

Introduction

Strategic

Tactical

Operational

Ag Risks

Do It Yourself

The Strategic Risk Management Process

An Introduction to the Risk Navigator SRM Process

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RightRisk, LLC

Virginia Cooperative Extension
A partnership of Virginia Tech and Virginia State University www.vce.vt.edu

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Risk Navigator SRM

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www.RiskNavigatorSRM.com

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STRATEGIC RISK MANAGEMENT

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Applied Risk Management
in Agriculture
Dana L. Hoag

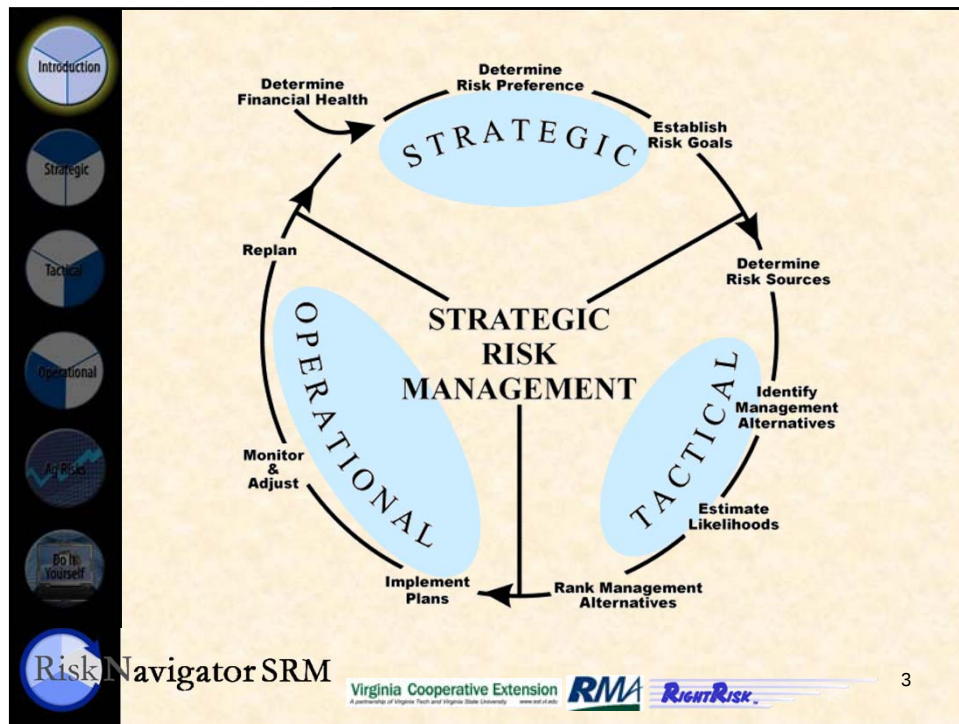
