

Introduction

Throughout the Summer of 2004, Rutgers Cooperative Extension of Salem County developed and administered a risk assessment survey to 57 farmers throughout the state of New Jersey. The objective of this survey was to recognize what individual farmers perceived as their most hazardous areas of risk, as well as identify key risk management tools available to manage those risks. The results from the surveys were analyzed and specialists from several states were assembled to address the specific issues producers face in their farm businesses. This workbook is the compilation of these works and is designed to assist how current and potential farmers deal with risks.

Using This Reference Guide

This workbook should be used as a reference guide in developing and maintaining successful farm businesses. Throughout the following pages you will find analysis and insight from both farmers and industry professionals alike. The ultimate goal of this guide is not to educate you on each and every issue, but rather to inform and raise the level of awareness about important information and industry specific trends. This guide has been put together in such a way as to be useful to every single fruit farm, whether it is used as a planning tool or a reference for information.

What's Inside?

Each section of this book is composed of four subsections. The first page is a farm profile of a New Jersey fruit farm. These profiles were developed to highlight how farmers deal with each individual area of risk. The next section is an overview of the specific risks. The final

section is a detailed report developed by leading industry professionals addressing one of the five areas of risk.

What Is Agricultural Risk and How Can it be Minimized?

Agricultural risk management involves supervising/controlling the farm operation to avoid loss or injury, **AND** to make a profit. It also involves comparing the costs and benefits of reducing risks. Questions to consider when initiating a personal risk management plan include:

- ?? What can cause a substantial shortfall in my business?
- ?? How large might the shortfall be?
- ?? How much shortfall am I willing and able to bear?
- ?? How can I limit the shortfall to an acceptable level?

The types or sources of risk fall simplistically into the following five categories:

1. Production or Yield
2. Marketing or Price
3. Financial
4. Legal and Environmental
5. Human Resource

All of the above risks will be covered in detail throughout this book. In general, the sources of risk and the producer's possible responses to them are outlined below.

The primary sources of production risk include:

- ?? Adverse weather
- ?? Disease and pests
- ?? Input availability and quality
- ?? Technological advances
- ?? Mechanical failure
- ?? Agricultural industrialization

Some production risk tools include:

- ?? Control or minimize risk through management practices and information
- ?? Reduce production variability through diversification, applying technology, and contingency planning
- ?? Transfer risk to someone else through contracting and insurance

Marketing risk issues include:

- ?? Unpredictable and unstable prices
- ?? Inability to accurately forecast market prices
- ?? Lack of market, no buyers
- ?? Inadequate storage or transportation
- ?? Changes in national or world economy
- ?? Consumer response to prices not consistent over time

Some marketing risk tools include:

- ?? Direct Marketing
- ?? Production Contracts

Marketing is a very complex activity. It is more than “selling” a product and should begin **before** you plant not after harvest. No single best marketing strategy exists. What is important however, is having the product **how** the consumer wants it, having the product **where** the consumer wants it, having the product **when** the consumer wants it, and making it easy for the consumer to get ownership of the product.

Human resource and legal risks include:

- ?? Losing a key employee at a critical time
- ?? Sickness or death loss
- ?? Farm accidents and/or disability of owner
- ?? Hiring and managing farm workers
- ?? Intergenerational farm transfer
- ?? Family communications
- ?? Divorce and marriage
- ?? Stress
- ?? Regulations on agricultural chemicals
- ?? Disturbing protected wetlands
- ?? Spray drift when applying chemicals
- ?? Soil and run-off that contaminates water supplies

Responses to human resource and legal risks include:

- ?? Insurance – all kinds
- ?? Statutory compliance – know the laws
- ?? Effective and legal management of farm labor
- ?? Appropriate legal business structure
- ?? Estate planning
- ?? Farm transfer planning

Financial risk issues include:

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

affects producers' bottom lines. That is to say, their net income decreases and thus either their net worth suffers or their ability to cash flow is impaired. In other words, inadequate response to any or all of the five areas of risk can be measured in a dollars and cents decrease.

Responses to major financial risks include:

- ?? Good financial and production records
- ?? Cash flow planning
- ?? Controlling and limiting debt
- ?? Pacing investments with an investment plan
- ?? Crop insurance to guarantee minimum cash flow

The risks associated with farming are sometimes overwhelming. Professional assistance can be found among extension educators, lenders, crop insurance agents, financial planners, attorneys, industry and service providers, and government agencies. It is up to you the producer to become more connected and informed. Knock on doors, use the phone, get on mailing lists, utilize the internet, join appropriate associations and clubs, and read farm publications, trade magazines, extension publications, and industry newsletters. You can do it!

The Bottom Line

Even though agricultural risk is conveniently divided into the above five categories, everyone involved in agriculture from service providers and industry professionals to the producers themselves know that failure to minimize those risks always and ultimately