

**Are we  
having fun  
yet?**

# Developing This Year's Marketing Plan

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# Basics of Marketing

- Self-appraisal
  - Goals
  - Attitudes towards risk
  - Financial Resources
- Develop a Plan
- Gauge the Results

# Importance of Price Risk Management

- The individual producer is a price taker with no power to influence the price on any given day
- Can control when to establish a price —select when the market price is “good enough”
- Manage market opportunities

# Doing Nothing is a price strategy

- If you do no pre-harvest pricing you are a speculator in the cash market
- You accept all the price risk between now and whenever you decide to sell

# Price risk management reduces price uncertainty and *may* improve returns

- What tools are available to manage market risk?
- How do these tools protect me as prices change?

# Where Do I Start?

- **Input Use Efficiency**

- Crop Rotations
- Hybrids/  
Variety
- Conservation Tillage
- Soil and plant testing
- Precision Application

- posted to farmphoto
- **Financial Management**

- Budget/  
BE analysis
- Cash Flow Projections
- Crop Insurance
- Price Safety Net
- Marketing Plan



# Overcoming the Marketing Plan 'what ifs'

- What if I don't have a crop?
- Lower break even price
- What if I sold too cheap?
- Manage production risk
- What if I sold too soon?
- Only use the risk management tools you understand

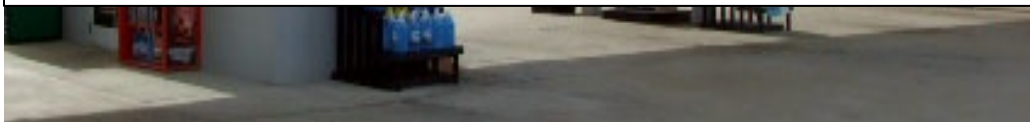
## Valero, Marathon, Sunoco, Murphy-- +10% of Ethanol Capacity



It's like this: things are getting better, except where they aren't. The bailouts are working, except where they're not. Things will slowly get better, unless they slowly get worse.

We should know soon, unless we don't.

*--Thomas Friedman, NY Times*



## Market Drivers

- Economy ~~FEAR~~
- Demand **R**
  - Fuel **STRONG**
  - Feed
  - Exports
- Supply **TIGHT**
  - Yield
  - Planted Acres
  - Weather

