

Understanding enterprise analysis with RightRisk.org

Farming and ranching are inherently risky businesses. Producers have many options to manage this risk: from purchasing insurance to developing marketing plans or strategies for commodity sales. Many farm and ranch managers seek to manage risk by diversifying into two or more enterprises.

Diversification can take many forms, such as raising crops to feed existing livestock, custom machine work to augment income, or completely different enterprises from existing activities.

While managing a diverse enterprise mix is often a necessity for many Wyoming farms and ranches, it is also important to evaluate those activities as part of risk management planning to ensure resources and capital are put to their most productive and profitable use.

COMPREHENSIVE COURSE

The Enterprise Risk Analysis module was built to evaluate enterprise performance. This set of online materials gives a user a broad understanding of the planning and overall risk management in enterprise analysis.

The module includes an interactive self-study module, a recorded webinar (with presentation slides and a question-and-answer session), and an e-book for referencing the self-study course. The course includes two farm and ranch case study examples showcasing how enterprise analysis can be applied in a broad range of situations.

ENTERPRISE ANALYSIS

Enterprise analysis is estimating net returns for an enterprise and an important part of developing a comprehensive risk management plan. This analysis can help managers gather accurate information to determine profitability for each of their business enterprises by showing individual net revenue and net effects on the entire business.

Proper enterprise analysis helps managers properly allocate resources across the business. For example, a producer with a cow-calf enterprise and an alfalfa hay enterprise may believe the two complement each other; however, depending on the resources (such as time, labor, capital) required by the hay enterprise,

A proactive approach to enterprise risk management enables the active farm or ranch management team to:

- ▶ Encourage proactive rather than reactive management
- ▶ Improve the timely identification of opportunities and threats
- ▶ Comply with relevant legal and regulatory requirements
- ▶ Improve financial reporting
- ▶ Improve stakeholder confidence and trust
- ▶ Establish a reliable basis for decision making and planning across the enterprise
- ▶ Effectively allocate and use resources for risk treatment as needed
- ▶ Improve operational effectiveness and efficiency
- ▶ Minimize enterprise losses
- ▶ Improve farm/ranch resilience in the face of uncertainty

buying rather than raising hay may be more beneficial.

The course begins by defining an agricultural enterprise then outlines what must be included for complete analysis of all receipts and expenses. Defining what constitutes an enterprise is relatively simple for certain operations. For example, a farming operation that raises three or four different crops has clearly defined enterprises, whereas a combination crop and livestock operation with a diverse mix of activities such as raising feed, grazing crop aftermath, and backgrounding cattle may not be as clear.

Making sure to include all non-cash items such as feed transferred to another enterprise, depreciation, and other changes in inventories, as well as properly allocating them to the enterprise mix, is another challenge in enterprise analysis.

The ERA course gives participants an understanding of how to properly define and evaluate their enterprise mix.

The ERA module includes a thorough discussion of risk—defined as future events for which the outcome is uncertain. Course participants review the five main sources of risk in an agricultural business and how to quantify those in their own situation.



THE ENTERPRISE RISK ANALYZER (ERA) TOOL

Available as part of the [RightRisk.org](https://www.RightRisk.org) Analytics Toolbox, the ERA tool was designed to analyze and compare different enterprises by allocating income and expenses.

To begin using the ERA tool, point your browser to [RightRisk.org](https://www.RightRisk.org) and:

- select the Resources tab,
- select Risk Management tools.

FOR MORE INFORMATION

Access the Enterprise Risk Analysis course at [RightRisk.org](https://www.RightRisk.org) by selecting Enterprise Risk Analysis from the Courses tab.

The ERA course page includes links to a recorded webinar, an e-book, presentations, and self-study materials. Also available at [RightRisk.org](https://www.RightRisk.org) is the Enterprise Risk Analyzer (ERA) tool, designed to help producers accurately identify and categorize income and expenses by enterprise and how those affect the overall business plan.

The ERA tool is just one of the many interactive and useful budgeting/analysis tools available from the [RightRisk.org](https://www.RightRisk.org) Analytics toolbox covering a wide range of risk management topics such as enterprise budgeting, machinery costs, and forage risk.

Risk management is discussed at the strategic and enterprise levels, with a specific focus on the enterprise level.

The risk management process is discussed extensively, as it is important to frequently monitor and review strategies, objectives, and results to effectively manage the risk involved in each enterprise. The process includes establishing the context of each enterprise, as well as objectives and risk criteria.

Once the sources of risk representing the greatest threats are outlined, strategies to evaluate and manage those risks can be implemented. Proper risk management should be proactive in nature—to deal with potential issues before they threaten the future of a business. Now is a great time to begin evaluating enterprise risks, given the uncertainties of 2021.

James Sedman is a consultant to the Department of Agricultural and Applied Economics in the University of Wyoming College of Agriculture and Natural Resources, and **John Hewlett** is a farm and ranch management specialist in the department. Hewlett may be reached at (307) 766-2166 or hewlett@uwyo.edu.



Important Crop Insurance Dates

- Sign-up for spring-planted crops — March 15
- Planting deadlines vary by crop
- (Contact a crop insurance agent for details)