

Fact Sheet #6 Risk Management

Risk management is the process of recognizing potential problems and developing a plan to prevent or address them. There are several types of risk inherent in farm operations.



Production

Weather, pests and disease, input quality, equipment, and production knowledge all affect farm production. To reduce these risks, you might choose to diversify your operation, increase your production knowledge, rotate crops, use irrigation, vaccinate livestock, graze and rotate animals, or improve on-farm crop storage.

Marketing

The ability to effectively market your farm products depends on: having or finding a market, securing market space, prices, competition, the ability to communicate with customers, and whether or not buyers will default on contracts. To improve marketing, you can develop a plan based on research on both products and markets, knowledge of your buyers' needs and wants, and the competition. You might look for a specific niche, advertise and promote your products, sell to a range of buyers, execute sales contracts before planting your crop, or expand the time period in which you sell by using season extension or crop storage methods.

Human resources and/or labor

You will need to keep in mind the assistance you will need on the farm, including: the availability of labor (both within and outside of the family), what types of skills laborers will need, the possibility of illness or injury affecting workers, and how to effectively manage workers. It is important to discuss goals as a family, hire help when you need it, train those workers, build your own skills (through classes or a mentor), learn safety guidelines, and purchase health insurance and life and disability insurance.



Legal requirements

Laws regarding environmental stewardship, personal liability, zoning, taxes, food safety, and handling of agricultural chemicals will all affect your farm operation. You will also want to consult a farm lawyer regarding sales contracts, make sure you have authorization to

participate in programs such as the Farmers Market Nutrition Program, and maintain proper records for special certifications, such as organic.

Financial management

A successful farming business requires the ability to manage cash resources and pay attention to fluctuating interest rates, taxes, credit history, equity, and collateral. To reduce your risk in this area, you could take a financial literacy course, purchase crop insurance, participate in government programs, maintain proper records, build your credit history, and control input expenses by shopping around and looking into group purchases.



Detailed information on reducing these types of risks can be found in additional fact sheets. New Entry offers a plain language [guide to managing risk](#). USDA's [Risk Management Agency](#) is also a good general resource.

Insurance

Insurance can be purchased to protect your assets from claims and lawsuits that may result from injury to persons or damage to property from accidents that occur on your business premises. Liability is legal responsibility for such occurrences. Effective risk management depends on combined efforts and close communication between you and your insurance company. Look for an agent with whom you feel comfortable, who is well known and respected among farmers, who understands agriculture and businesses, and who will work with you to reduce your potential for risk.

When considering your risks, be sure to review the list below and describe your risks completely to your agent. You will not need all of the types of protection listed below, but it is important to know your options when shopping for insurance. Match your coverage to your needs for risk management.

Potential insurance coverage to consider for your operation

General Liability Insurance: covers injuries to people while they are on your property and protects you from losses due to lawsuits.

Automobile Insurance: covers vehicle damage while in your vehicle or to another vehicle while traveling.

Home Owners Insurance: typically covers fire, theft, personal property, lightning, riot, aircraft, explosion, vandalism, smoke, theft, windstorm or hail, falling objects, volcanic

eruption, snow, sleet, and weight of ice. Usually flood and earthquake need to be purchased separately.

Farm Insurance: covers barns, housing, equipment, animals, and other farm assets.

Workers' Compensation Insurance: is required by law if you have employees. Employees are defined as persons receiving some sort of payment, which could possibly include volunteers that get meals or room and board in exchange for their work.

Product Liability Insurance: is for damages that may arise from the consumption, handling, use of or condition of products manufactured, sold, handled, or distributed by your business.

Contract Liability Insurance: covers the assumption of the liability of another party through a contract or facility use agreement. For example, you may be required to provide a certificate of insurance to buyers that includes \$1 million in product liability and additional insurance.

Environmental Pollution Insurance: covers clean up of manure, or pesticide spills.

Crop Insurance: for weather, market, fire, pests, and other disasters. Options include: Multiple Peril Crop Insurance [50% yield loss], Adjusted Gross Revenue [50% income loss], or Non-insured Crop Disaster Assistance. See Fact Sheet #8 for more details.

Life Insurance: to help your family in case something happens to the primary income earner.

Health Insurance: for yourself and family to obtain access to preventative care and care in case of illness or injury.

Business Interruption

Insurance: will provide living expenses if you are hurt and cannot work.

Vendor's Insurance: will cover your liabilities if you are selling at a farmers' market or trade show.

Event Insurance: is a good idea if you plan on hosting festivals or other events on your farm. This may cover cancellation and/or liability.



Here are some ways to reduce your liability beyond purchasing insurance coverage:

- If you have people coming to your farm, keep your property in good repair and maintain good, clear signage.

MDAR has more [information on signage requirements for pick-your-own \[PYO\] operations](#). You can also contact Rick LeBlanc with questions: Richard.LeBlanc@state.ma.us, [617] 626-1759, or [413] 205-5506.

- Minimize or eliminate dangerous situations. This might include: aggressive animals, manure pits, moving vehicles or equipment parts, uneven terrain, etc. Fence off hazards wherever possible. See the Occupational Safety & Health Administration (OSHA) [website](#) for details on possible farm hazards.



- Bio-security is recommended. Biosecurity refers to those measures taken to keep diseases out of populations, herds, or groups of animals where they do not currently exist or to limit the spread of disease within the herd. Provide booties and hand wipes for visitors who enter barn areas.
- When selling or serving foods, make sure all regulations are met and carry product liability insurance. Food safety regulations will only get stricter over time. See the [NSAC blog](#) for updates on the Food Safety and Modernization Act.
- Test your water supply annually for bacteria if your water is being used for washing produce or processing.
- Negligence is when you fail to take normal steps to eliminate hazards or you create a hazardous situation and fail to address it.
- Avoid making false statements or publishing incorrect information that may damage a person's reputation as this can result in libel suits. Be careful of advertising claims or comparing your operation to others in a negative way.
- Manage your production techniques according to recommended best management practices.
- If you have youth working or volunteering on your farm, refer to OSHA's [eTool](#) for recognizing and avoiding injury on the farm.

Fact Sheet #7 on Liability Insurance will go into greater detail on obtaining insurance.