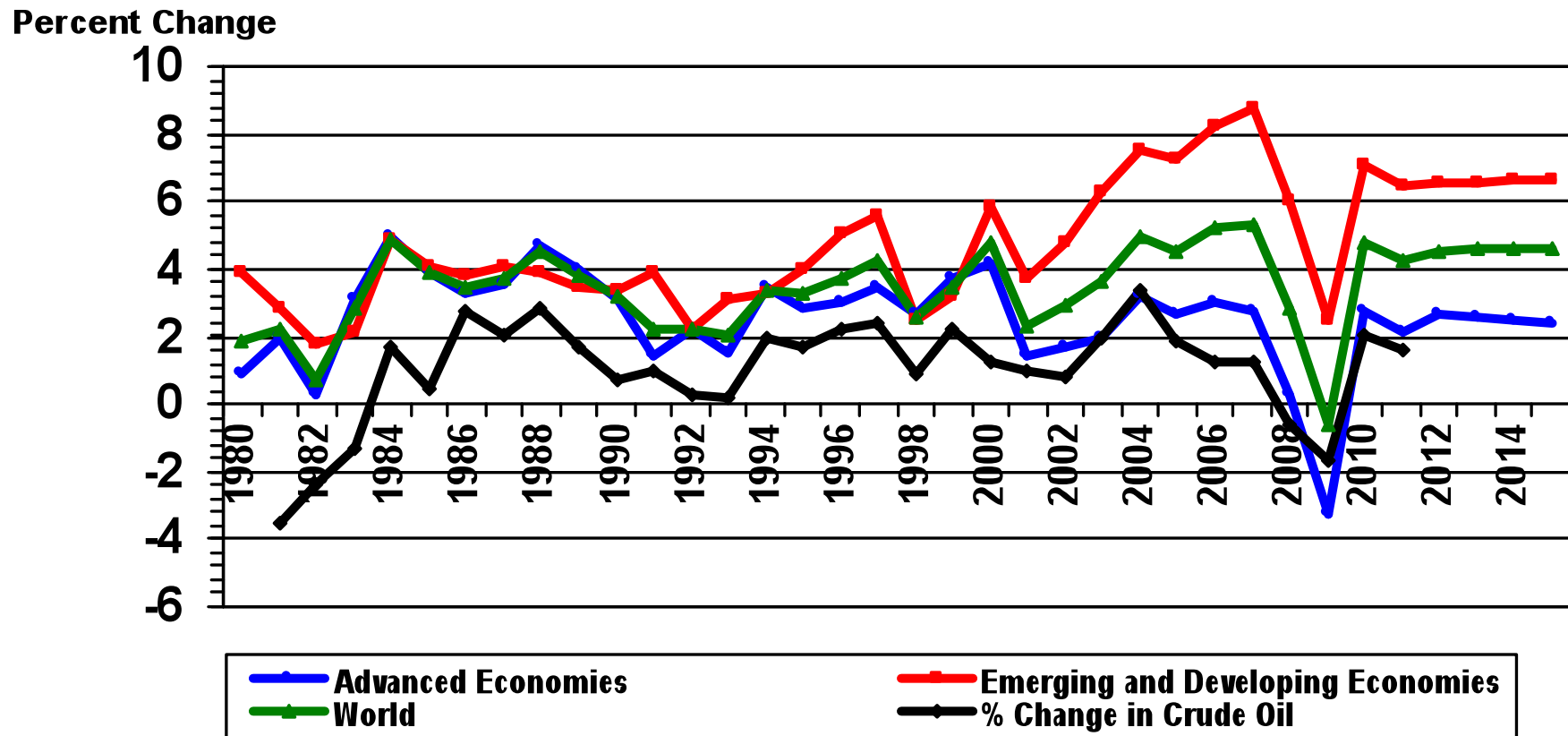




# Global Economic Growth

Global economic growth is being driven by developing nations.

