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RightRisk™

RightRisk News

Dates to Remember

- **March 15, 2014**: Crop insurance sales closing and cancellation dates for spring planted crops. For more information see: http://www.rma.usda.gov
- **April 1, 2014**: Noninsured Crop Disaster Assistance Program (NAP) application deadline for spring seeded forage and all other crops. For more information see: http://www.fsa.usda.gov.

How Much Risk is Right for You?

The Feasibility of Alternative Rural Enterprises

Are you considering an alternative enterprise? Are you concerned about the additional risk of taking on a new enterprise in your business? The ability to select, plan and evaluate new and existing business enterprises is an increasingly important skill to help reduce business risk and increase opportunities for success.

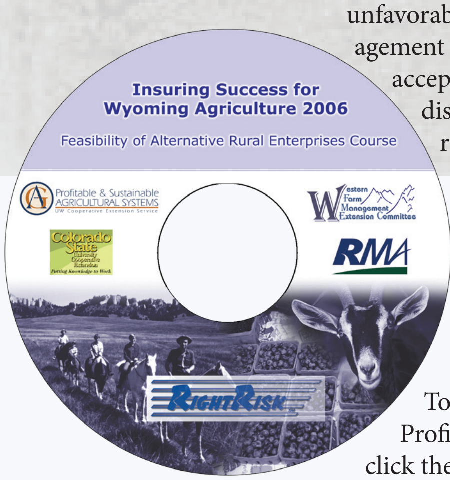
The "Feasibility of Alternative Rural Enterprises" course presents a step-by-step approach to defining an agriculture enterprise, setting goals, planning for success, and evaluating and managing the risks.

The course begins by defining agricultural enterprises and illustrating the differences between traditional and alternative enterprises. Enterprises are activities that combine limited resources (dollars or inputs) to generate saleable goods or services. Isolating revenues and expenses from each individual enterprise is a great start for evaluating an existing business and determining if a new enterprise will improve the business.

Increasing profitability, debt reduction, and steady growth in net worth, are all common goals for rural businesses. The enterprises selected will determine if you reach your goals. Producers often have a range of crop and livestock enterprises to choose from. Through planning and analysis, you can choose which combination of enterprises will provide a means of reaching their goals. Consumers are increasingly segmenting into distinct market niches seeking selected product characteristics. The course encourages producers to think beyond traditional products and traditional markets to meet these growing demands.

Course participants will next experience the process of planning and analyzing existing or planned enterprises. A SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) should be performed for each enterprise. Most new businesses fail due to lack of proper planning. As an entrepreneur, you can greatly enhance your chances of success by assessing the feasibility of your idea. You should do a personal assessment, production assessment, market assessment, and economic assessment for each potential alternative enterprise before you begin.

Risk analysis and management is the final lesson in the course. Rural business managers are forced to manage and operate in a high risk environment. Poor yields, low market prices, high costs, and other unfavorable outcomes impact the opportunity for agricultural managers to be successful. Risk management is the practice of managing the resources of the operation in such a way as to maintain an acceptable level of risk. It discusses different risks and risk-management strategies. The course discusses the five sources of risk: production, marketing, financial, legal, and human resource risk. Planning for and designing a management strategy for each area of risk helps ensure a better chance of success for the enterprise.



The "Feasibility of Alternative Rural Enterprises" course is designed to help producers evaluate existing or new alternative enterprises. Content includes individual assessments at the end of each lesson, as well as interactive activities to help in understanding the concepts.

To access the "Feasibility of Alternative Rural Enterprises" course, Risk Management Profiles, and other risk management information, simply logon to http://RightRisk.org and click the "Courses" tab at the top of the page to get started.

Risk Management Profile

On a cold January evening Raymond and his son Larry were sitting around the kitchen table to begin their monthly management meeting. The primary purpose of this month's meeting was to further discuss the possibility of adding alternative enterprises to their operation to help diversify income streams on the ranch. To read more see:
http://RightRisk.org > Resources > Risk Mgt Profiles

Highlighted Tool

Estimating the costs and returns of an alternative enterprise can be difficult. And without such information, the long-run profitability cannot be projected.

The Financial Analysis Tool (FAT) for producers is an easy to use set of spreadsheets for a person to project (1) start-up costs, (2) annual operating expenses, and (3) annual revenues for any type of enterprise. The expense sections have a place to list any assumptions for better tracking the potential enterprise. The "start-up costs" section provides a number of lines for the user to enter a cost item and associated costs. The "estimated operating expenses" section has the user enter the activity, units, per unit cost, and number of units used. Total costs are automatically calculated for the user.

The FAT uses the user determined information to conduct a "net present value" (NPV) analysis for the enterprise. NPV is the sum of a time series of cash flows. It compares the present value of money to the present value of money in the future. This tool uses a user-supplied discount factor to calculate an annual NPV for a period of ten years and a NPV for the entire period. Using the net present value for a potential enterprise a user can accurately compare the financial benefits of multiple alternative enterprises. The FAT also conducts a "sensitivity" analysis for the enterprise. It allows the user to see possible NPVs as expected income and expected expenses change. In other words, how sensitive the NPV is to expenses being higher than expected.

The Financial Analysis Tool is an excellent resource to help evaluate the potential financial gains from an alternative enterprise. It is available for download from http://RightRisk.org > Resources > Risk Mgt. Tools.

Year 2013

Net Present Value Analysis

Year	Capital Expenses	Cash Inflows	Production Expenses	Net Cash Flow	Discount Factor 0%	Net Present Value
0	0	-	-	0	1	$0
1				0	1.0000	$0
9				0	1.0000	$0
10				0	1.0000	$0
Net Present Value						$0

Sensitive Analysis

Percent of Expected Income	75%
Percent of Expected Expenses	110%

Year	Capital Expenses	Cash Inflows	Production Expenses	Net Cash Flow	Discount Factor 0%	Net Present Value
0	0	-	-	0	1	$0
1	0	-	0	0	1.0000	$0
2	0	-	0	0	1.0000	$0
10	0	-	0	0	1.0000	$0
Net Present Value						$0

RightRisk News is brought to you by the RightRisk Team
Contributing authors:
John Hewlett, Ranch/Farm Management Specialist - University of Wyoming, hewlett@uwyo.edu
Jay Parsons, Risk Management Specialist - Colorado State University, Jay.Parsons@ColoState.edu
Rod Sharp, Ag and Business Management Specialist - Colorado State University, Rod.Sharp@ColoState.edu
Jeff Tranel, Ag and Business Management Specialist - Colorado State University, Jeffrey.Tranel@ColoState.edu
Editing and Layout: John Hewlett, hewlett@uwyo.edu