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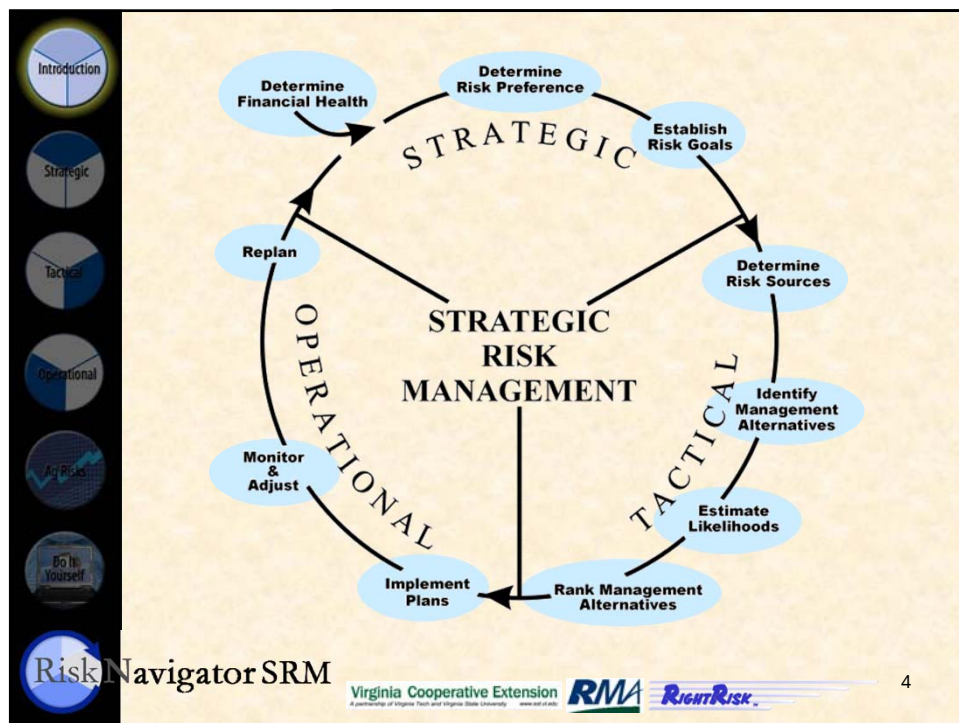
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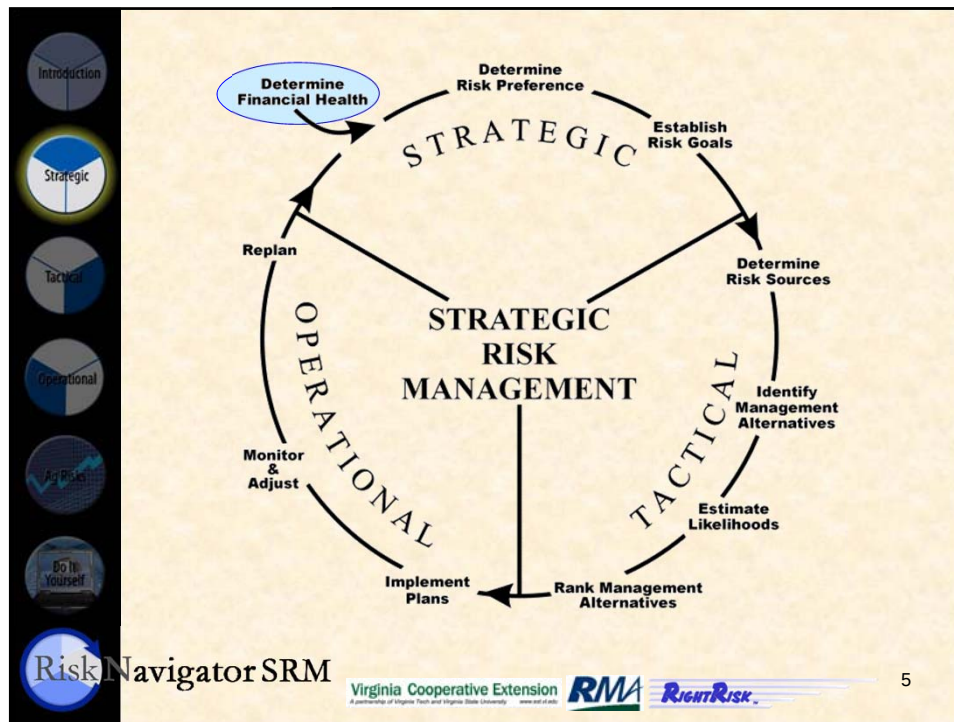
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Determine Financial Health

- Five areas of financial health that should be monitored
 - Liquidity
 - Solvency
 - Profitability
 - Financial Efficiency
 - Repayment Capacity
- SWEET 16 Financial Ratios



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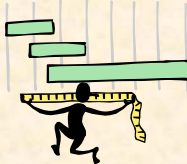
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Financial Statements

- Balance Sheet
- Cash Flow Statement
- Income Statement
- Statement of Owner Equity