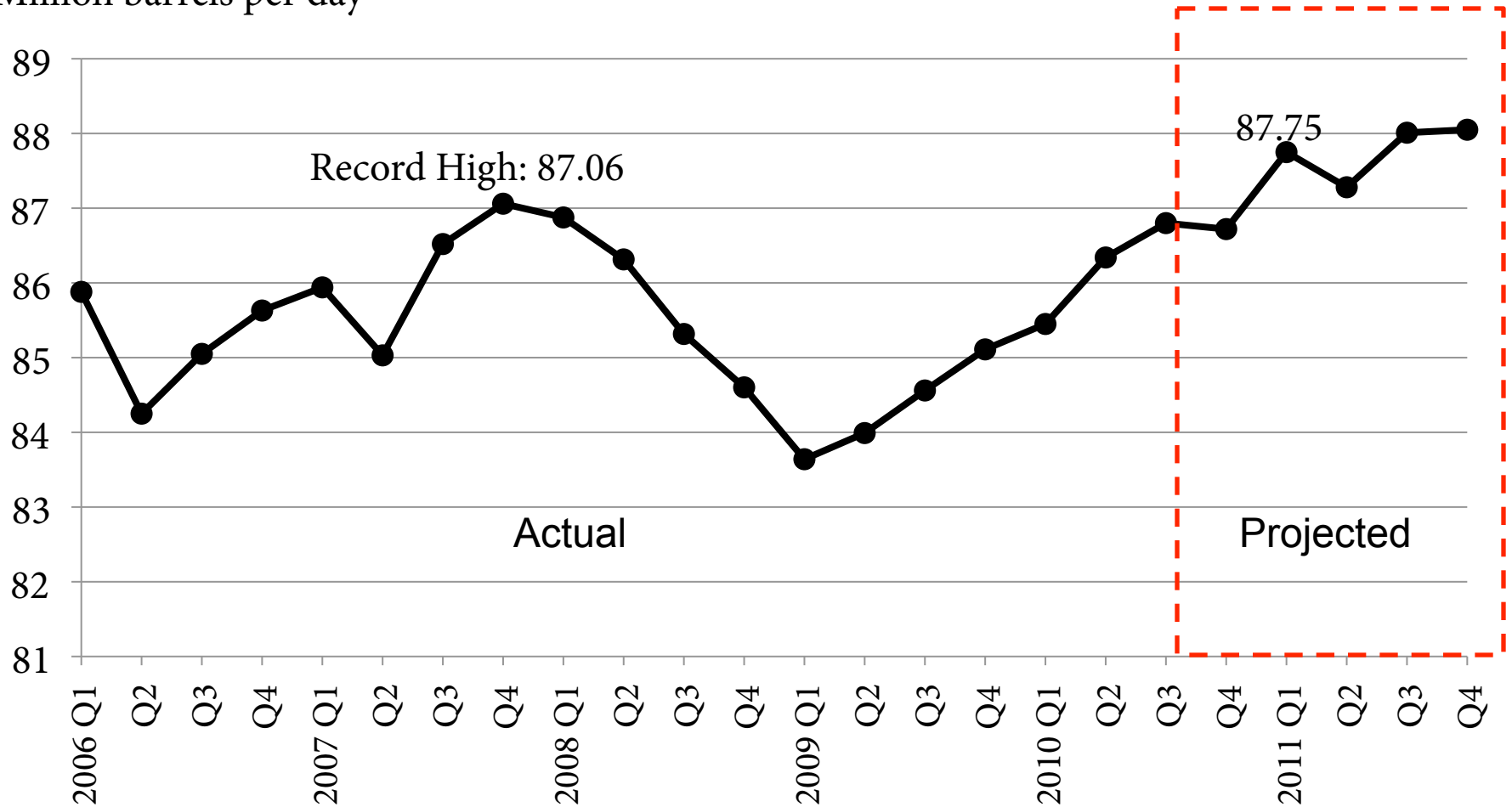
Real GDP Growth, 1980 - 2015



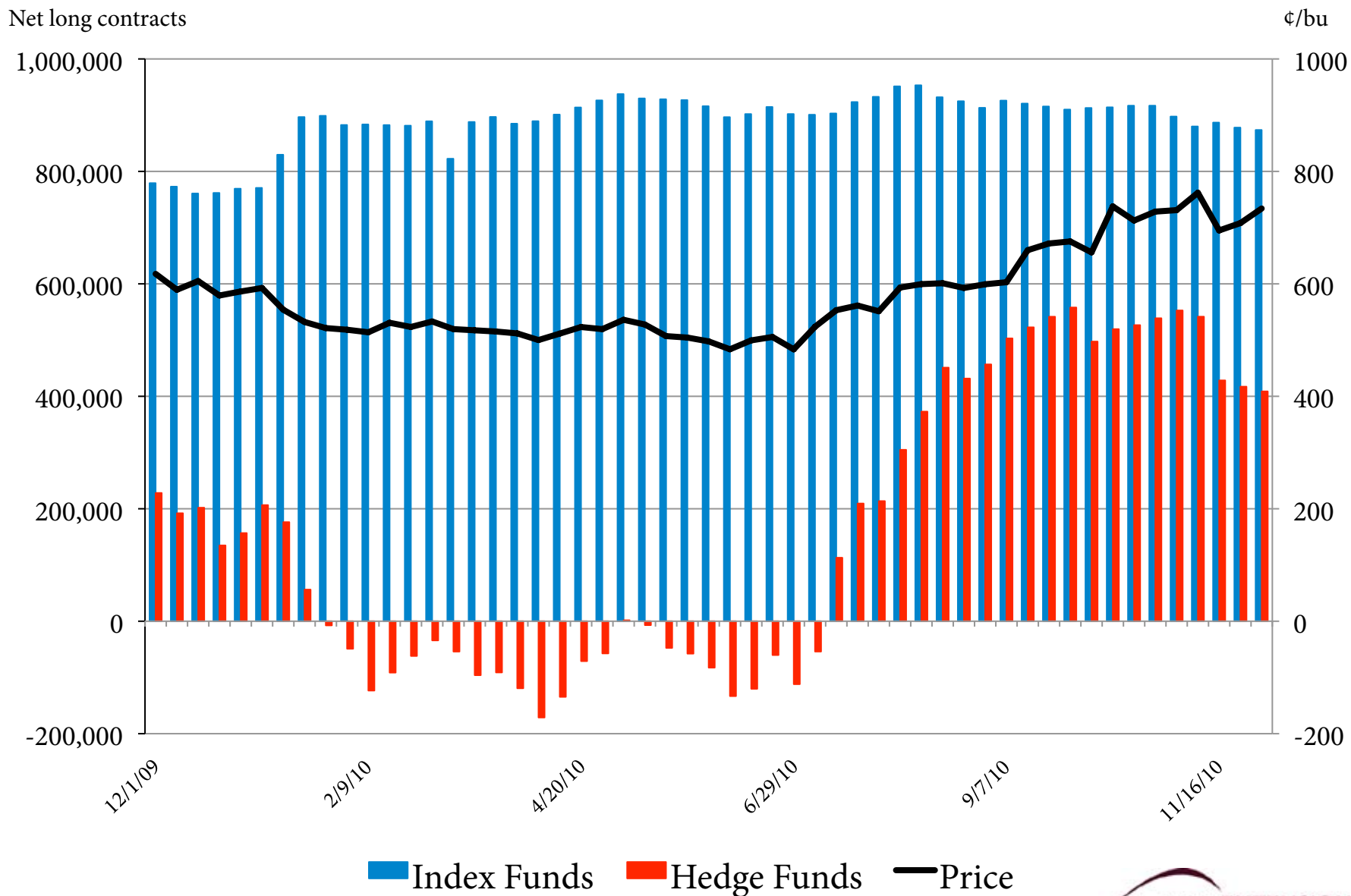
Source: International Monetary Fund and Energy Information Administration

