

Enterprise Risk Analysis: Overview



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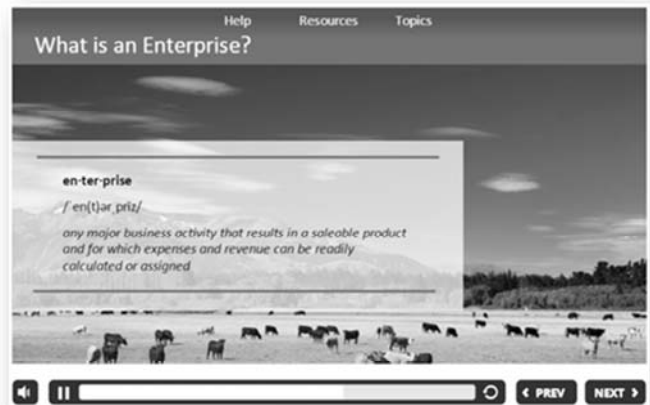
What is Risk?

- ***Uncertainty that matters***
- Uncertain outcomes may include consequences that are:
 - Negative
 - Neutral
 - Positive
- **Five sources:**
market, production, institutional,
human, and financial risk



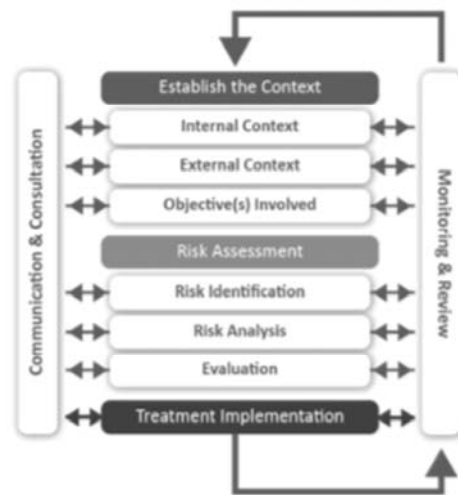
What is Enterprise Risk?

- **Enterprise** - generally any major business activity that results in a saleable product and for which expenses and revenue can be readily calculated or assigned
- **Enterprise risk** - variability or uncertainty that arises at the enterprise level of management



Risk Management Process

- **Risk management** – following one or more strategies with the goal of:
 - Reducing the consequences of negative outcomes, or to
 - Increase the likelihood of positive outcomes
- Following a process can help make sure consideration of all options are taken into account before action is started

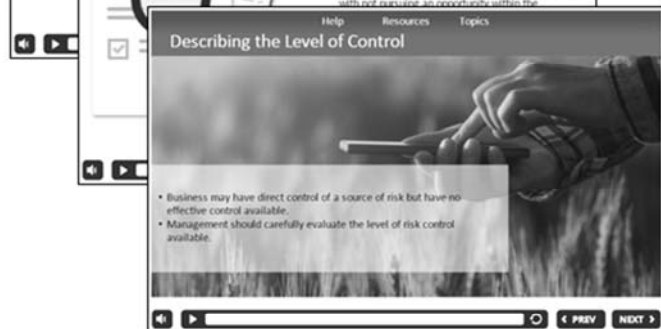


Enterprise Risk Assessment

- **Enterprise management** - focused on the implications of decisions made for a single enterprise or commodity; not the whole farm or ranch
- Most day-to-day management decisions are about the details of enterprise management



Enterprise Risk Assessment



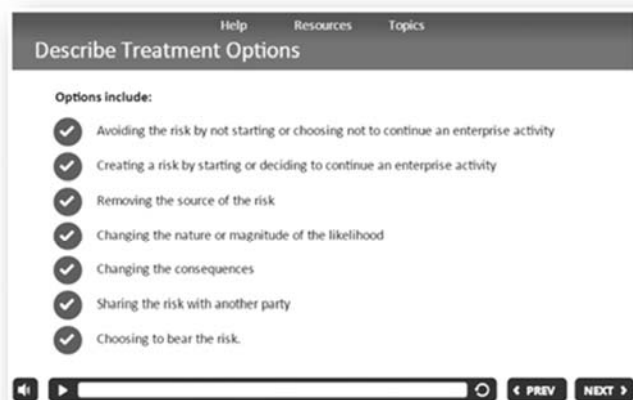
Evaluate Risk Strategies

- **Resource costs and returns**, including financial, for implementing the strategy
- **Management effort** and attention required to keep the strategy viable
- **Speed** with which the strategy could be implemented
- **Capacity** of the strategy to address all or most of the consequences



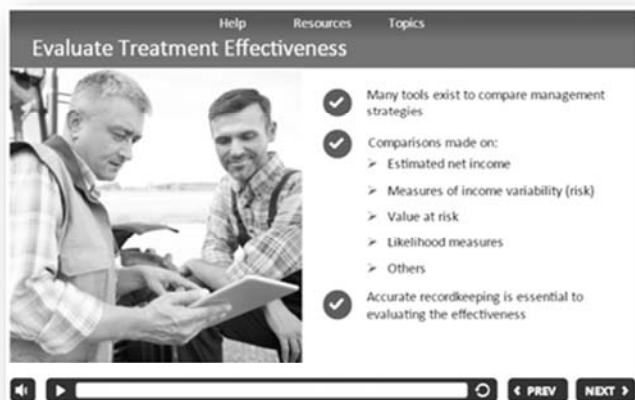
Treatment Options

- Treatment options are not necessarily mutually exclusive or appropriate in all circumstances:
 - Choosing not to continue an enterprise activity that leads to the risk
 - Seeking to create or enhance a risk by starting/deciding to continue an enterprise activity
 - Removing the source of the risk
 - Changing the nature or magnitude of the likelihood
 - Changing the consequences
 - Sharing the risk with another party
 - Choosing to bear the risk



