Agritourism Workshop

FINANCIAL LIABILITIES

BENEFITS AND COSTS TO AGRITOURISM

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innovate. educate. improve lives
Agritourism

A multifaceted agribusiness that impacts:

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

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

1. Diversify resources
e.g. labor, land

2. Diversify production risk

3. Create a stable or higher income

Agritourism as a diversification strategy.

Farms engaging in agritourism most likely utilize existing resources.
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.
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
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
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
Addressing Financial Risk

Have a good set of financial records

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

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
References & Additional Resources


[3] Small Business Development Center
https://www.sba.gov/starting-business/business-financials
Visit our website:
www.lsuagcenter.com/agritourism

or contact

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