# World Liquid Fuel Consumption

Million barrels per day

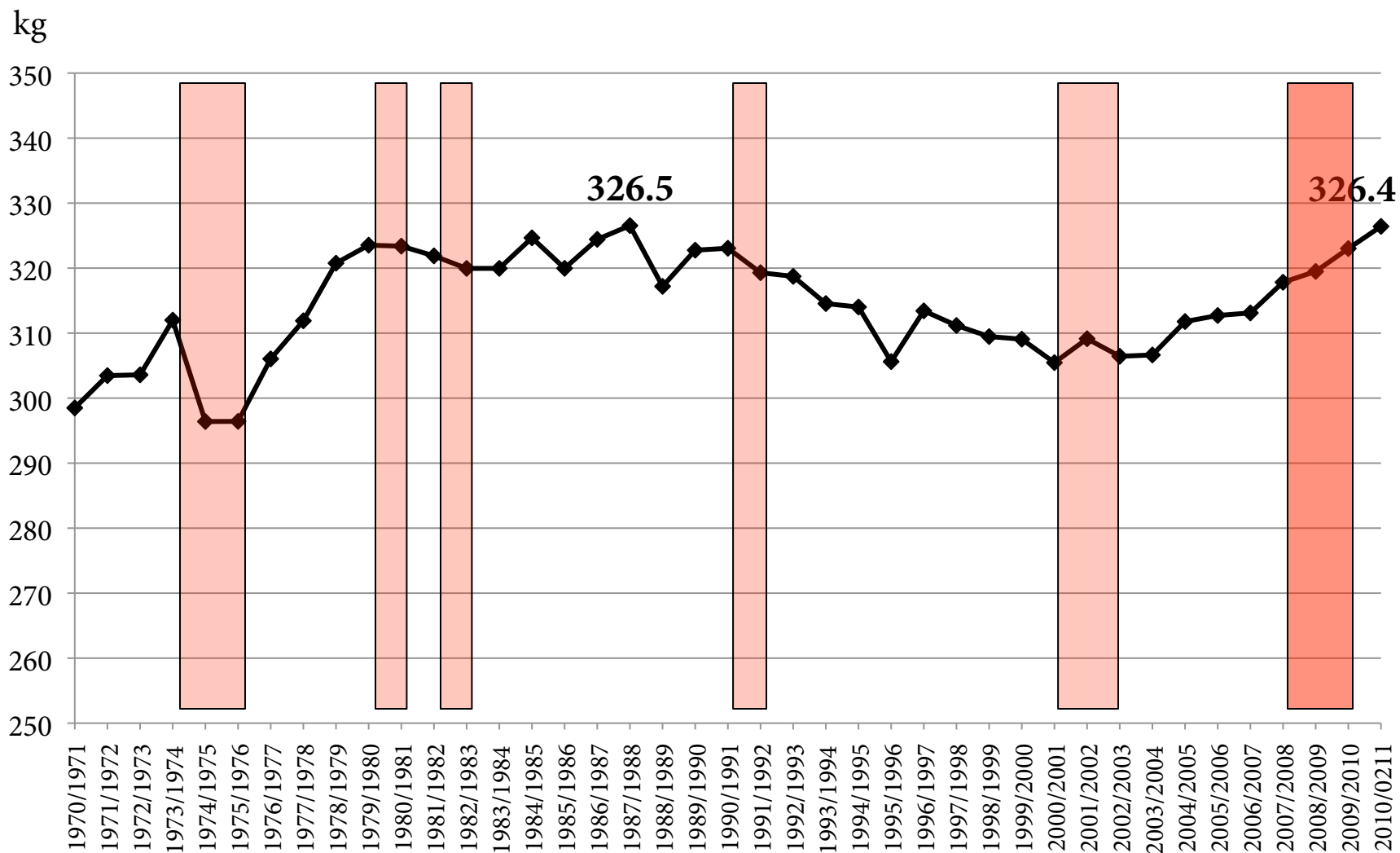


# Wheat, Corn, and Soybeans Speculative Investment



Source: CFTC reported