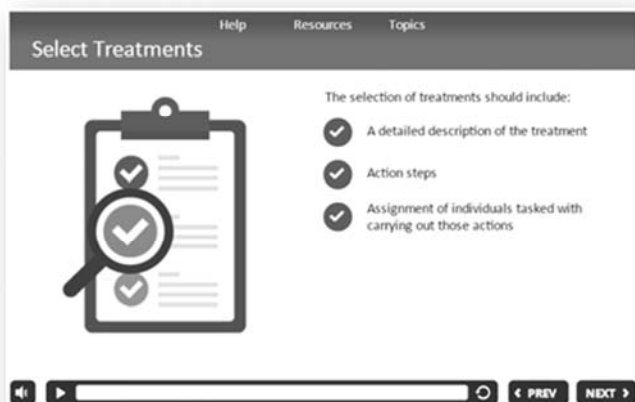
Evaluate Treatment Effectiveness

- Compare treatment options on:
 - estimated net income
 - measures of income variability (risk)
 - value at risk
 - likelihood measures, and others.



Select and Implement Treatment

- **Select** the most appropriate treatment option or set of options
- **Implement** the treatment plan:
 - Benefits
 - Performance measures
 - Persons responsible
 - Action steps
 - Resource requirements
 - Reporting/monitoring required




Application: *case studies*

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Case Studies

Now, its time to apply some of the information you have learned in this course. Below are images representing two different case studies.... The Everett Ball Ranch and the Wilson Farm.

Click on an image below to read about each operation and the enterprises associated with them.



Everett Ball RanchWilson Ranch

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Enterprise Risk Analysis: *Application*

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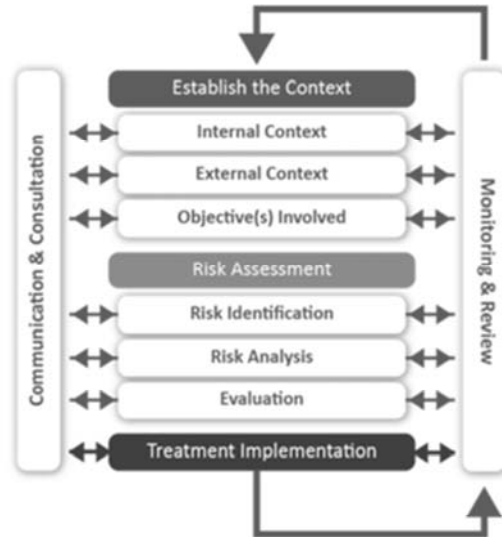
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Risk Management Process

- A process is a series of actions that leads toward a particular result.
- Objectives identify the desired result.
- Context is the situation from which you desire to achieve the desired result.
- Good risk assessment will lead toward more consistently receiving good results.



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The Everett Ball Ranch – Part 1



Everett Ball, Sr. began acquiring land on the Colorado/Wyoming border in the late 1940s, soon after returning from service in World War II. Over the years, the ranch grew to include almost 11,000 deeded acres and U.S. Forest Service permits on another 4,000 acres, providing enough capacity to run 500 cows year-round on standing and harvested forage.

Currently, the ranch is managed by Everett Ball Jr., the 65 year-old son of the original owner. Everett Sr. and his wife Mary both lived full lives, passing away in the early 2000's in their mid-80s. By the time of their deaths, they had arranged for Everett Jr. to take over management of the ranch. By this point it was organized as a family corporation and was able

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Objectives Involved

- Revenues >> Costs
 - Goal
 - Probability that Revenue > Cost is 90% or greater



Everett Ball Ranch

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Identify Enterprise Risk Sources

These risks likely originate from one or more of the five sources of risk presented earlier. *Click on the icons below to learn more about each source of risk.*



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Objectives Involved

- Revenues >> Costs
 - Goal
 - Probability that Revenue > Cost is 90% or greater
- High Price for Product
 - Goal
 - Average sales price in top 35% of October price range reported by local auction market



Everett Ball Ranch

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Options for Managing Risk

Strategies for managing risk vary by source of risk and level of protection already in place.

Options range from avoiding the risky practice entirely (minimizing the risk) to accepting the risk (self-insuring). Between these two extremes are several possibilities for managing the risk to a more acceptable level.

Click on the images at the bottom of the page to learn more about each.



Avoid the
Risk



Reduce the
Risk



Transfer the
Risk



Increase Capacity
to Bear the Risk



Accept
the Risk

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Everett Ball Ranch – Part 3



Options for Transferring Market Risk

- Private Contracting
- Put Options on the Board of Trade
- Livestock Risk Protection (LRP) insurance contracts

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Conclusion

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Enterprise
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