STRATEGIES FOR MANAGING FINANCIAL RISK DURING COVID-19

Tope Fajingbesi, CPA
Board Member, Future Harvest
Agribusiness Lecturer & Advisor, Institute of Applied Agriculture, University of Maryland College Park
QUICK POLL!

Go to www.menti.com and use the code 46 12 58

1. Grab your phone
2. Go to www.menti.com
3. Enter the code 46 12 58 and vote!
Caveat Emptor!

- Agribusiness is risky!
- So, this webinar is a reminder about:
  - Risks that may be enhanced,
  - And practical strategies that can mitigate them.

- Don’t ask a person for directions to a place they have never been.
  - First time in “our adult life.”
  - Therefore, not even Warren Buffet can predict the future.
  - A Fortune Cookie May be More Helpful with that.
4.43m more people filed for unemployment this week, bringing total claims to 26.5m.
COVID-19 = INCREASE IN RISKS & OPPORTUNITIES TOO!
IDENTIFY SOURCES OF RISK

Personal Risk
- What if you/key employee falls sick or injured?

Production risk
- Cold April - Bad weather again this year?
- Low yield?
- Uneven product quality?
- Pest Issues?
IDENTIFY SOURCES OF RISK

Price and market risk

- Low turnout in farmer’s markets
- Customers are losing jobs and struggling to pay
- Increased cost due to safety standards
- Closed Channels: Schools, Restaurants

Financial risk.

- Investors and funders are broke
- PPP has run out?!
- Loans are due
WHAT CAN YOU DO NOW?

STRATEGIES:
**RISK MANAGEMENT TOOLS**

**Hope is not a strategy**

- Become familiar with federal, state and local intervention programs {EIDL, PPP etc.}

**Beware of Traps by the Ones Who Prey!**

- Is it really 180-days of no payment?
- Really forgivable?

**Manage your expectations**

- This may not be the season to expand production
- How much sales do I have to make to break even?
- Break even plus 20%
- What is the plan B, C or D?

**Get organized**

- How much have you spent to date?
- What were the numbers last year?
- **This Week: Refund Request without Deposit**
Stable enterprises

- Irrigation vs. Dry Land Farming
- Meat or kale vs. Flower or Perishables

Diversification.

- Not just products, markets too!
- Side hustle?

Insurance.

- Self Insurance {Cash Reserves is King!}
- USDA subsidizes crop yield, livestock and revenue loss insurance products sold by private entities
- See USDA Risk Mgt. Agency website
Spreading sales

Contract sales.
  • USDA commodity program
  • CSA

Futures Contracts (Proceed with Caution & Expertise)
  • Hedging
  • Commodity Options

Flexibility
  • Month by Month
Fixed interest rates.
Self-liquidating loans.
Liquid reserves.
Credit reserve.
Owner equity.
LEGAL RISK TOOLS

BUSINESS ORGANIZATION.

ESTATE PLANNING.

LIABILITY INSURANCE.
PERSONAL RISK TOOLS

- Health insurance.
- Life insurance.
- Safety precautions.
- Backup management.
## Customize Possible Risks & Outcomes

### A. How much may you lose?
- 50% of Farmers market sales in 2019
- 100% school cafeteria sales?
- 80% Hospital cafeteria sales

### B. What can you do to make up the loss in A?
- Increase CSAs
- USDA Commodity Supply Contract
- Hospital in-patient kitchen supply

### C. Additional Costs
- Packaging and safety requirements
- Infrastructure upgrades (irrigation, land preparation, high tunnels)

### D. Cost Savings
- Fuel cost savings

<table>
<thead>
<tr>
<th>A. Loss of Revenue</th>
<th>B. New Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>$XXX $1,200</td>
<td>$XXX +$5,000</td>
</tr>
<tr>
<td>$XXX $1,300</td>
<td>$XXX +$2,000</td>
</tr>
<tr>
<td>$XXX $1,500</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C. Additional Costs</th>
<th>D. Cost Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>$XXX $2,000</td>
<td>$XXX +$1,000</td>
</tr>
<tr>
<td>$XXX $1,000</td>
<td>$XXX +$1,000</td>
</tr>
<tr>
<td></td>
<td>$XXX +$1,500</td>
</tr>
</tbody>
</table>

\[ A + C = $7,000 \]
\[ B + D = $10,500 \]
Those who fail to plan, plan to fail!
RESOURCES

- https://www.futureharvestcasa.org/
- www.iaa.umd.edu
- http://marbidco.org/