Volume 4, Issue 8

August 2016

RightRisk™

How Much Risk is Right for You?

Dates to Remember

Margin Protection Program Dairy (MPP-D)
- 2017 crop year
July 15th-Sept. 30th

Spring premium billing deadline date
- August 15th

Fall crops sales closing date
- September 30th

Forage Insurance
- September 30th

RI-PRF Coverage
November 15th, 2016 for 2017 crop year coverage

Acreage Reporting:
- November 15th

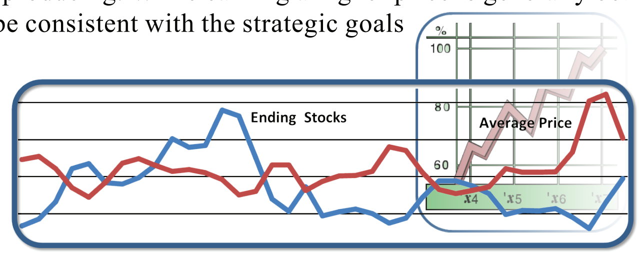
For more information see:
http://www.rma.usda.gov
http://www.fsa.usda.gov

RightRisk News

Strategic Marketing for Effective Risk Management

Marketing product can be both exhilarating and frustrating. When times are good, you enjoy many victories and seek more. Currently, however, farmers and ranchers are seeing market prices like $2.85 per bushel of wheat, $2.84 per bushel of corn, $118 per cwt. of live slaughter steers, and $115 per ton of alfalfa hay. These are hardly good times in the market if you are selling any of these commodities.

Like many producers, you may be considering alternative marketing strategies at this point, seeking to make more money on what you are producing. While earning a higher price is generally better than a lower one, such actions should be consistent with the strategic goals and marketing plans of the operation, rather than going against them. More importantly, the risk dimension of the adjustment should be carefully considered.



We have emphasized in past issues of *RightRisk News* how important it is to have market risk management strategies outlined in a written plan that you are comfortable updating and maintaining on a continual basis as the market or your situation changes. If you are considering alternative production or marketing decisions in response to lower prices, now is a good time to revisit those strategies and the objectives you are trying to achieve.

It is important to be strategic in your thought processes. How does each choice today link to future decisions? Do you have the assets, resources, and time to commit to the choice you are considering? How does this choice look in the big picture of what you are trying to accomplish?

How does each choice today link to future decisions?

Last month's *RightRisk News* outlined the *Strategic Risk Management Process* (SRMP), a resource for helping managers think through important management decisions. Strategically marketing the output from agricultural operations involves more than simply pursing the highest price. Adding value to production sounds well and good, but it typically comes with additional costs and risk. Correctly accounting for any changes in cost or risk is necessary to arrive at the best management decision.

Let's consider a few examples. If you are a grain or forage producer, you may be considering storage instead of selling at current cash delivery prices. If you have on farm storage available, calculate the costs involved with utilizing that storage space and any risks involved with maintaining the quality of the product. Be sure to account for your time moving the product into and out of storage, as well as market monitoring activities between harvest and the projected time of delivery. It may be a big win for you to store your product and deliver it to market at a later date, but make sure you understand the potential consequences of that decision, in addition to thinking through how you will recognize market price opportunities.

Highlighted Course

Managing the risks in a rural enterprise has never been easy. Changing regulations, coupled with new technologies, improved communication, and the "information age" combine to lead many mangers to ask "How do I even start to get a handle on it all?"

An online resource is available entitled *Enterprising Rural Families: Making it Work*. This comprehensive, online course focuses on how to combine the needs, values, and visions of people into an effective family business. Enterprising Rural Families (ERF) was developed by a team of professionals from Wyoming, Canada, and Australia, combining visual, audio, and written materials. Course one focuses on strategic planning and goal setting, while course two involves resource planning.

To access the Enterprising Rural Families: Making it Work courses, see: eRuralFamilies.org > courses

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If you are an integrated cow/calf producer, you may be considering retaining ownership of your calves this fall and feeding them low-priced grain or forage you have raised. Keep in mind, that this will not make your crop enterprises more profitable. Obviously, you may realize some savings by not incurring marketing expenses for those crops. However, while inexpensive feed generally makes for profitable feeding enterprises, you should make sure you pencil it out for your particular situation. You should not just assume, as many do, that you will automatically earn a higher net revenue as compared to selling the calves and feed in the fall. You should fully account for the opportunity cost associated with those foregone sales, as well as your time, interest expenses, and other resources needed for the feeding activity.

As you consider these decisions, don't forget your market fundamentals and the signals being sent by the markets. Low prices generally mean supply is overshadowing demand. The same goes for unfavorable basis conditions. If local price is far below the national price reported on the Board of Trade, then local buyers are signaling that you should not sell at this point in time.

If you choose to feed raised grain and forage, then you have effectively taken that product off of the market, committing instead to marketing pounds of beef. As a result, you will need to shift your marketing focus, as well as update your marketing plan.

Alternatively, if you choose to store raised grain and forage, you have changed the pricing and delivery point for those products and should focus on those opportunities when updating your marketing plan.

Take a hard look at which risk factors (delivery point, basis value, national price, etc.) you are interested in protecting; which components you would like to be more certain and which make sense to leave uncertain, allowing the markets to work (hopefully in your favor).

Often the toughest decisions are the most rewarding. Taking the time to think strategically about the most effective method to market crops and livestock under challenging market conditions can pay big dividends in the long run.

RightRisk™

RightRisk helps decision-makers discover innovative and effective risk management solutions.

- Education
- Coaching
- Research

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How much risk is right for you and your operation?

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