

Participant Packet E

FOLLOW UP

Name: _____

Phone: _____

Address: _____

Email: _____

**In the very minimum,
the five specific action steps I'm going to take prior to
_____ to further secure my farm business from the
potential impact of risk are:**

1.

2.

3.

4.

5.

Table 1: Forthcoming

Scoring Instructions for Risk Assessment Worksheets

Scoring for the Risk Assessment Worksheet is based on 1) the likelihood (probability) that some risk event will occur, and 2) the impact on the operation if it does occur.

- 1) **Probability that the undesirable outcome will happen within the next three years:**

Probability that the Undesirable Event will Happen	Score on Risk Assessment Worksheet
0-10%	0
10-20%	1
20-50%	2
> 50%	3

- 2) **Taking into account the current risk management strategies being employed, what is the impact on profitability or farm business and family goals if the undesirable outcome does happen? Evaluate and Score the impact as follows:**

Description of Expected Impact if Undesirable Outcome Happens	Score on Risk Assessment Worksheet
Virtually no impact. Short term nuisance at worst.	0
Short term impact with moderate disruption/loss. It will hurt, but the hurt will be short term.	3
Significant short and/or long term impact that, while survivable, results in serious disruption/loss.	6
Severe to catastrophic hardship and/or loss. Continued operation will be difficult.	9

Interpretation of Risk Position

Step 1: Add the two scores together from parts 1 and 2 above.

Step 2: Interpret the importance of the risk (Risk Position) based on the table below. Note, that the descriptions below are subjective and should be used as an indicator only.

- 0-2: No action required
- 3-4: Not critical, but may want to begin examining how to reduce or avoid the risk, especially low cost alternatives
- 5-6: Need to be more serious about addressing the risk. The threat is becoming more urgent. Seek cost effective means to address the risk
- 7-8: Action is required. There is an urgency for action.
- 9-12: Do not delay. Immediate Action Required!

Risk Assessment Worksheet

A <u>Risk Event</u>	B	C	D	E <u>Risk Management Strategy</u>
What is the Cause or Source of an Undesirable Outcome	Probability that it will Happen (0, 1, 2, or 3 score) ¹	Impact if it does Happen (0, 3, 6, or 9 score) ¹	Risk Position ¹ (sum columns B & C)	What are some ways to address this risk event (may be more than one way)

¹ See "Scoring Instructions for Risk Assessment Worksheets".

Production Risk Assessment Worksheet

Undesirable outcome: lower than expected or catastrophically lower production, low quality, or both.

Risk Events (Cause or Source of undesirable outcomes) can be weather, diseases, pests, not enough or not the right kind of technology, inability to manage technology, poor timeliness, poor facilities, poor management decisions, poor quality inputs, stray voltage, poor genetics/breeding, or human mistakes. Specific examples include low milk production due to hot weather stress, low milk production due to environmental mastitis, low forage production due to lack of rainfall, low forage quality due to lack of field timeliness, etc.

A	B	C	D	E
<u>Risk Event</u> What is the Cause or Source of an Undesirable Outcome	Probability that it will Happen (0, 1, 2, or 3 score) ¹	Impact if it does Happen (0, 3, 6, or 9 score) ¹	Risk Position ¹ (sum columns B & C)	<u>Risk Management Strategy</u> What are some ways to address this risk event (may be more than one way)

¹ See "Scoring Instructions for Risk Assessment Worksheets".

"Price" risk and "Market" risk are two terms often used interchangeably. Here, they have been separated where price risk is a category for assessing the impact of the ups and downs of prices, both input and output. Market risk is related more to the risk that can impact the operation due to lack of marketing outlets, lack of competition in your area, or lack of market information.

Price Risk Assessment Worksheet

Undesirable outcome: decreased income or variable (unpredictable) income

Risk Events (Cause or Source of undesirable outcomes): Most directly, the cause of undesirable outcomes are low output prices, high input prices, or both (including milk, culls, calves, heifers, fertilizer, fuel, feed, etc.). Changing price levels are often caused by events outside of the producers control such as changes in supply resulting from changes in inputs costs, weather, technology, and foreign production; changes in demand resulting from changing consumer tastes, population dynamics, disposable income, and foreign trade; or even psychological factors in the market place among traders. Other sources of changing prices include changes in government policies, laws, regulations, and foreign government policies. While not strictly speaking a risk event, lack of knowing costs of production, understanding marketing tools, or having a marketing plan for managing price can increase the price risk you face as well. While in the case of price risk, the producer has little control over many of the sources of price risk, he/she does have control over the impact in his/her operation. Often the risk of the undesirable outcome can be reduced or transferred to others.

A	B	C	D	E
<u>Risk Event</u>	Probability that it will Happen (0, 1, 2, or 3 score)¹	Impact if it does Happen (0, 3, 6, or 9 score)¹	Risk Position¹ (sum columns B & C)	<u>Risk Management Strategy</u>
What is the Cause or Source of an Undesirable Outcome				What are some ways to address this risk event (may be more than one way)

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Market Risk Assessment Worksheet

Undesirable outcome: no or limited places to sell your goods or buy inputs; not receiving a fair price due to lack of competition

Risk Events (Cause or Source of undesirable outcomes) include lack of physical availability of output or input markets in your area, lack of competition among markets in your area, lack of access to markets, lack of good market information, captive supplies, lack of an outlet for a specialty/identity preserved grain or other product.

