



## RightRisk

## Exploring Risk Management Tools Available at RightRisk.org

Chase Law has been farming and ranching with his dad for the past seven years in northern Wyoming. Since he returned to the ranch, they have expanded the operation by adding about 160 acres of hay ground and 250 head of cows with an accompanying array of BLM and U.S. Forest Service permits.

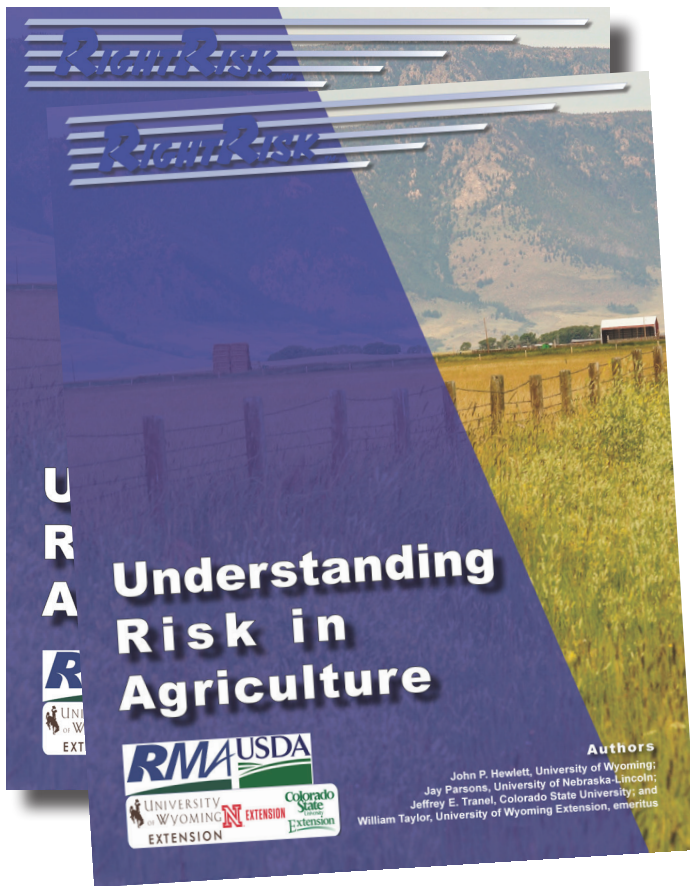
Chase has been thinking a lot lately about their increasing exposure to risk. In particular, potential downturns in the cattle market, extreme weather events like blizzards and droughts, and the mounting challenges of relying on multi-use public lands for a majority of their grazing resources have kept him up late at night researching information on the internet.

Recently, Chase came across the RightRisk Education Team materials available at [RightRisk.org](https://RightRisk.org). He was impressed with the wide array of tools available to help agricultural producers like him understand and explore ways to effectively manage risk. He saw a number of intriguing items on their home page to explore including a series of online courses.

### Understanding Risk in Agriculture

The first course he chose to explore was one called *Understanding Risk in Agriculture*. It walked him through an explanation of what risk is and how to recognize and manage it. He learned that there are five main sources of risk in agriculture: marketing and price risk, production risk, financial risk, institutional





risk, and human risk. The course materials included an e-book, a recorded webinar, and a narrated self-study course that walked him through the materials in a very organized fashion.

After going through the *Understanding Risk in Agriculture* course materials on his own, Chase thought it was important to share this information with his dad and that they spend some time completing the suggested exercise for identifying and prioritizing the most important risks in their operation together in order to help focus their management efforts.

To Chase's surprise, this turned out to be a very positive experience. The exercise involved identifying key risks and entering them into the *Risk Influence Calculator* along with their assessment of probability, impact, and the influence they had on addressing each of them.

He was surprised to learn how much he and his dad agreed on the risks facing their operation and on the importance each of them assigned to those threats. Chase was further surprised to learn how much his dad was interested in sharing his experiences of dealing with these risks over the years with Chase.

In particular, Chase had no idea how much

institutional risk, like dealing with government rules on land use issues and predator control, had evolved and changed over the last thirty years.

Chase and his dad decided that they needed to work together to make sure they both stayed informed about the institutional issues that could affect the viability of their operation now and in the future. They committed to having one breakfast meeting per week for the primary purpose of sharing and discussing current issues that could affect them.

## Risk Concepts Cover Forms of Business

Going through the *Understanding Risk in Agriculture* course, gave Chase the confidence he needed to explore more of what the RightRisk Education Team had to offer on their website. One of the resources he really liked was called *Risk Concepts*. It provided a series of articles on different forms of business entities and why someone might want to use them.

According to what he read, he and his dad were currently operating as a general partnership even though they did not have any formal written agreement. He was intrigued to learn about all of the options that are available and could see how they could

**Risk Concepts**

**General Partnership**

**H**istorically, farms and ranches were operated as sole proprietorships. The land, machinery, livestock, and other assets were owned and used by an individual or couple. Likewise, the individual (or husband and wife) farmer/rancher was personally responsible for all debts and financial obligations owed by the business. The farmer or rancher was the business, and the business was the farmer or rancher.