positions for 11/30/2010

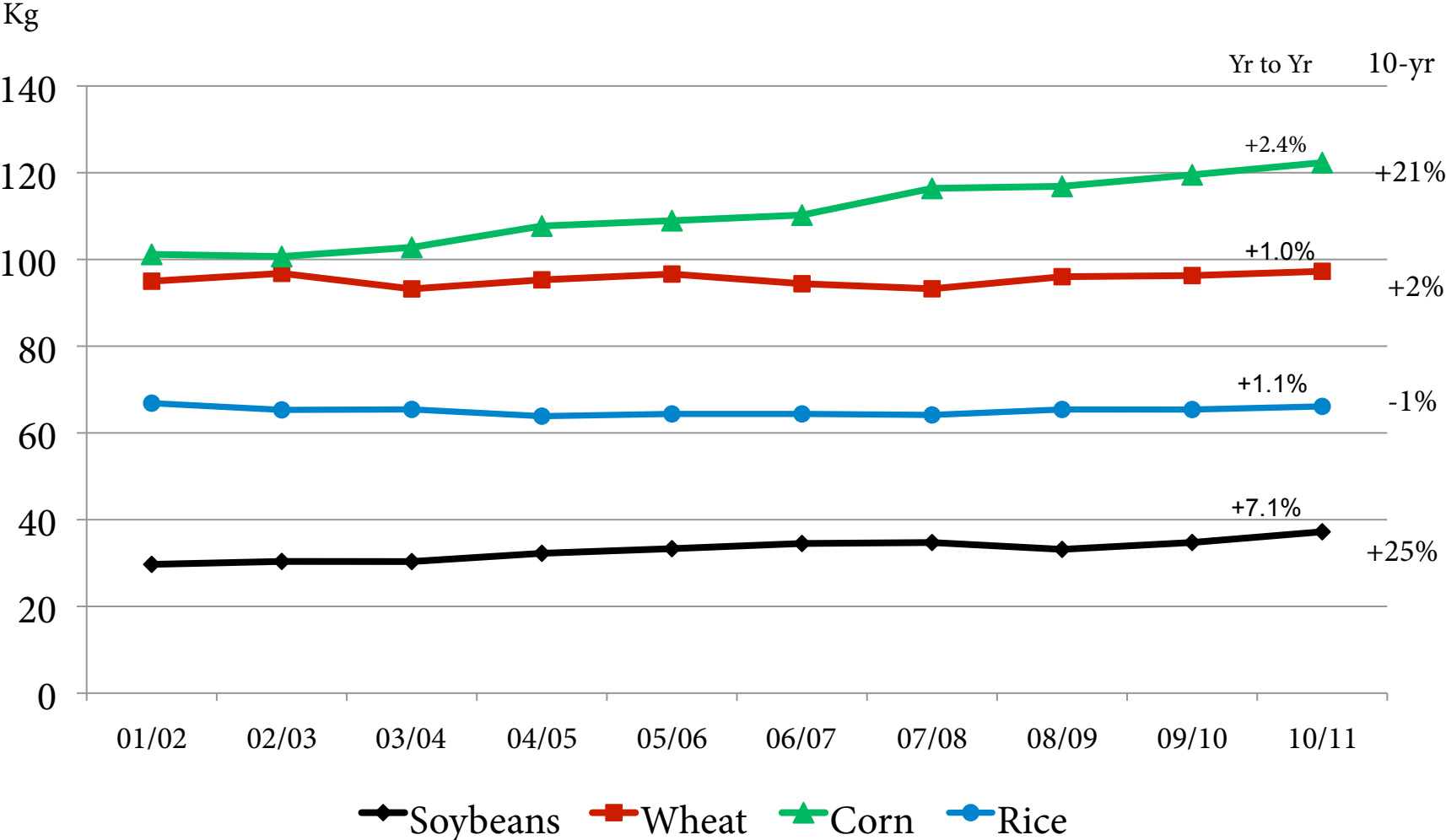
# World Per Capita Grain Use



barley, corn, millet, mixed grains, oats, rice, rye, sorghum, wheat

