

Managing Risk in Your Operation

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“The Farmer has to be an optimist or he wouldn’t still be a farmer.” – Will Rogers

Farming has long been considered a risky endeavor. Produce farming has its own unique challenges and risks. Be it weather, pricing, or pests, it seems as though a produce farmer’s crop faces threats from all fronts. Recognizing these risks, there are a few simple steps that growers can take to protect their operations.

Crop Insurance

Take advantage of any insurance programs available for your products. Understand how much coverage is needed and what is required to invoke a claim. You should review your coverage thoroughly each year with your agent to insure coverage is adequate for your operation and that you are protected financially in the event of crop loss. Insurance should be “right sized” to provide the coverage required without incurring a higher cost than necessary.

Diversification

Diversification can be achieved through different avenues. For some farmers this can mean different types of produce all together. For example, a vegetable farmer could have squash, zucchini, peppers, and tomatoes. This spreads pricing and yield risk over several different types of produce. For farmers with a single produce type such as blueberries, they need to understand the characteristics of each variety and how a mix of varieties can mitigate risk. One example of this is mixing early season variety plants with late season variety plants to spread risk of adverse weather conditions just before the season starts.

Know the Numbers

One of the most important things that can be done to manage risk in a farming operation is having accurate financial reporting and being able to understand the data. This information is the driving force of many other areas of the operation. From what to plant, how much to plant, how much insurance is required . . . sound financial data is critical. A key financial figure to understand is profit margin for the farm as a whole and for each product type. This figure aids in both deciding which products to focus on and the appropriate investment inputs for each product. Understanding margins helps with operating a profitable farm and continued success. Determining the amount of income needed to service all debts or breakeven on operations helps in deciding product mix and the appropriate level of insurance to seek.

Education

The farming environment is dynamic with constant change in plant varieties, best practices and loss prevention techniques. Many state-run universities have researchers specializing in specific vegetables,

fruits, or produce. These researchers are a tremendous source of information regarding the prevention of disease and pests, as well as treatment of plants to maximize profits. Local extension agents are also excellent resources and can be leveraged to obtain information from the university level. Additionally, marketers, cooperatives, and industry groups have knowledgeable staff members who stay current with changes in the industry and can offer guidance on defeating new threats and continuing to operate profitably.

Partnerships

Perhaps one of the greatest attributes of agriculture and farming is the honor found in providing food and products for America and beyond. The nobility of the trade fosters an immense sense of camaraderie with the farmer and all those who support the group that support us all. This team of stakeholders includes people and partners such as the lenders, insurance agents, marketers, professional associations, accountants, and suppliers. To best mitigate risk and operate a maximally effective operation, the farmer should lean heavily on those vested in his or her success. The lender and accountant are invaluable in understanding the financials of the operation and in meeting financing needs. The insurance agent can help provide protection should the worst come to pass. Marketers, associations, and suppliers are excellent sources of up-to-the minute information regarding best practices and emerging threats. With input from these sources, farmers will be well advised and knowledgeable to best run their operations with optimal risk protection.