

Risk Assessment and Management

Part of a How-To Guide for Successful Agritourism Enterprises

Prepared for The University of Georgia's Center for Agribusiness and Economic Development and North Carolina State Cooperative Extension Service's Business Side of Agritourism Program Series. The Primary Investigators on this project were Kent Wolfe, Center for Agribusiness and Economic Development and Gary Bullen, North Carolina State University Cooperative Extension Service.



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Introduction

What types of risk are you taking on when you engage in Agritourism? The first risk normally thought of is liability. While liability is extremely important, other types of risk are also important for you to consider. To be successful, you must correctly assess and manage risk.

This resource document will help you

1. Identify the types of risk agritourism enterprises may face
2. Appreciate liability laws
3. Assess some risks specific to your agritourism enterprise
4. Identify some methods to help you manage risk
5. Learn basic insurance concepts

Types of Risk

The uncertainty regarding the likelihood or magnitude of loss, damage, or injury can be defined as risk. Generally, there are six main categories of risk that are relevant to agritourism.

Legal Risk

Agritourism enterprises are subject to several forms of legal risk. It is critical that you follow all laws and regulations relevant to your agritourism operation. Adding Agritourism operations to your traditional farming operation may present additional environmental concerns. Therefore, you must take precautions to follow environmental protection laws and regulations. Agritourism operations also may subject employees and customers to risk of injury while they are at your agritourism business or utilizing products purchased from your business. When an injury occurs, you and your agritourism enterprise could be required to pay damages to the injured party. In the event of a lawsuit, there will be expenses incurred for legal counsel.

Human Resources Risk

The four Ds of human resource risk are

1. Death
2. Divorce
3. Disability
4. Disagreement

Everyone involved with the operation is important and must be committed to the agritourism operation. Employee turnover can also be expensive when you consider the time and money it takes to find, hire, and train new employees.

Business Interruption Risk

As is true in any business, an agritourism operation risks loss of income from business interruptions. Your business operations could be halted or slowed due to any number of interruptions, including hazardous weather and/or natural disasters.

Production Risk

Agritourism enterprises that incorporate or rely on the production of agricultural commodities, specialty crops or livestock face production risks. Examples of this may be corn mazes, pumpkin patches, pick your own operations, and livestock production. Weather conditions, disease and/or pests may decrease or destroy yields. Another consideration in today's market is biosecurity. Biosecurity could be compromised by increased traffic that increases the potential for disease to spread among crop and livestock.

Marketing Risk

Marketing is not as simple as build it and they will come. What if you build it and customers don't come? Marketing risk can include not attracting enough customers to generate needed cash flow or, attracting more customers that you can accommodate. Or, what happens to cash flow due to negative effect of unanticipated competition.

Financial Risk

Don't confuse cash with profit. There is a huge difference between the two. For example, loading your inventory takes money without changing profits. Spending available cash buying inventory doesn't affect profits, but cash flow is more important than profits because profits are an accounting concept and cash is money in the bank—you don't pay your bills with profits.

Business start-up and operation costs may require significant capital, which may be financed by taking on debt. Financial risk always includes meeting cash flow needs.

Each of these risks has the potential of being very costly to your business. The planning and operations of an agritourism enterprise must include risk assessment and the development and implementation of a risk management plan.

Liability Laws

Liability law may vary by state. The risk of liability is a major concern and requires the agritourism operator to be diligent about keeping customers and employees safe. An agritourism entrepreneur's business plan can be derailed if the owner is taken to court to

pay damages for an injury, or fraudulent or frivolous claim. It is important to seek legal advice and to stay informed on liability laws within your state.

Risk Assessment and Management

Recognition of what particular risks are associated with your Agritourism enterprise should be the first step to reducing and managing risk. This should be a continuous process since new risks will arise over time. Begin by considering the types of risk your operation may have. These could include

- Legal Risk
- Human Resource Risk
- Business Interruption Risk
- Production Risk
- Marketing Risk
- Financial Risk

In assessing your risk, you must estimate the likelihood that a risk will result in loss, damage, or injury, and, you must estimate the potential magnitude of the loss.

Develop and implement a risk management plan to help reduce or eliminate potential risks. There are four generally accepted methods to managing risk

1. Risk Avoidance
2. Risk Reduction
3. Transference of Risk
4. Acceptance of Risk

Risk can be avoided by choosing not to engage in agritourism altogether. However, by assessing risk, you may decide that a specific activity has more risk associated with it than you want. Therefore, you can decide not to offer that particular activity.

Risk can be reduced by putting preventative measures and procedures in place. Customer and employee safety is an area where risk reduction will be effective. Make taking a proactive approach to safety for customers and employees a priority.

Risk can be managed by transferring the risk to another party. This can be done with insurance. An insurance company accepts risk on your behalf in return for compensation in the form of premiums.

You may not be able to reduce or transfer all risks associated with some agritourism activities. In this case, you have to decide if you want to accept the associated risk. If you accept risk, take action to prepare for loss or damages in other ways. You may consider creating an emergency fund to pay for expenses you might incur as a result of the risk.

Summary

It is important that you maintain awareness of the many types of risk an agritourism venue can introduce. It is equally important that you effectively assess and manage these risks. Remember these key points

1. Risk assessment and management is a continuous process.
2. Risk to agritourism enterprises may include legal risk, human resources risk, business interruption risk, production risk, marketing risk and financial risk.
3. Liability is one type of legal risk of great concern.
4. Risk can be managed through risk avoidance, risk reduction, risk transference, or risk acceptance.

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Additional Resources:

Agritourism in Focus

A Guide for Tennessee Farmers

The New Farmers' Market

Corum, Rosenzweig & Gibson
New World Publishing

Worksheets and Analysis Aids

Various worksheets and analysis tools to assist the decision making process when investigating the variables involved when considering a new Agritourism enterprise can be found in *Agritourism in Focus, A Guide for Tennessee Farmers, UT Extension PB 1764.*