

## *Developing a Marketing Plan*

*Part I*

## *Introduction*

Most producers develop excellent crop production plans each year. They develop strategies for weed control, fertilization, and tillage, and match these with their financial resources. They modify the production plan as conditions change, such as an abnormally wet planting season or an unexpected pest problem.

## *Definition*

- A marketing plan identifies a producer's specific price objectives as the production and/or storage season progresses.
- It then identifies strategies available to achieve the price objectives.

## *Definition cont.*

- While it may take several forms, it is generally most useful if it is written down, and reviewed relative to market conditions on a regular basis.
- A marketing plan must be flexible. A producer must be able to adapt to market conditions if it becomes clear that an earlier price objective is not likely to be achieved.

## *Four Major Factors Influence the Marketing Plan*

- Personal feelings and attitudes about marketing.
- Financial needs of the business.
- Seasonal price patterns.
- Current price outlook.

## *Personal Attitude: Speculator or Risk Manager*

### **Speculator**

- Try for highest price of the year.
- Focus on day-to-day price movement
- Calculates money "lost" by not selling at highest price.
- Views prices as separate from the business.
- Planning horizon focused on short term profits.

### **Risk Manager**

- Major goal is making a profit.
- Focuses on survival and growth of business.
- Integrates marketing as a part of the business.
- Knows what price covers costs.
- Planning horizon is long term growth of business.
- Does not dwell on "lost" prices.

### ***Identifying Financial Objectives***

- Identify risk bearing ability. This requires an accurate net worth statement.
  - High net worth allows for a substantial loss without bankrupting the business.
  - Small net worth requires careful consideration in absorbing risk.
- Identify costs of production.
- Identify acceptable return over production costs.

### ***Identify Seasonal Price Patterns***

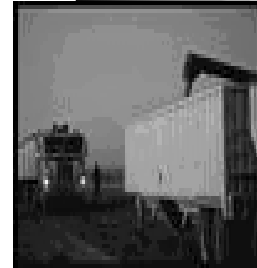
- Identify Seasonality in Price.
- Identify Seasonality in local basis.

### ***Examine Current Price Outlook***

- Price outlook is a dominant force in many marketing plans. However, its importance is frequently exaggerated. Price forecasts tend to be quite poor as the planning horizon lengthens, and a portion of each period's production should be marketed based on financial considerations regardless of current outlook.

### ***Market Plan Development Step 1***

- The first step in developing a marketing plan is to identify an inventory of potential marketing strategies.
- These may be unique to each business.



### ***Market Plan Development Step 1***

#### Futures Market

- Hedge
- Put Options
- Call Options

#### Cash Market

- Forward Cash Contract
- Basis Contract
- Storage
- Minimum Price Contract
- No Price Established
- Hedge to Arrive

### ***Market Plan Development Step 2***

- Step 2 in the marketing plan development is to identify the specific marketing horizon(s).
  - Pre-harvest
  - Harvest
  - Post-harvest



### ***Market Plan Development Step 3***

- The third step in developing a marketing plan is to segregate expected production into marketable units, and identify pricing objectives.



### ***Determine Market Strategies for Pre-harvest***

- Hedge
- Hedge to Arrive Contract
- Put Option
- Forward Cash Contract
- Basis Contract

### ***Determine Market Strategy for Harvest***

- Cash Sale
- Cash Sale, Replacing Grain with a Call Option
- No price Established Contract
- No Market Action

### ***Determine Market Strategy for Post-harvest***

- Store un-priced
- Forward Cash Contract
- Hedge
- Put Option
- Basis Contract

### ***Result of Market Plan***

- A road map is developed which lays out specific objectives you want to satisfy.
- If an objective is satisfied, you made an excellent marketing decision REGARDLESS of what happens to prices later.
- Establishes an informed criteria on which to base storage decisions.
- Identifies exactly how much speculation (risk) you are willing to tolerate.

### ***Developing a Grain Marketing Plan***

*Part 2*

### *Sample Marketing Plan for Corn*

#### **OBJECTIVE:**

Divide expected production into fifths (each represents 20% of expected production). Identify separate price objectives and associated strategies, increasing the risk profile for each successive marketing bundle in return for a more aggressive price objective.

### *Determine Expected Production*

Assume 500 acres of corn will be planted in the coming year. Yields have averaged 150 bushels per acre over the last 5 years. This yields an expected production of 60,000 bushels.

Each marketing bundle includes 15,000 bushels.

### *Determine Market Strategies for Pre-harvest*

- Hedge
- Hedge to Arrive Contract
- Put Option
- Forward Cash Contract
- Basis Contract

### *Determine Market Strategy for Harvest*

- Cash Sale
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### *Determine Market Strategy for Post-harvest*

- Store un-priced
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- Hedge
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### *Price Objective for First 20% of Production*

