

Overview of Price Risk Module 2: Developing and Implementing A Marketing Plan

This presentation provides an overview on the topic of developing and implementing a marketing plan. The presentation focuses on how a marketing plan should be customized to fit the producer and his or her situation. The marketing plan must be fully integrated in the overall planning process. While some specific marketing issues or tools are mentioned or used as examples, this presentation is designed to introduce the topic.

Agriculture faces many types of risk and uncertainty. The same elements that make planning difficult also make planning essential to the farm business. Many producers rank price risk as the most serious type of risk they must contend with. Government farm programs traditionally provided price and income risk management for many grain producers. With price supports no longer part of the farm program and income support payments declining, producers need to develop the expertise to evaluate and use alternative price risk tools.

Producers are more comfortable with science-based production where results are viewed as more certain. Marketing, with its roots in the social sciences of economics and psychology is not viewed as a rigorous science because the results are probabilistic, not predictable. There are no recommend marketing practices that have the same degree of assurance that best production management practices carry.

Marketing should not be viewed in isolation from production. Both activities are and should certainly be treated as integrated. The first marketing decision is your decision to produce. Your last production decision is how you will market your grain. Marketing is more than selling a commodity and should be viewed as an on-going activity.

A marketing plan cannot exist in isolation. It should be part of the farm plan or business plan, and should match the goals and financial situation of the producer. One size does not fit all. The marketing plan must be customized.

While a marketing plan will not move market prices higher, it should reduce the need to sell at a time when prices will likely be at their lowest levels. The marketing plan considers the financial needs of the farm as well as the market situation. It's certainly better to sell at an "acceptable" price when the market is moving up, even if it turns out to be below the market high, than to sell at an unacceptable price in a falling market after ignoring higher prices.

Knowing what is an acceptable price means knowing your cost of production. Both your cash and non-cash expenditures must be considered. Knowledge of the current market situation as well as the historical behavior of the market is crucial in developing price expectations. What is the minimum price you can survive on? What market alternatives are available that may help you lock in a price? Are you willing to base your decisions on this plan?

Marketing plans come in many shapes and sizes. While it is usually best to commit the plan to writing, it's the action you take, not the plan or the plan format, that is most important. The plan should answer four basic questions: when, where, what and how to sell? The plan should make some attempt to predict future market behavior using either market fundamentals (supply and demand) or by technical analysis. The marketing strategy should be compatible with your market outlook prediction and the best type of marketing alternative for you to use.

Not all market alternatives need be evaluated. Only those that fit your area and your personality should be considered. Even with the proposed phase out of government farm programs, these programs should not be ignored. The Loan Deficiency Payment or LDP made a significant cash flow contribution to many producers. Others chose to ignore this option, some for valid reasons, but many out of uncertainty. Some producers were completely unaware of this alternative.

Consider the key factors and the advantages and disadvantages of each marketing alternative. You may want to weight some factors higher than others. The weights should match your circumstances, not your neighbors.

Having decision rules is crucial in developing a viable marketing strategy. An open-ended strategy could be one of selling only if the market hits a specific price. The risk is that the market will never get there. Adding a time dimension can be useful. Sell if the market hits \$3.20, but no later than February first. A fail-safe strategy could be to start scaling sales as soon as the market price will cover your cash costs of production. A default strategy could be selling when a bank note is due, which is not a recommended strategy.

Decision rules using simple mechanical strategies include both production-based and price-based strategies. A fixed production-based strategy could be selling (or pricing) one-third at harvest, one-third on December fifteenth and one-third on February fifteenth. A flexible or sliding production-based strategy could be to sell (or price) twenty-five to fifty percent at harvest based on price. Sell (or price) only twenty-five percent if price is below the five-year average or if stocks-to-use is below twenty percent. Sell (or price) fifty percent if price is above the five-year average or if

stocks-to-use exceeds twenty percent. A fixed price-based strategy could be to sell (or price) twenty percent of production when cash costs can be covered, or to sell (or price) fifty percent of production if price exceeds the five-year average. Flexibility can be added to price-based strategies by varying the percent of the crop to be sold based on the stocks to use ratio.

The best marketing strategy is one that will keep you in business and also allow you to sleep at night. Markets change and so must your strategy.

