increasing farm income.

Estate Planning

Estate planning is the process of planning for what will happen to your farm when you can no longer run it. It does not simply address what will happen after you are gone; it also deals with what happens while you are still here. When do you want to start turning the farm over to the next generation? How do you want to do it? Do you have a will that encompasses all aspects of the farm? Should you set up a trust? These are all questions that carry and deal with risk. Answering these questions properly, carefully, and with a professional reduces the risks associated with what will happen to your farm after you are gone.

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CFRM-FS-1. Managing Your Risk. Prepared by
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