There are a number of organizational structures that may better meet the needs of today's farm/ranch business. A few of the more common business entities used by farmers and ranchers include sole proprietorship, general partnership, limited partnership, limited liability company (LLC), and corporation. Each U.S. state recognizes most legal entities, while the U.S. Internal Revenue Code recognizes all business forms except LLCs. Each organizational structure has its strengths and weaknesses. Before a decision is made as to the legal entity under which to operate, a person – or person and his or her family and other partners – need to determine the goals of and needs for the business and its assets.

A general partnership is an association of two or more people who agree to carry on a business as co-owners for a profit. The partnership form of enterprise has been around for many years and is familiar to most legal, accounting, and other professionals. As such, there is a high familiarity factor and there are a number of resources which can be relied upon for forms and research.

The general partnership is a very flexible form of enterprise. State partnership statutes provide default rules pertaining to management rights and the calculation of each partner's share of profits and losses. However, the partners in a partnership agreement are generally free to change these default provisions by agreement. For example, absent agreement to the contrary, all partners have equal management authority and are entitled to share equally in the profits and losses of the enterprise. However, it is not at all unusual to see a general partnership with a managing partner or executive committee with full management powers and with allocations of profit and loss among the partners that are not equal.

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use some of them to better structure their business. He made a note to himself to share this information with his dad at one of their first breakfast meetings.

### Risk Management Tools

Another resource on the RightRisk website Chase really liked was the Risk Management Tools page. Together with his dad, Chase identified market risk and weather related production risks as high priority areas to address in their operation. On the RightRisk Analytics Risk Management Tools page, Chase found several tools that would help them analyze and address these risks.

### Risk Scenario Planning

The *Risk Scenario Planning* (RSP) tool provided several partial budgeting examples analyzing potential changes to an agricultural operation complete with an analysis of uncertainty. One of the examples pertained to managing cattle market risk with an insurance product offer by the USDA Risk Management Agency called Livestock Risk Protection (LRP) insurance.

Chase had not heard of LRP insurance but he found several resources on the RightRisk website that helped him understand it better. The RSP tool was set up so he could see how the use of LRP might help control the range of potential revenue he might receive from a group of calves marketed three or more months into the future.

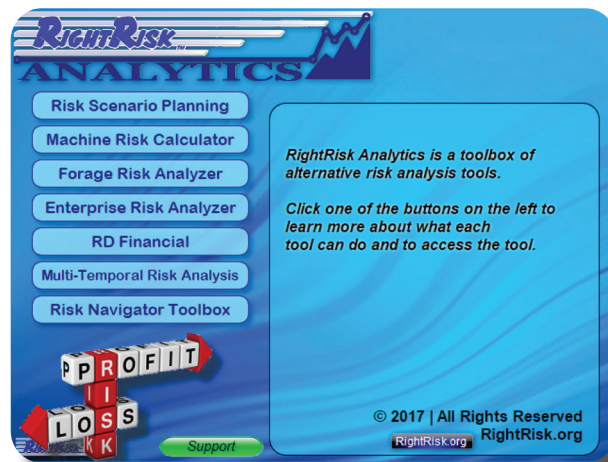
A second example provided with the RSP tool analyzed the potential addition of a bred heifer enterprise to a cow-calf operation. Chase could see how he might use this example to analyze a number of potential enterprise additions to their operation while including uncertainties in the analysis.

### Multi-Temporal Risk Analyzer

Another tool that Chase really liked on the RightRisk tools page was the *Multi-Temporal Risk Analyzer* (MTRA) tool. This tool extended the concepts used in the RSP tool to analyze potential changes into a planning period that could last up to 20 years.

Chase thought this was important because, many times in ranching, investments are required that have





payback periods that last several years. He was talking with his dad recently about potential pasture improvements on some of their privately owned rangeland that would improve carrying capacity and make them less reliant on public land grazing permits.

These potential improvements would benefit from being analyzed with a tool like the MTRA. Weather and market uncertainty could have a large impact on the flow of benefits they might receive from making the improvements. It was important that they understand the range of benefits they could receive as well as the expected average benefit over time because, now that there were two households depending on the operation, cash flow has taken on added importance.

## Other Risk Analytics Tools

Other tools available on the RightRisk tools page that looked intriguing included an Enterprise Risk Analyzer (ERA) tool, a Forage Risk Analyzer (FRA) tool, and a Risk Navigator Toolbox with a library of more than 20 tools to explore.

Chase could see he would be using the RightRisk website a lot as he and his dad worked together to make their farming and ranching operation successful.

## Resources

RightRisk | [RightRisk.org](https://RightRisk.org)

RightRisk Risk Analytics | [RightRisk.org/Analytics](https://RightRisk.org/Analytics)



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To learn more, see:  
<https://RightRisk.org>

