

What is the Right Risk for You and Your Business?

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Business ventures with low risk typically provide little potential for profit. Conversely, ventures with the highest potential for profit tend to be the most risky. Agricultural producers must constantly make management decisions considering the potential profit and associated risk and loss that may result.

RightRisk™ is an educational program for teaching farm and ranch families about risk management. The lynchpin of these programs is the opportunity for people to play the RightRisk™ Simulation. It is an innovative risk research and education program. It uses real-world farm and ranch settings and agricultural economics to help people understand and explore risk management decisions and evaluate the effects of those decisions. Program participants learn about their personal risk management style and build decision making skills.

The simulation uses real-world situations:

1. Different sources of risks and the potential controls for them.
2. Measures of the chances of an unfavorable outcome.
3. Different attitudes people have toward bearing risk.
4. Relationships of decisions and outcomes.
5. Considers how to analyze risk when making management decisions.

Playing the simulation allows you to (1) develop risk management strategies, (2) compare one strategy against another, (3) practice making management decisions related to risk, and (4) learn about your own personal risk management style.

RightRisk™ is not just a simulation model. Program participants have on-going access to agricultural economists with expertise in risk management. The RightRisk™ Education Team consists of a team of researchers and extension specialists from eight Western states including Arizona, Colorado, Idaho, Montana, Nevada, Utah, Washington, and Wyoming.

While at the 2005 National Risk Management Education Conference, participants in the RightRisk™ two-hour session will experience the RightRisk™ simulation. The program will be presented similar to workshops conducted for agricultural producers. Following the experiential risk management education exercise, the RightRisk™ Education Team will entertain questions about the presentation and how RightRisk™ can be used in other states.

Playing RightRisk™

During the RightRisk™ workshop, participants will examine

- Sources and Controls of Risk: production, marketing, financial, legal, and human
- Lessons on Probability
- Risk Attitudes
- Risk-bearing Ability: financial situation (financial ratios), probabilities, cost of risk management strategies, break-evens, profit goals, responsibilities

- Relationship of Decisions and Outcomes: good decisionCgood outcome, good decisionCbad outcome, bad decisionCgood outcome, bad decisionCbad outcome
- Safety First Criteria: insuring a minimum income level before maximizing profits

Participants will work on teams to “manage” one of two agricultural operations: 1) King Family Ranch or 2) Wheatfields over a period of two years. During each of four periods per year, teams will have opportunities to make risk management decisions. The simulation presents a series of opportunities for the teams to choose various risk management strategies and tools on a quarterly basis. As the teams Astep@ through a production year, the simulation keeps track of production yields, inventories, market prices, forward prices, etc. Similar to managing an actual farm/ranch, the user can see the financial results of management decisions related to risk.

King Family Ranch is representative of mountain valley cow/calf and hay ranches in the Rocky Mountain west. Production practices, costs of production, market prices, weather patterns, and other information are based on data from the region in order to provide a realistic setting. The probabilities of risk events are also calculated using actual data. The ranch runs 500 mother beef cows with annual productions costs of \$350 per cow. The King Family Ranch also raises 350 acres of hay each year and uses most of it as winter feed for their 500 cows. The King Family Ranch expects to sell 400 calves at weaning, 70 cull cows, and 50 tons of hay. Total sales generate \$247,997 in revenues each year on average. The Kings have \$21,000 in expenses from producing 350 tons of hay, in addition to \$175,000 of expenses for the cow herd. The Kings expect their ranch to generate \$51,997 of profit each year or almost \$104,000 over the two years for the simulation.

Wheatfields farm is representative of wheat/fallow dryland farming operations on the eastern plains of Colorado. Production practices, costs of production, market prices, weather patterns, and other information are based on data from the region to provide a realistic setting. The Wheatfields farm 6000 acres of dryland crops in a wheat/fallow rotation and run 100 beef cows. The Wheatfields expect to sell 105,000 bushels of wheat, 80 weaned calves, and 15 cull cows on an annual basis. Including an annual government payment of \$52,920, this generates \$425,945 in revenues each year. They incur \$225,000 in wheat production expenses and \$32,000 of expenses for the cow herd plus \$13,200 for purchased hay. This leaves the Wheatfields with \$155,745 in profit per year or \$311,490 over the two years for the simulation.

Following participation in the RightRisk™ education program, people may continue to explore their understanding of risk and risk management by accessing the RightRisk™ website. The website contains a plethora of educational materials, links to other risk management websites, and online versions of the RightRisk™ simulation. The internet version allows participants to continue their risk education experience after attending an onsite presentation or to begin learning on their own using the software and associated educational information. Different scenarios make the simulation more applicable to individual situations. The associated web site is a central clearinghouse for information on various tools for risk management, articles/presentations on techniques for risk management in the west, and a chance to practice risk management strategies in a simulation setting.