

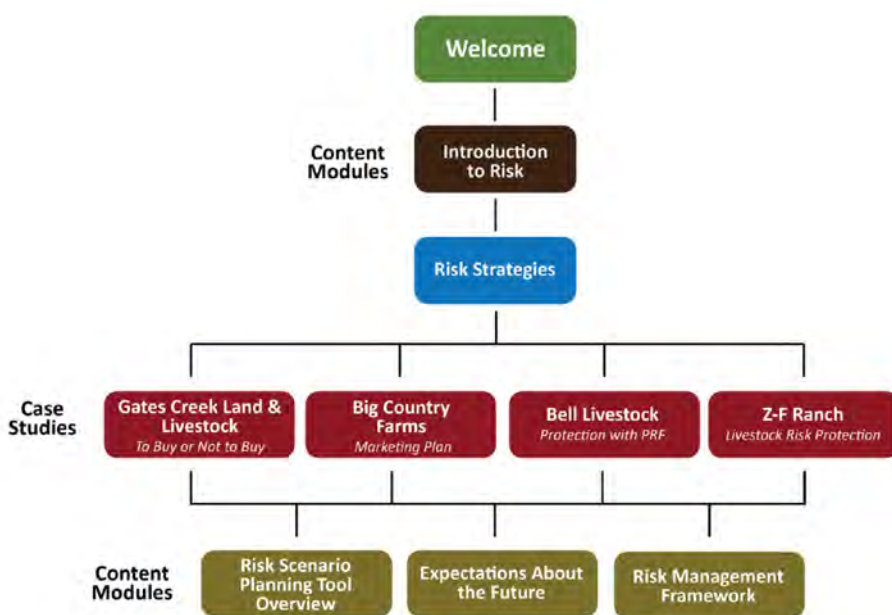
## Risk Scenario Planning from RightRisk.org

Budgeting is an important part of any risk management planning, especially partial budgeting when necessary.

Partial budgeting comes in many forms and is used by decision makers to examine a potential change to an enterprise. This could be anything from a cropping change, keeping extra breeding livestock, or a capital purchase. A challenge in partial budgeting is that the information and data used in the analysis may not properly account for risk and uncertainty involved in the decision. For example, the decision to switch between corn and wheat will be based, in large part, on potential prices for each crop. Do these prices account for uncertainty? Or are they just educated guesses?

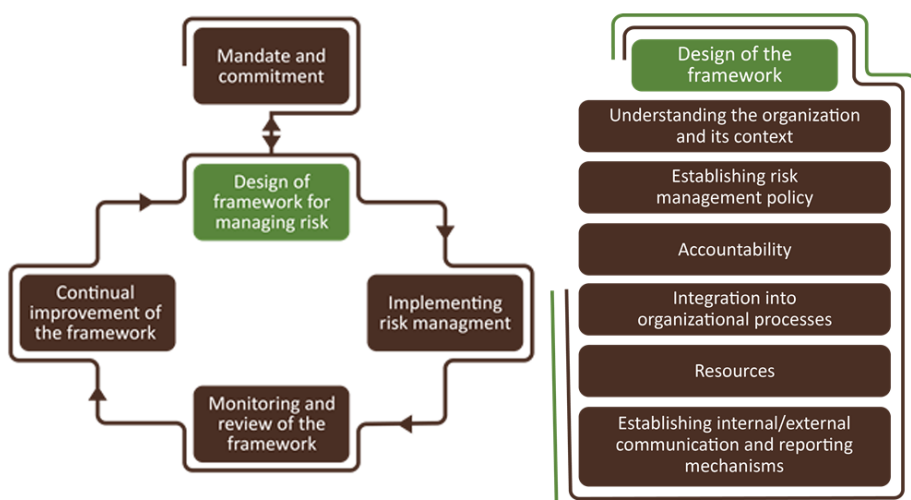
### THE RISK SCENARIO PLANNING COURSE

RightRisk has developed the Risk Scenario Planning (RSP) tool and the companion RSP course (below) to help producers learn how to identify sources of risk and uncertainty in their businesses and eliminate educated guesses in partial budgeting.



The RSP course provides an overview of the different types of risk: financial, production, human, institutional, and marketing/price risks. Note that all risks imply a negative outcome. Instead, an uncertain outcome could result in a positive, negative, or neutral result. The point of risk management planning is to reduce the chances of negative and/or increase the chances for positive outcomes.