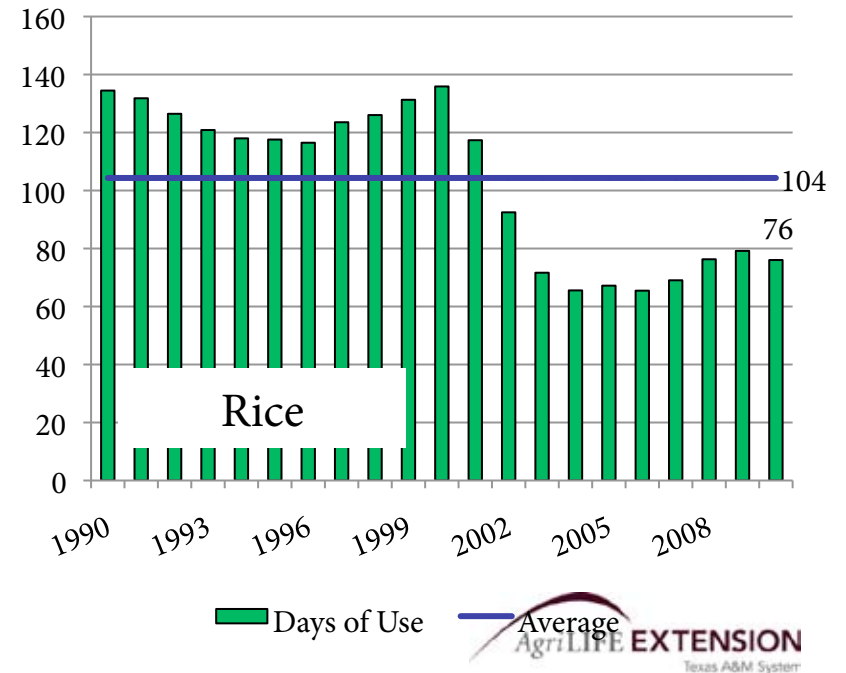
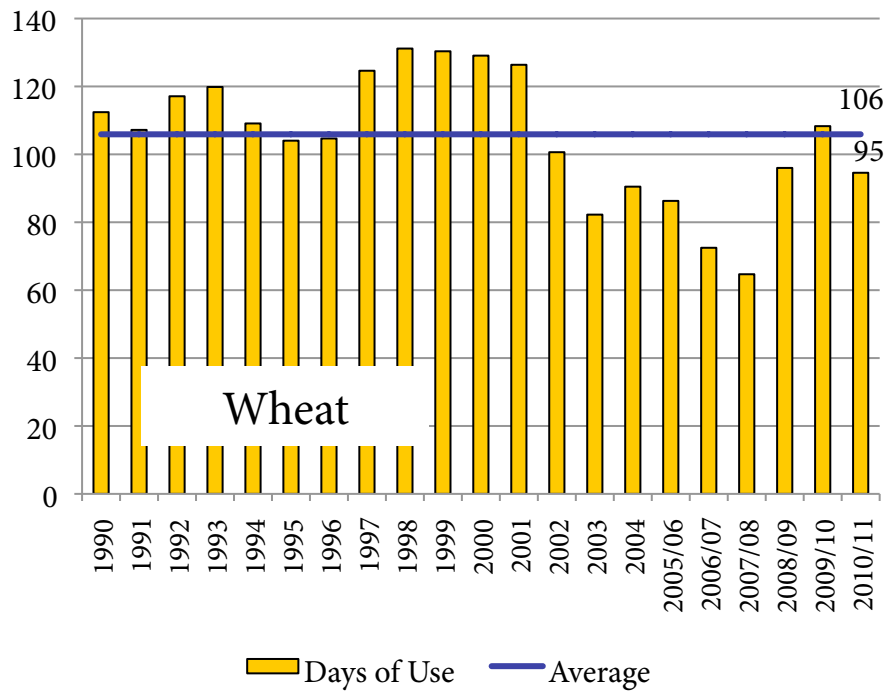
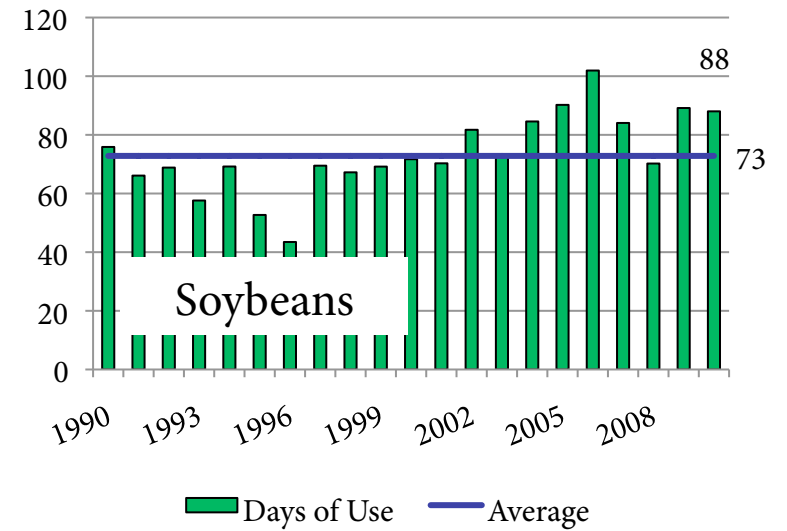
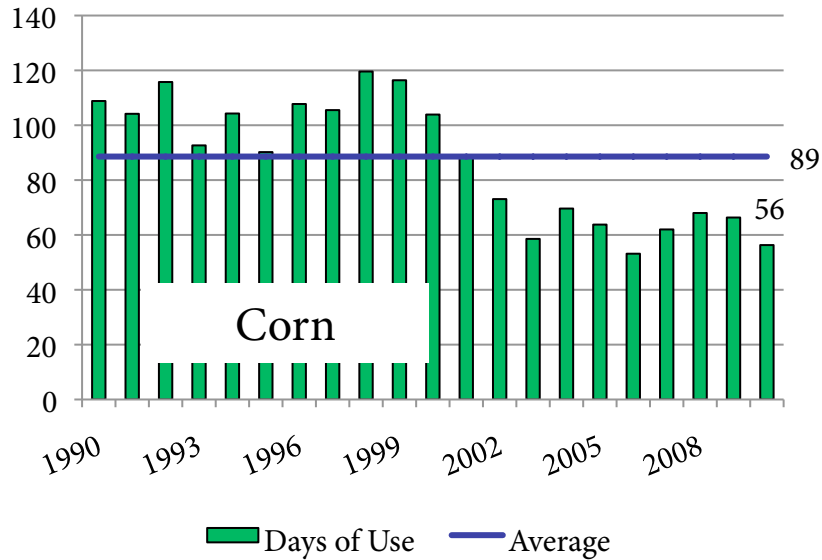
PSD, 11/9/2010

