



UW Cooperative Extension Service Profitable & Sustainable Agricultural Systems Risk Management Agency

Risk Navigator guides managers to ag risk solutions Tactical risk management from RightRisk.org

By James Sedman and John Hewlett

Risk management in production agriculture is as critical as ever. With the current economy and market conditions, every operation needs a comprehensive risk management plan in place.

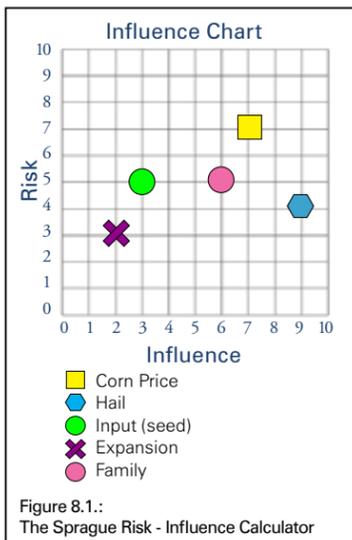
The professionals at RightRisk, including University of Wyoming agricultural economist and risk management specialist John Hewlett, developed a book and associated tools called Risk Navigator to help producers identify and manage risk at all levels. It is divided into three areas of risk – strategic, tactical, and operational. In addition, the overall risk management process is divided into 10 steps that apply to any operation. The process allows users to re-address goals and information as circumstances change.

Categorizing Tactical Risk

This article focuses on the tactical portion of Risk Navigator, which is available by going to www.rightrisk.org and clicking on the Products link. The first step helps identify and prioritize risks faced by an operation. The ultimate goal is to determine which risks should be dealt with as immediate threats to the organization.

There are generally five categories of risk: production, market/price, financial, institutional, and human resource.

- * Production risks include uncontrollable events such as weather, disease, and factors that affect yield uncertainty.
- * Market/price risks include price changes for inputs, crops, and livestock, and other uncontrollable factors affecting and relating to markets.
- * Financial risks are associated with the costs to access and use capital in the business.
- * Institutional risks generally are government-related actions such as policy and regulations that affect the business.
- * Human risk arises from the people involved in a farm or ranch and their ability to accomplish tasks necessary for business success.

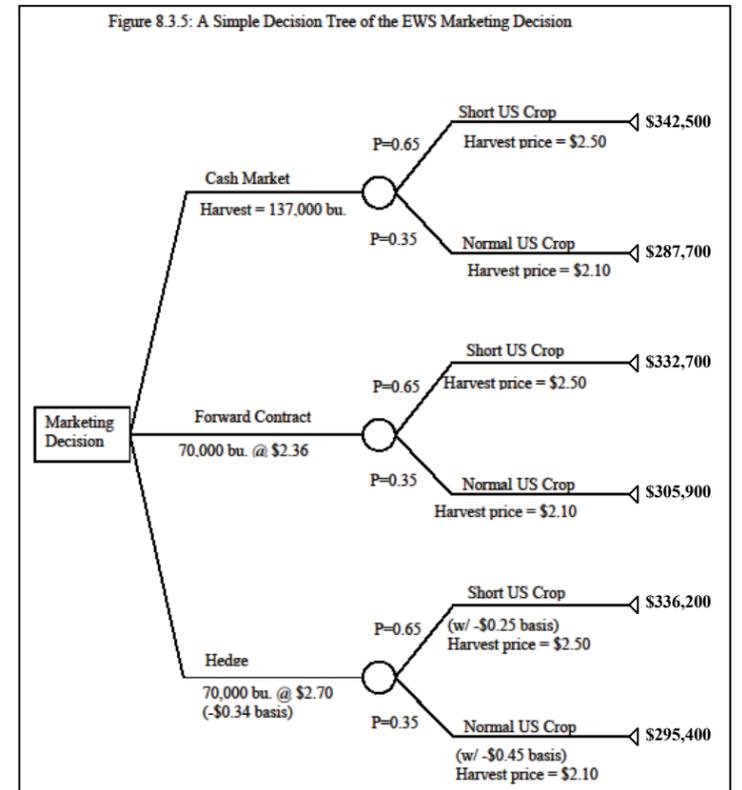


Once a producer has listed and categorized the risks, two additional tools help managers prioritize risks. The first is the influence diagram. Think of this as a map of the risk in question to capture and define the complex relationships involved with each individual risk. The second tool is the risk influence chart (below). This chart can be used to prioritize each risk according to the impact each risk may have and how much the manager can influence the risk.

