

# FINANCIAL LIABILITIES

## BENEFITS AND COSTS TO AGRITOURISM

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# Agritourism

A multifaceted agribusiness that impacts:

1. Traditional farming and ranching
2. Tourism
3. Rural development
4. Education



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# Why Agritourism?

1. Diversify farm income
2. Keep trained workers on the farm
3. Educate the consumer
4. Social activity

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# Economic Benefits from Agritourism

Agritourism as a diversification strategy.

Farms engaging in agritourism most likely utilize existing resources.

1. Diversify resources  
e.g. labor, land

2. Diversify production risk



3. Create a stable or higher income



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# Risk and Uncertainty

- Agricultural producers make decisions in a risky and uncertain environment.
- Risk is the possibility of loss or an unfavorable outcome associated with an action.
- Identifying risk and learning how to manage it properly differentiates a successful agribusiness operation.

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# 5 Areas of Risk

## Production Risk

Variability in expected outcome due to:

1. weather and climate changes
2. pests and diseases
3. technology and machinery efficiency
4. quality of inputs

## Marketing Risk

Any market related activity that leads to variability of prices farmers:

1. receive for their products
2. pay for their production inputs

## Financial Risk

Risks that threaten the financial health of the business:

1. the cost and availability of capital
2. the ability to meet cash flow needs in a timely manner
3. the ability to absorb short-term financial shocks
4. the ability to maintain and grow equity

## Legal Risk

Commitments with legal implications:

1. contractual agreements
2. business organization
3. laws and regulations
4. public policy and attitudes

## Human Risk

An important part of the business:

1. human health and well-being
2. family and business relations
3. employee management
4. transition planning

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# Your financial risk factors are related to:

Liquidity: Ability to meet financial obligations

Solvency: Ability to pay all debts if assets are liquidated

Profitability: Amount of profit generated by the agritourism business

Repayment capacity: Ability to repay term debts on time

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# What producers say

When asked which financial risks are more threatening to an ag business producers respond:

- Meeting cash flow/family living
- High levels of current debt
- Poor asset structure
- Poor debt structure
- Loan approval

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# Addressing Financial Risk

Have a good set of financial records

- ✔ Balance sheet
- ✔ Statement of owner's equity
- ✔ Income statement
- ✔ Cash flow statement

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# Addressing Financial Risk cont.

Have a good set of financial records

- ✓ Balance sheet → liquidity and solvency
- ✓ Statement of owner's equity
- ✓ Income statement → profitability measures
- ✓ Cash flow statement → repayment capacity

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# Financial Risk Management Checklist

1. Monitor financial position and record the business financial trends
2. Compare with similar business
3. Maintain a good relationship with your lenders
4. Conduct a cost-benefit analysis for new ventures

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# Financial Risk Management Checklist cont.

5. Protect your profit margins
6. Manage your cash flow needs
7. Monitor family living expenses
8. Have 'what if' scenarios in case of unexpected events

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# References & Additional Resources

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[2] Crane L., Gantz G., Isaacs S., Jose D., and R. Sharp. 2013. Introduction to risk management. Extension Risk Management Education and Risk Management Agency, USDA

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