# World Per Capita Consumption



Updated 11/9/2010

# Days of Use on Hand, 11/9/2010

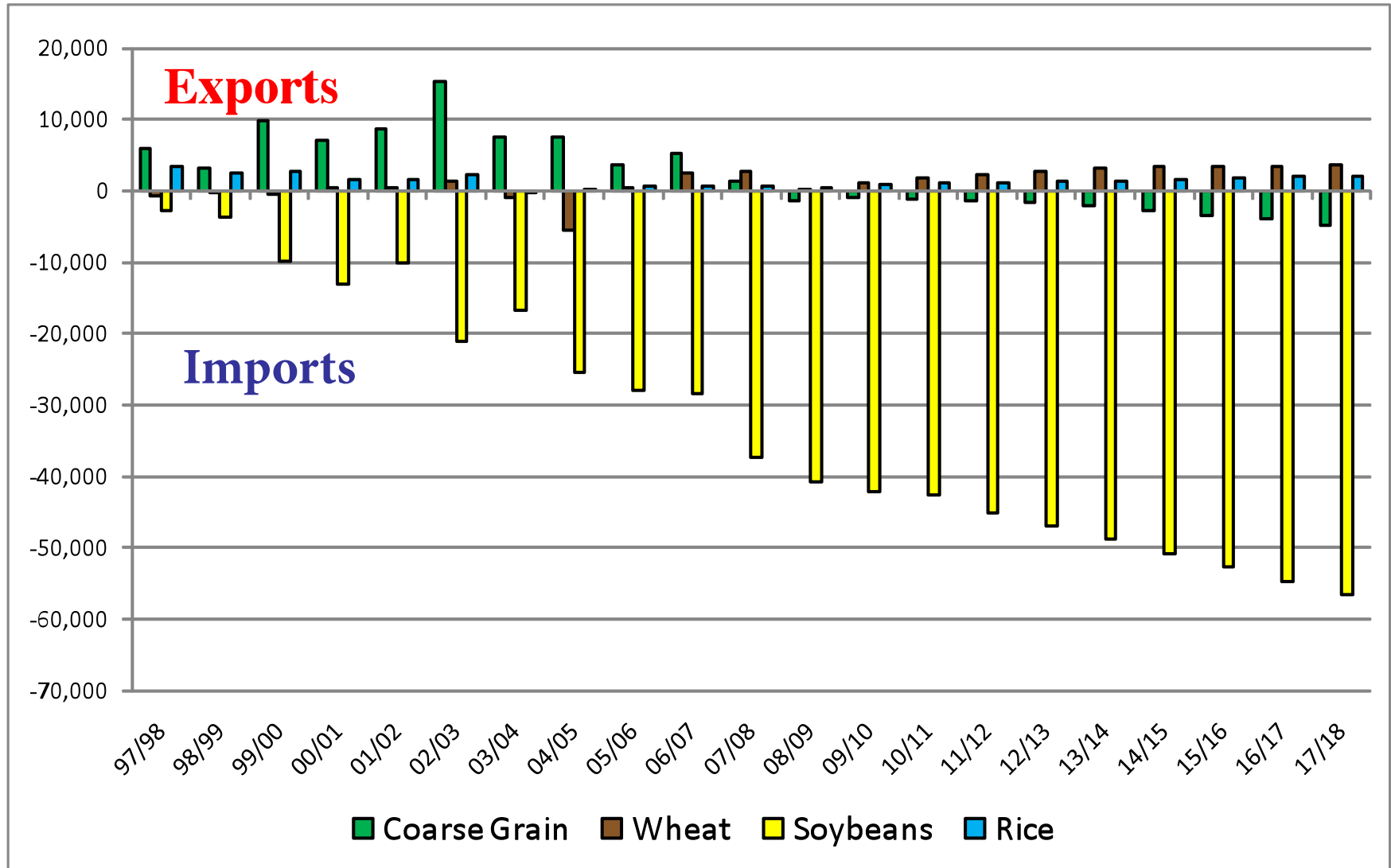


# Why does this matter?

- Price changes due to changes in demand are usually sustained for longer periods of time
- Price changes due to changes in supply are usually short lived

