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Surviving in Agriculture

RightRisk recently offered the Surviving in Agriculture program covering risk management for dairies in Southern California. The program opened with an overview of the California dairy industry by University of California's Dr. Bees Butler.

RightRisk lead a discussion of the five main sources of risk for agricultural operations in today's challenging conditions: market (price) risk, production risk, institutional risk, human resource risks, and financial risk.

John Hewlett, Ranch/Farm Management Specialist with the University of Wyoming offered insights into a process for strategically managing risk covered in a book authored by RightRisk team members entitled "Applied Risk Management in Agriculture."

Hewlett also discussed how tolerance for risk varies from one individual to another. "Some individuals are more comfortable with risk and variability due to their experience, greater financial flexibility, or just due to preference. Risk tolerance can be a little like our personality, some managers are more conservative, where others are more willing to take a chance," according to Hewlett. Participants used computer clickers to create a profile of risk tolerance for attendees.

One of the many insurance programs available for transferring risk to a third party (backed by the USDA Risk Management Agency) was discussed in detail. Livestock Gross Margin (LGM) for dairies provides protection against falling milk prices and rising feed costs.

Dr. Jay Parsons a Risk Management Specialist with Colorado State University, stated "LGM could be a very valuable tool for managing market risk over the coming year, where feed prices are expected to be somewhat volatile. LGM-Dairy is similar to buying a combination of put and call options: a put option on Class III milk and call options on corn and soybean meal." According to Parsons, "The product is flexible enough to be adapted to most production situations; the number of months and the amount of production can be adjusted to meet various risk management targets."

The Surviving in Agriculture program concluded with a discussion of three electronic tools from RightRisk for evaluating risk management strategies. These include a partial budget tool, an enterprise analysis tool, and a whole farm financial analysis tool. All three are available with an accompanying guide on how a producer may enter their own data for analysis.

Dairy enterprise analysis for San Bernardino County was presented for an example 500 cow scenario using the RightRisk Enterprise Risk Analyzer (ERA) tool. The ERA tool provides users with an evaluation of the net income for an enterprise, as well as estimates of breakeven yield and price for a range of market and production conditions. Participants were given the chance to interact with all the tools using a portable computer lab furnished by the RightRisk team.

Handouts, electronic tools to help evaluate drought management strategies and more are available at <http://California.eRightRisk.com>. Or contact RightRisk directly at Information@eRightRisk.com.

Program sponsors: RightRisk, LLC, Custom Ag Solutions, UC San Bernardino County Extension, and the USDA Risk Management Agency (RMA).