

Applied Risk Analytics

Harnessing the Power of Partial Budgeting in Agriculture

How Much Risk is Right for You and Your Operation?

Miles Smith is starting his third year farming in Wyoming's Big Horn Basin, working a farm he purchased under contract from his uncle. Like many new and beginning producers, he has limited resources when it comes to purchasing machinery. Among the custom services he utilizes is spraying. The main disadvantage of this strategy is the challenge of making timely applications of certain herbicides. He views purchasing his own sprayer (leasing is not an option at this time) as the solution to his problem, however, he is unsure whether the costs will outweigh the benefits of ownership . . .

Learn more via the APPLIED RISK ANALYTICS series, covering the application of RightRisk Analytics risk analysis tools, available for download at: RightRisk.org/Analytics.

RightRisk ANALYTICS

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RightRisk Analytics Tools and guides are available at no cost at the website RightRisk.org

Partial Budgeting Overview Partial budgeting is often considered the first step in the budget building process, helping to determine the potential effect of an expense from a proposed change to a business or enterprise activity. These changes include: purchasing equipment, a machinery or equipment purchase, a shift in marketing strategy, or deciding between custom hire and owning equipment. Partial budgeting helps the producer evaluate risk and look at other options to break down how single changes in their operations impact overall risk exposure and provide insight into managing that exposure, using on-farm risk management decisions.

A partial budget breaks down a potential decision by classifying items into one of four categories: added revenues, reduced expenses, reduced revenues, and added expenses. The usefulness of any potential change or decision can be

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