Developing Tactical Risk Management Alternatives

Once the risks have been assessed and prioritized, begin forming alternatives. Alternatives will depend on the risk itself and individual or business risk preferences. Avoiding risks may include planting crops more likely to succeed or staying away from new or experimental crops. Transferring risk includes the use of marketing plans (such as futures contracts, forward contracting, or other agreements) or insurance such as for crops. These are all ways to capture the potential benefits of taking on the risk without needing to withstand the full brunt of the consequences.

The next step is to determine the likelihood of each outcome related to the specific risk. This can be accomplished through the use of historical data and graphical charts showing probabilities of



these outcomes. Determining the likelihood of each outcome further assists the manager in ranking alternatives. The materials provide example charts of such rankings and depict each expected outcome compared to each alternative with the cost or expected revenue and associated probability in a decision tree diagram (above).

The Risk Navigator pages include other interesting and helpful links for managers who want to

learn more about risk management.

For more information on this and other risk management topics on the Web, visit the Western Risk Management Library online at agecon.uwyo.edu/riskmgt.

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Dry beans important part of Wyoming ag production

By Jim Gill

Dry beans have been helping pay bills down on the farm the last few years. It is an important crop for many Wyoming farmers.

The dry bean crop is off to a good start this year. Farmers who got their beans in the ground in between the good rains we have had in the Big Horn Basin are really pleased with the crop.

Pinto Bean Tops the Rest

The pinto bean is king of the dry bean industry in Wyoming and is the staple for the bean burrito and other Mexican food entrées. Great northern, black, and navy beans are the other varieties grown in the state. Wyoming dry bean production was valued at \$14.9 million in 2007, according to the Wyoming Agricultural Statistics.

Dry beans are one of the last crops to be planted in the Big Horn Basin to avoid cold weather injury.



A Big Horn Basin farmer cultivates pinto beans for weed control.

This is a nice crop to work into the rotation because it helps add nitrogen to the soil.

Producers Grapple Weeds, Insects, Disease

As with any crop, beans growers have their trials and tribulations with weed, insect, and disease issues. One of the biggest problems we have growing beans in the Big Horn Basin is the competition from weeds like black nightshade. This is quite a problem to a bean grower not only

for the competition it presents to the bean plant but the staining effect it can have on a bean crop at harvest. Beans stained by crushing the nightshade berries when harvested will considerably reduce the value of the beans.

This has been a problem for growers for many years. A new dry bean harvester by the Picket Equipment Co. is helping resolve that problem. I think it is darn-near revolutionary for the dry bean in-

dustry. This equipment eliminates the use of augers, which crushed the berries mixed in with the bean seed when going through old, traditional harvesters. This is one bean-eating machine. It is easy on the beans at harvest, reducing the amount of spilt and cracked beans. This adds to the value of the final crop.

Of course, this harvester is an expensive piece of equipment costing close to \$200,000. Mitch Vigil, a bean grower from Manderson, was the first to use this new harvester in our area. He has been quite impressed with its performance. He tells me you need to harvest a lot of acres of beans to justify the purchase price of this new equipment; however, he believes it is quite a bit cheaper to operate and maintain than his old harvesters.

North Dakota Pain Bodes Well for Wyoming

"One man's misery is another man's gain" is still an old saying that

Take a guess

How many seeds does it take to make up a pound of pinto beans? Put about 1,200 seeds together, and you'll have right at 1 pound.

holds true in agriculture. A big bean growing area in the United States is the Red River Valley in North Dakota. It appears their recent heavy rains will have a big impact on the quality of their dry bean crop this year, and that should help our growers in Wyoming. Less supply drives up demand and thus higher prices for those able to deliver a sound edible bean to the marketplace.

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