The Risk Management Framework section (below) discusses how to implement a risk management culture. Effective risk management should be viewed as a competitive advantage, proactive, a priority, and an integral part of the organization; it should be as much about maximizing positive opportunities as it is about minimizing negative outcomes. The



The Risk Management Framework

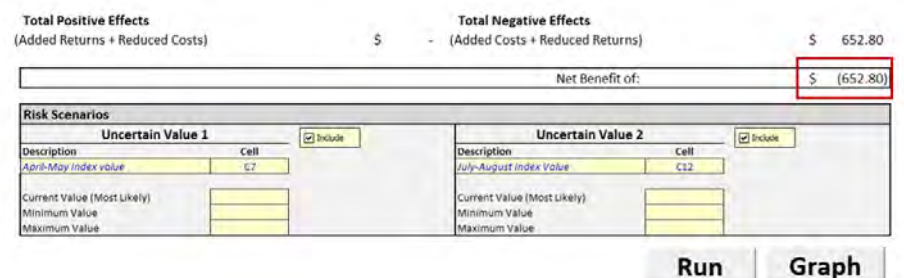
course highlights each level of the risk management framework and how to implement it when making management decisions.

### THE RSP TOOL

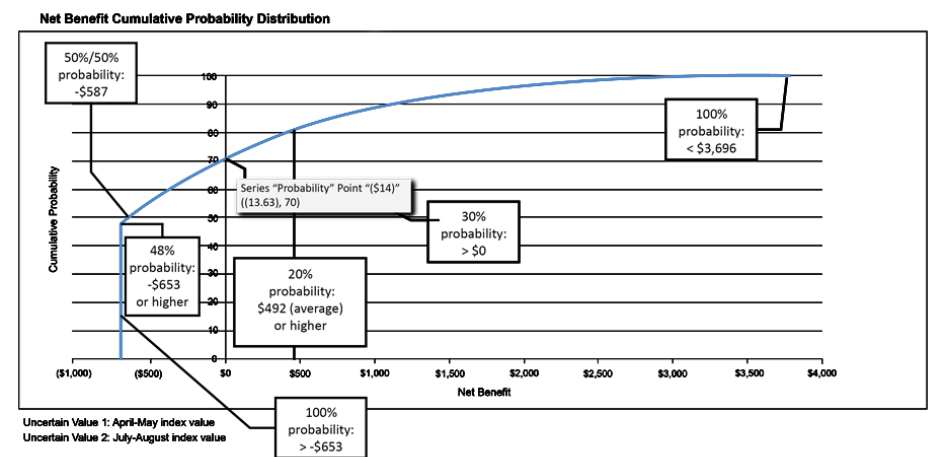
The RSP course highlights the Risk Scenario Planning tool and its application. The tool provides users a comprehensive view of their partial budgeting efforts. The Excel-based tool is laid out in the form of a typical partial budget, with separate sections for added and reduced costs and returns.

The analysis section of the tool is unique where it allows producers to consider up to two uncertain variables with varying values. The problem with many partial budgets is that many of the variables included are based on imperfect information, and the resulting risk inherent in those factors is not correctly accounted for. The RSP tool is designed to account for at least some of this uncertainty by assigning a range of probable outcomes and associated changes in certain variables. This helps account for at least some of the variability and allows for better-informed management decisions. This unique feature allows users to enter a range of variation (minimum, maximum, and most likely) for up to two variables under consideration and then generate a probability distribution displaying the impact on the potential outcomes.

Decision makers can view the probabilities of potential outcomes from the analysis (see below). These results provide a much clearer view of the effects the potential decision may have, compared to simply using an uncertain (best guess) for each variable.



Risk Scenario Planning tool



Example analysis completed using the Risk Scenario Planning tool

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### FOR MORE INFORMATION

The Risk Scenario Planning course is just one of many covering risk management topics from budgeting, estate and legacy planning, financial management, and many others. Visit [RightRisk.org](http://RightRisk.org) to view the Risk Scenario Planning course from the Courses menu. Check the RightRisk Analytics Toolbox, containing numerous budgeting and financial tools, including the Risk Scenario Planning tool.