How Ball Games Help Explain the Risks of Agriculture

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Juggling Your Roles

Farmers and ranchers, like all business owners, face various risks. What makes agriculture unique is the wide variety of risks we face. To get a better handle on managing these risks, it’s easier to think of them as falling into one of five general areas, with each area represented by a ball:

Production – basketball
Marketing – football
Legal/Institutional – baseball
Human Relations – playground ball
Financial – soccer ball

Production: Advanced Strategy Demands Specialized Skills

Production risks involve all of those familiar risks associated with the production of a commodity, such as drought, disease, pests, insect damage, hail, frost, fire, and changes in technology. Most producers manage these risks well. Similarly, most of us are familiar with the game of basketball and can handle the basics of the sport – bounce the ball and shoot at the hoop.

We also can play a simple game of "HORSE," "21," or one-on-one. But as production risks become more complex, so must our strategies in managing those risks. (Just as knowing how to "shoot some hoop" will not suffice in a full-court basketball game against a talented team.)

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The Market: A Good Return, or Sacked for a Loss

While basketball is or has been played by nearly everyone (young and old, male and female), the same cannot be said for football. The rules of football and the techniques used by successful players are not as well known.

Just like football, today's markets have their own language. Terms like options. Forward contracts. Margins. Spreads. All have special meanings that can be puzzling if you haven't studied the playbook. Football is similar, with terms like nickel defense, halfback option, safety blitz and trap blocking. Similarly, have you ever tried to dribble a football? The movements of tomorrow's market can be just as difficult to predict.

Does this mean managing market risk is too challenging? No. But the pros rely on special teams, and you can rely on specialists like brokers, marketing consultants and extension specialists to keep your game plan on track and to avoid being sacked.

Legal/Institutional Challenges: Playing Hardball

Baseball has been called the American pastime, but few of us have played baseball. Instead, we play softball, essentially making baseball (hardball) a spectator sport. The same can be said for the legal system or other actions of government, where we sit and watch zoning laws, environmental regulations, and food safety standards become policy.

While we can commonly observe a baseball game without being directly affected by actions on the field, there are times (e.g., a foul ball hit into the stands), when we are adversely affected. The same can be said for legal actions. Even though the baseball is the smallest of the "risk balls," and therefore the easiest to ignore, it is the one that will hurt the worst if it hits you in the head.

Human Relations: The Games People Play

Most producers commonly observe rather than participate in the development of legal and institutional actions. This is in stark contrast with the management of human risks, which involve working with employees as well as family members. Remember that big red ball we all played with at recess? You could use it for anything: kickball, dodgeball, basketball, volleyball, keep-away...it was pretty flexible and numerous games have been invented for its use.

Similarly, the management of human-related risks (working with employees, relationships with family members, etc.) is varied. But, unlike the playground ball, which is soft and rarely results in lasting physical harm, actions taken with respect to humans can be personally devastating. Personal issues can be deceptive; they seem like something we can take for granted, but they can present the most serious, and the most important, risks in our lives.
The rule of the playground still applies here: we're never too big to seek help if the game gets too rough. That help could come from family, friends, neighbors, places of worship or counseling professionals.

**Finances: Is It All Hands-Off?**

Financial risks are common to most everyone, just as the fast-growing sport of soccer is so common today. Most American adults didn't grow up with soccer, but it ranks as the most commonly played team sport in the world.

Managing finances, like playing soccer, looks easy. Simply keep the records you need to file your taxes – i.e., just kick the ball into the goal. But there's more to personal finances than saving receipts and keeping the checkbook balanced – just as there's more to soccer, as any parent knows who has ever been humbled by a 9-year-old's finesse in kicking the ball and running. Providing financial security for retirement, for children's education, for all the unexpected things awaiting us, all contribute to make this area of risk more complex than we initially thought.

**First Things First: General Principles**

While there are many differences between the ball games discussed earlier, there also are a number of similarities that apply to managing risk.

**Team Sports** – All of the games mentioned earlier can be played, in some way, by one person. But the games were designed and are most commonly enjoyed when played as a team. The same can be said for managing risk.

**Coaches** – All successful teams are guided by a knowledgeable coach. Most of the people who coach no longer play the game. One reason for this is their decision to become students of the game to learn precisely how the game is being played, share their insights and motivate the players. Many risk management specialists give workshops. At the workshops, these risk management coaches can pass along new insights and help motivate us in the area of risk management.

**Know the Rules** – Successful teams and successful athletes quickly discover how officials (referees and umpires) are "calling" a game. They adjust to the strike zone in baseball and know how much contact will be allowed on the basketball court. In the same way, we must know what a lender requires in a business plan and what a broker or accountant needs in order to provide good counsel.

**Know Your Strengths** – Each of these types of farming risks requires a different set of skills. And being good in one does NOT necessarily mean you’ll be a whirlwind in another. We need to identify those areas where we have the skills to successfully manage risk, and then put together a team to help us manage risk in areas where our skills aren’t as strong. Think about athletics. Can you name a professional athlete who excels in two sports? Three sports? How about four? Our farming talents are like that. Michael Jordan may have been the greatest player ever to pick up a basketball, but he’s no threat to professionals in football or soccer. Deion Sanders, Charlie Ward and Bo Jackson each played two sports, and Dave
Winfield was recruited in three sports (baseball, basketball and football). Why do we remember these examples? Because they are so rare.

**Game Plan** – Probably nothing yields greater returns in a ball game or a business than having a well thought-out game plan. Few games are won and few businesses successful by accident. For some, the game plan will stick to the safest possible route. Others may choose a riskier approach. Knowing whether you’re an offense-oriented risk-taker or a defensive-oriented risk-avoider can help you devise the game plan that suits you best.

**A Winning Attitude: You Have to Love the Game**

Trying to successfully manage all FIVE areas of risk is like trying to juggle all five of these balls or to be a smashing success in five different sports. It's next to impossible. The USDA, land grant universities, and private industry partners have developed a range of materials and programs to help producers improve their risk management skills.

One of the best sources of risk management information is the National Risk Management Library located at www.agrisk.umn.edu. There you’ll find a wide variety of tools to help you manage your operation's risk.

So rather than being a spectator who simply watches the markets fluctuate this winter, protect yourself. Get a risk management game plan in place.