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Strategic Risk Management Toolbox

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Tool Inventory

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EWS Farms RD Financial

Introduction Enter Data Financial Statements Ratios Credit Scoring Click for Menu Display Options

Assets		Liabilities		Income Statement - Accrual Adj.		
Beginning	Ending	Beginning	Ending		Income	
Balance Sheet						
Cash on Hand	25,000	57,831	0	Cash Income (Net of coll livstk sales)	809,453	
Crops Held for Feed (Exo)	0	0	12,540	Non-Cash Income Adjustments	0	
Crops Held for Sale (Ino)	200,000	200,000	11,908	Non-Cash Income (Raised Brod Livstk)	0	
Market Livestock (Ino)	0	0	11,908	Capital Gain/Loss on Breeding Livstk (Net)	0	
Other Current Assets (Ino)	15,000	15,000	10,000	Gross Revenue	809,453	
Invest Growing Crops (Exo)	0	0	0	Expense		
Succo & Prepaid Exo (Exo)	10,000	10,000	0	Cash Expense (Excluding Interest)	444,013	
Total Current Assets	250,000	282,831	34,448	Non-Cash Feed Inventory Adjustment	0	
Non-Current Assets		Non-Current Liabilities		Other Non-Cash Non-Interest Expense	0	
Mach. & Equipment	325,000	292,500	255,399	Depreciation (Land, Bldgs, Equip.)	24,500	
Breeding Livestock	0	0	0	Total Operating Expense	479,413	
Real Estate (Land, Bldgs, Im)	1,040,000	1,039,000	209,847	Cash Int. Exp. - T.D. & C.L.	12,540	
Total Business Assets	1,615,000	1,613,331	1,325,153	Cash Int. Exp. - Operating	7,261	
				Non-Cash Interest Expense	(651)	
				Total Expense	\$468,563	
				Net Business Income From Operations	110,890	
				Net Business Income	110,890	
				Income+SS+Def. Tax-Cash & Non-Cash	0	
				Net Income	\$110,890	
				Statement of Owner Equity		
				Beginning Net Worth (Cost/Mkt)	1,325,153	
				Net Income	110,890	
				Non-Business Cash Inflows	0	
				Owner Withdrawals (Cash)	100,000	
				Asset Valuation Change/Cont./Distrib. +/-	0	
				Calculated Ending Net Worth	1,336,043	
				Recorded Ending Net Worth (Cost/Mkt)	1,336,043	
				Discrepancy	(80)	

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Off/On		Beginning	Ending
Liquidity			
	Current Ratio	7.26	8.21
	Working Capital	\$215,552	\$248,383
Solvency			
	Debt/Asset Ratio	0.179	0.172
	Equity/Asset Ratio	0.821	0.828
	Debt/Equity Ratio	0.22	0.208
Profitability <<<Accrual Basis Income Statement>>>			
	Rate of Return on Business Assets		4.96%
	Rate of Return on Business Equity		4.58%
	Operating Profit Margin Ratio		0.13
	Net Business Income		\$110,890
Repayment Capacity			
	Term Debt and Capital Lease Coverage Ratio		2.37
	Capital Replacement and Term Debt Repayment Margin		\$33,482
Financial Efficiency			
	Asset Turnover Ratio		0.38
	Operating Expense Ratio		0.73
	Depreciation Expense Ratio		0.06
	Interest Expense Ratio		0.03
	Net Farm Income From Operations Ratio		0.18
	Check Sum		100.00%

