Agricultural producers make decisions in a risky environment every day. The two questions that most concern them are: 1) Is there a high probability of adverse consequences? and 2) Will those adverse consequences significantly disrupt the business?

With the coronavirus pandemic sweeping the world, producers are faced with many decisions that could have major impacts on their farm operations.

Risk – What is it?
- Chance of loss
- Likelihood/probability of adverse outcomes
- Uncertain consequences
- Exposure to hazard, peril or potential loss

Two Components of Risk
- Frequency of loss
- Severity of loss

Primary Sources of Risk
- Production
- Marketing
- Financial
- Human resources (employees)
- Legal
Production Risk – What is it?
• Any crop or livestock production-related activity or event that is uncertain.

Common Tools for Managing Production Risks
• Enterprise choice
• Diversification. This is an effective way of reducing income variability and enhancing profitability.
• Contract Production. Contracts between farmers and agribusinesses specifying conditions associated with producing an agricultural product can manage risk.
• Crop insurance
• Revenue insurance
• Applying new technologies on the farm
• Best management practices

Marketing Risk – What is it?
• Any marketing-related activity or event that is uncertain, leading to variability of prices for outputs and/or inputs.

Common Tools for Managing Marketing Risks
• Marketing plan
• Revenue insurance
• Vertical integration: This includes all the ways in which output from the stage of production can be transferred to another stage.
• Value-added products. This means a change in the physical state or form of the product to enhance its value.
• Contract production. Contracts between farmers and agribusinesses specifying certain conditions associated with marketing an agricultural product can reduce your risk.
• Stock market options
• Marketing cooperative
• Direct marketing

Financial Risk – What is it?
• Any uncertainty that directly threatens the financial health of the farm business or results in financial loss.
Common Tools for Managing Financial Risks
- Recordkeeping and analysis
- Budgeting
- Insurance
- Paying down debt
- Managing family living expenses
- Estate planning
- Off-farm employment

Human Resource Risk – What is it?
- Any event relative to the human element of the farm that is uncertain.

Common Tools for Managing Human Risks
- Develop and maintain good management practices and operating procedures for employees.
- Maintain good family and labor relations
- Provide disability, health, and life insurance
- Have an estate and transition plan

Legal Risk – What is it?
- Any activity or event that threatens the legal standing of the farm or puts the farm in legal jeopardy. Legal business entities include: sole proprietorships, limited partnerships, limited liability companies, corporations and wide range of trusts.

Common Tools for Managing Legal Risks
- Insurance
- Contracting
- Estate/transition plans
- Government actions and regulations affecting your operations

Risk Management Priorities
- Minimize safety risks; nothing is more important than safety!
- Use good agricultural practices.
- Support your neighbors.
- Make sure to have property, liability, and health insurance.
- Pay attention to business management.
Summary

A bend in the road is not the end of the road unless you fail to make the turn. Risk management is all about anticipating the bends in the road and making the turns successfully.

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