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Financial Risk Assessment Worksheet

Undesirable outcome: increased cost of debt capital, lack of access to debt capital, reduced ability to meet cash flow, reduced income, reduced rate of return, loss or lack of adequate growth in equity, true market value of assets less than book value, etc.

Risk Events (Cause or Source of undesirable outcomes): increasing interest rates, increasing risk premiums, asset devaluation, debt structure is predominately short term and variable rate, lack of access to capital, lenders that do not understand your operation, poor record-keeping, inability to present the business plan, decreasing health of world and agricultural economy, high leverage, lack of financial reserve, lack of credit reserve, lack of asset base, lack of equity base, or poor relationship with lender.

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Environmental Risk Assessment Worksheet

Undesirable outcome: financial loss, loss of business, inability to change or enter into new business, human injury/death, animal injury/death, short-term loss of production, long-term loss of production capacity, on-farm property damage, off-farm property damage, loss of aesthetic value.

Risk Events (Cause or Source of undesirable outcomes): manure spills, leaching/runoff of nutrients into water resources, erosion, poor air quality, poor manure management practices, violation of laws and regulations, lawsuits, road traffic, poor relationship with regulatory officials, poor public relations, poor neighbor relations, poor environmental performance history, poor history of relations, lack of others having trust in you or your operation, breakdown of technology/facilities, unusual weather events, or human mistake.

A <u>Risk Event</u>	B	C	D	E <u>Risk Management Strategy</u>
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Human Resources Risk Assessment Worksheet

Undesirable outcome: financial, emotional, property, production, human, animal, and/or business losses; death and/or disability; and lack of obtaining or missed opportunities for a better price, loan, improved technology, better employee, new production technique, etc.

Risk Events (Cause or Source of undesirable outcomes): Human resource risks are internal with business partners, family, and employees, and external with neighbors, lenders, sales consultants, town boards, etc. Broadly speaking anything that causes death, disability, disagreement, divorce, or mistakes is a source of risk. The next question to ask is what causes these to occur. For example, mistakes can be caused by poor training, lack of skill, lack of understanding the task to be done, lack of understanding instructions/objectives, lack of being qualified to do the job, poor communications, laziness, poor attitude, lack of appropriate technology to do the job, employee's personal stress, poor employee retention, lack of oversight/control, lack of motivation/incentive, poor facilities/equipment, etc. Lack of a labor pool in local area is a source of risk. Finally, anything that causes poor or non trusting relations with external human resources is a risk such as poor past performance, disagreement, misunderstanding, lack of information, lack of disclosure, poor communications, etc.

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Public Relations Risk Assessment Worksheet

Undesirable outcome: inability to obtain a permit, change the business, start a new business, or secure credit; lawsuits, or time and money spent fighting complaints

Risk Events (Cause or Source of undesirable outcomes): negative impacts on neighbors due to operations (odor, water/land contamination, water use, obstructed view, loss of aesthetic value, noise, lights, road use, etc.); zoning/land use restrictions, nuisance complaints, public hearings, poor public image of yourself and/or your farm, poor public image of your industry, urban sprawl, etc.

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Other Risk Assessment

Categorizing risks is not an exact science. There is crossover and there are risks that don't easily fall under a certain category. The exercise of categorizing helps channel our thinking, yet in the attempt to simplify some risks may be overlooked. The "Other" category includes a variety of other potential risks and sources of risk that either may not be easily categorized, or may have been overlooked. Some specific categories to think about are:

5 D's (Death, Disability, Disaster, Disagreement, and Divorce):

The 5 D's were mentioned in the production and human resources worksheets. However, the reason for separating them out here and giving them special attention is that they tend to have the equivalent characteristics of being 1) sources of risk that are often lurking in the background, but often ignored until it is too late, 2) potentially very devastating if they occur, and 3) often easily and inexpensively addressed if done beforehand. Finally, while there are certainly external legal agreements, contracts, insurance, etc. for addressing the impact of the risk if it occurs, there are also many creative internal practices that can help reduce the source of risk from ever occurring in the first place. For example, a prenuptial agreement can protect the business against divorce; however, good communication, date nights, and babysitting the kids so the other spouse can have an afternoon out are risk mgt. strategies that might prevent divorce from happening in the first place! Finally, disaster, in this case, is referring to the more catastrophic type of events (flood, fire, etc.).

Examples include dad suddenly dies or becomes disabled, dad and son disagree over the future of the operation, new daughter-in-law and son are having stress in their marriage, 100 year flood, barn burns down, hail destroys the corn crop, etc.

Legal Risks:

Sources of legal risks were also a part of most all other categories, but again, they tend to be risks that are not thought of until it is too late. Legal risks include any lawsuits, settlements, fines, or formal complaints accruing from employees, partners, suppliers, neighbors, and others with respect to injury, property damage, contractual arrangements; leasing arrangements; governmental regulations; etc. Examples include a property line dispute with a neighbor, heifer raiser not fulfilling contract obligations, partner's use of assets to pay gambling debts, neighbor's child killed by your bull, neighbor's child killed in a joy ride on your tractor, etc.

Lack of Management Skills/Experience:

While it may be odd to think of it as a risk, lack of your own skills might result in undesirable outcomes. Said another way, improving your own management skills might reduce the risks you face. Broadly, business management skills include planning, organizing, communicating, coordinating, controlling. Other, more specific skills, include commodity marketing, brand identity marketing, financial record-keeping and analysis, human resources, business arrangements, and taxes. Finally, knowledge and understanding, itself, is an important management skill such as understanding the structure of agriculture, government policy, world trade and implications, general economy, etc.



Risk Assessment Worksheet

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