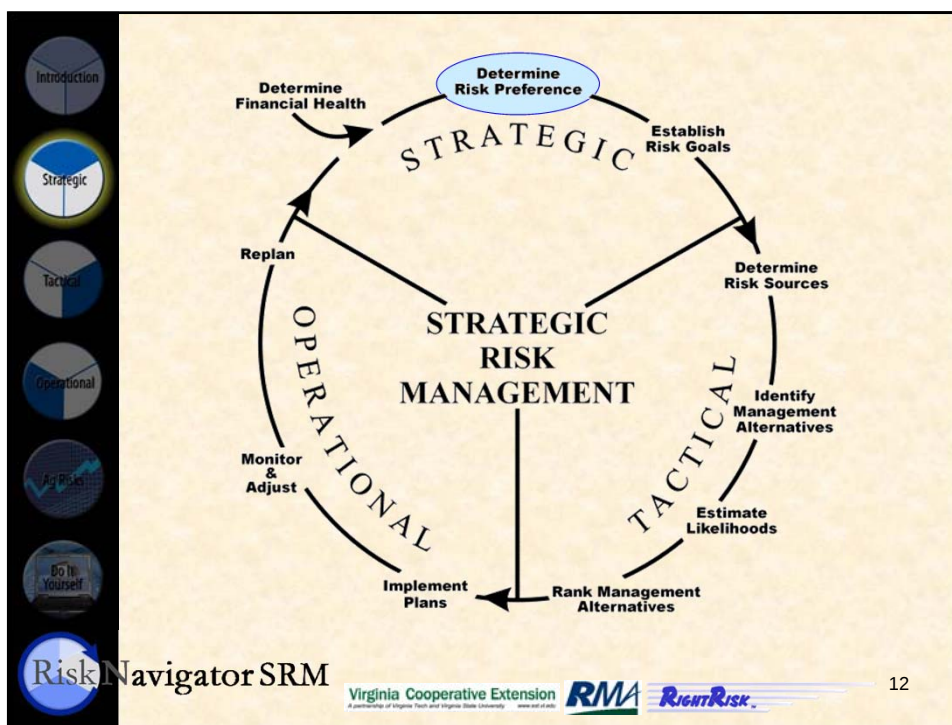
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Risk Preference

Management situations with multiple decision makers are likely to have multiple risk preferences represented.

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Personal Perspectives on Risk

- Generational differences
- Gender differences
- Life stage/family differences
- Life experiences

These are dynamic and change over time.

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Types of Risk Preference

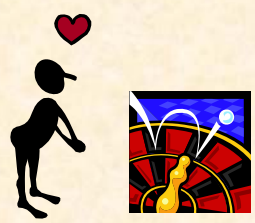
Risk Averse



Risk Neutral



Risk Loving



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As between the two of us, I'm the risk taker here.

Daytner Construction Group
CEO Theresa Alfaro Daytner

"Believe it or not, between the two of us, I'm the risk taker here. My husband doesn't have the kind of threshold for risk that I do."

"My husband is the vice president of the company and focuses on the important things that need to get done today. It's a great fit."

Picture and story courtesy of /nc. magazine (September 2011)

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The Strategic Risk Management Toolbox
A Selection for the Professional Agricultural Manager

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Risk Preference Calculator

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Estimate my risk preference
You have an opportunity to grow onions, but crops fail about half the time. Indicate in row 1 how much you would spend to produce onions if you have a 50% chance of making no crop and a 50% chance of making \$100 thousand dollars. Do the same in rows 2, 3 and 4 where the odds are slightly different.

	Decision to produce onions	Expected Payoff	How much would you spend to produce onions?
	No Crop	Crop	
1	\$0	\$100	\$50
2	\$0	\$25	\$13
3	\$25	\$100	\$63
4	\$6	\$31	\$19

Your Utility
Utility vs. Certainty Equivalent (CE) graph showing Utility (0.0 to 1.2) on the Y-axis and Certainty Equivalent (CE) (0 to 120) on the X-axis. The graph displays Utility (blue dots) and Predicted (orange dots) values.

Your Risk Preference
4.09

Your Risk Tolerance
8.69

Risk Preference Key
Negative = Risk taker
0 = Risk neutral
1 = Somewhat risk averse
2 = Rather risk averse
3 = Very risk averse
4 = Almost paranoid about risk

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