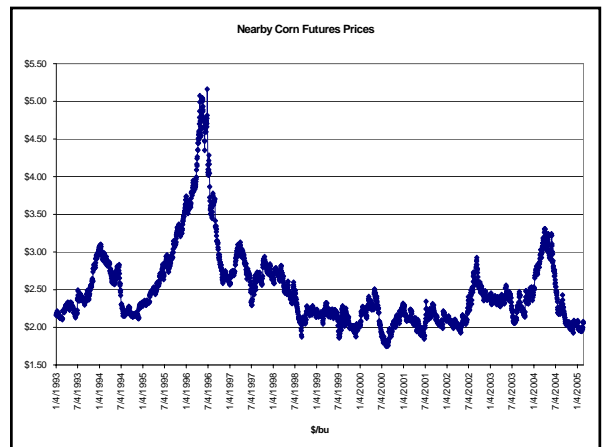
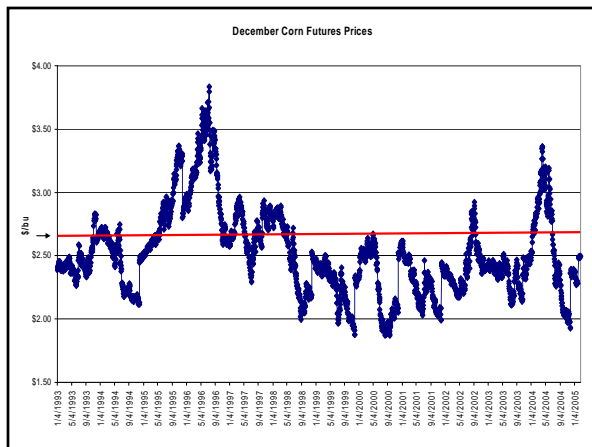
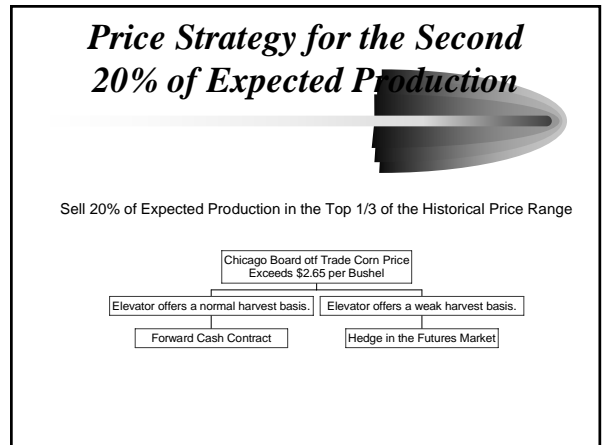
Pre-harvest price the first 20% of expected production (15,000 bushels) when the market is offering a price 20 cents per bushel above the variable costs of production. This will be done regardless of the general market outlook. This assures a profit for the first marketing bundle.

No price established before Feb. 1



### Price Objective for Second 20% of Production

Pre-harvest price the second 20% of production when the price is in the top 1/3 of its historical range. This will be done regardless of the general market outlook.



***Price Objective for Third 20% of Expected Production***

- If prices are in the bottom third of their historical price range, speculate on higher prices.
- If prices are in the middle third of the historical price range, place a price floor to prevent falling into bottom third of price range.
- If prices are in top third of historical price range, place a price floor to remain in the top half of the historical price range, and look to establish a price 25 cents above price objective for the second 20 percent.
- If no delivery commitment has been made prior to harvest, potential post-harvest basis appreciation will be determined as a signal for storing or selling at harvest.

***Price Strategy for Third 20% of Expected Production***

Basis levels will determine whether production is priced in the cash or futures market. With an attractive basis, price floors will be established with minimum price contracts, and flat price protection will be through forward cash contracts. If basis offerings are unattractive, price floors will be established with put options, and flat price protection through a futures market hedge.

***Price Strategy for Third 20% of Expected Production cont.***

If no delivery commitment is made prior to harvest, storage opportunities will be evaluated. If potential basis appreciation will cover storage costs, part of the market bundle will be stored using a forward cash contract. If basis appreciation will not cover storage, the crop will be sold at harvest.

***Price Objective for Fourth 20% of Expected Production***

This part of production will be used to speculate on season high prices relative to market outlook. If prices are expected to improve over the production season, a price objective based on outlook will be established. When the price objective is reached, the crop will be sold for fall delivery. If the price objective is not reached, outlook will be re-evaluated at harvest and a storage decision made.

***Price Strategy for Fourth 20% of Expected Production- Storage***

- A If the cash market at harvest is offering attractive basis appreciation over the storage season, and the market outlook is for higher prices, half of the bundle will be forward cash contracted for post-storage delivery, and the other half will be used to speculate on higher prices.
- B If the cash market is offering attractive basis appreciation over the storage period, and the outlook is for flat or declining prices, the crop will be stored with 100 percent priced under a forward cash contract.

***Price Objective for Final 20% of Expected Production***

This market bundle will be used to offset production risk. As such, there will be no pre-harvest market strategy considered. The only decision will be to sell at harvest, or store past harvest.

### *Price Strategy for Final 20% of Expected Production- Storage*

- A If potential basis appreciation offers a storage incentive, store with 2/3 price protected. If the outlook is for higher prices, store with a basis contract. If the outlook is for flat or lower prices, store with a forward cash contract.
- B If basis appreciation is unlikely, but outlook is for higher prices, sell cash grain at harvest and replace with call options, or sell under a No Price Established contract.
- C If basis appreciation is unlikely and outlook is for flat or declining prices, sell all grain at harvest.

### *Result of Market Plan*

- Hope that the first sale of the year (cost of production plus 20 cents) is the worst sale made.
- In general, not more than 80 percent of crop production is priced before harvest. Unless prices are exceptional, it won't be more than 60 percent.
- Make an informed decision on storage based on expected basis movement.
- Don't speculate with more than 20 or 30 percent of production.

### *General Rules of Thumb*

- Do not be more than 30 percent priced before you have planted your crop.
- Do not be more than 50 percent priced before your crop has emerged and looks to be off to a decent start.
- Do not be more than 70 or 80 percent priced before harvest.
- Make an informed storage decision.

### *Conclusions*

- A good marketing plan will impose discipline on the marketer, and take some of the emotion out of the market.
- Be realistic in price objectives for at least 2/3 of production.
- Do not bet everything on the current market outlook.
- Know your costs, and accept a small return over costs for your first sale.
- Review the plan regularly, and make changes as market conditions change.
- Don't speculate with more than you can afford to lose.