

Risk Management Strategies for Farmers

Prior to now, farmers experienced a time where gross revenues were high. Now the agricultural climate has changed and operating margins are getting tighter requiring farmers to rethink some of their risk management strategies.

One strategy farmers might take is to maintain their working capital. It is a measure of the liquid funds that a business has available to meet their short-term financial obligations. Working capital equals the current assets minus current liabilities for the farm. Current assets include cash on hand, accounts receivable, and grain/livestock inventories. Current liabilities include accounts payable, unpaid taxes, operating lines of credit, and principal payments due this year on long term loans. Ultimately, farmers need to maintain working capital at a level that provides them enough short-term financial resources to meet the business's need if their financial situation would change quickly.

Farmers might choose to be more cautious about making investments in machinery and facilities as a second risk management strategy. This strategy involves making wise use of available funds and evaluating the true cost of a purchase to the benefits before making the final purchase. For this strategy to work, farmers need to make sure they are getting a decent economic benefit from the purchase before they make it.

A third strategy would be to fully evaluate all farm land purchases before making them. Land prices have been decreasing and the current price tag on a piece of land might be appealing, however it is important to compare the cost of owning the land to the cost of renting it before making the purchase. Remember, there is always a chance the price could go lower and allow you to get that same tract of land for less.

Throughout the year, it is important to reduce and manage all financial risk. This involves fine tuning the farm's marketing plan, analyzing crop insurance strategies, seed/fertilizer purchases, pesticide decisions, and farm rental arrangements. As you look for ways to reduce and manage financial risk, it is important to communicate your decisions and concerns with the farm management team and your Ag leaders. Discuss any financial concerns early before the issue escalates.

During the Understanding the Business Side of Agriculture program series, farmers have the chance to hear Chris Hurt, Purdue Professor of Ag Economics, provide his forecast for Ag markets for 2016. Chris will be presenting on March 10 from 6:30-8:30 at the Putnam County Fairgrounds. The cost for this program is \$5 per farm.

Visit our homepage at www.extension.purdue.edu/putnam or you can contact the local Purdue Extension Office by calling 765.653.8411 for more information regarding this week's column topic

or to RSVP for upcoming events. It is always best to call first to assure items are ready when you arrive and to RSVP for programs. While many publications are free, some do have a fee. Purdue University is an equal access/equal opportunity institution. All times listed are Eastern Time.

Upcoming Events:

March 4 – Apple Tree Pruning Workshop, Chandler’s Farm & Country Market, 1-3 PM

March 10 – Understanding the Business Side of Ag, Fairgrounds, 6:30 PM, \$5 per family,
Register at 765-653-8411

March 12- Health and Human Science IEHA Leader Lesson, 1:00 PM, Extension Office

March 12 – Putnam County Ag Day Breakfast and Mini Farm Fest

March 19 – Gardening Fair, Fairgrounds, 9 AM – 4 PM

March 19- Parenting Counts Program, Roachdale Library

March 24 – Understanding the Business Side of Ag, Fairgrounds, 6:30 PM, \$5 per family,
Register at 765-653-8411

March 28 – Bigger Profits Through Targeted Sales, Parke Co. Fairgrounds, 8:30 AM – 5:00 PM,
\$20, Register at 765-569-3176