# China Net Trade

000 MT

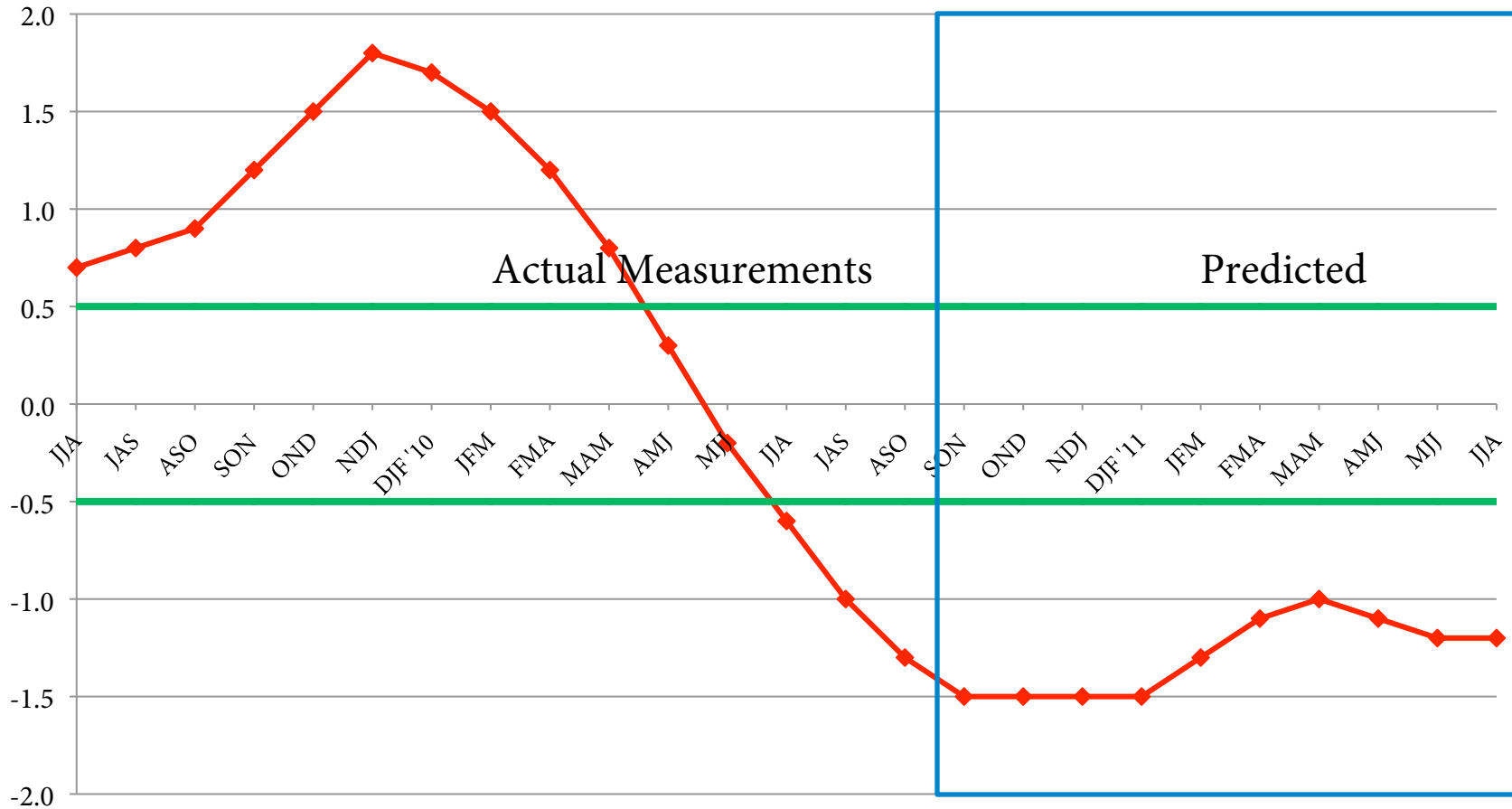


Source: USDA



# Oceanic Nino Index (ONI)

°C ENSO Alert System Status: La Niña Advisory

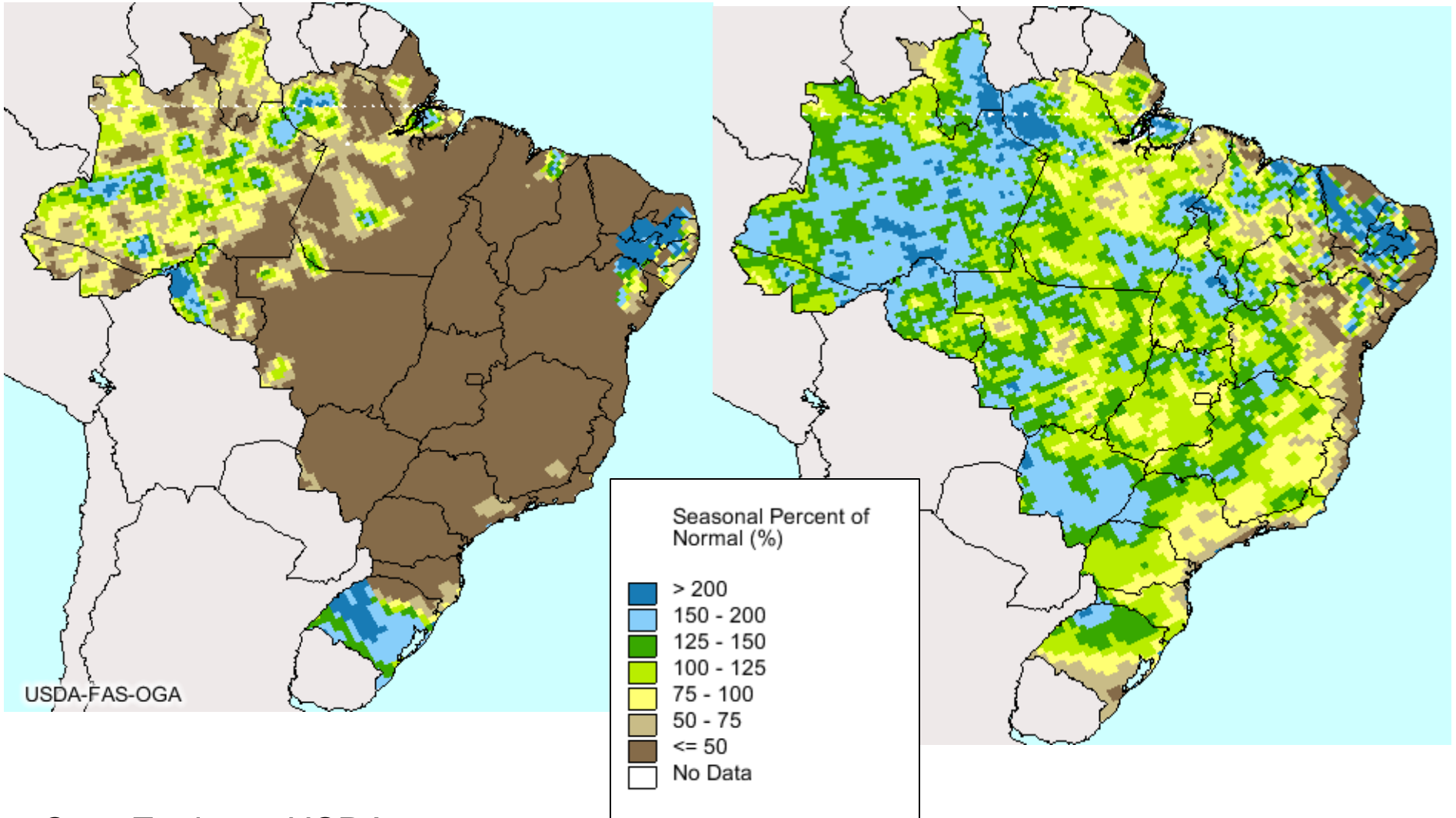


El Niño/Southern Oscillation (ENSO) Diagnostic Discussion, November 29, 2010  
[http://www.cpc.ncep.noaa.gov/products/analysis\\_monitoring/enso\\_advisory/](http://www.cpc.ncep.noaa.gov/products/analysis_monitoring/enso_advisory/)

# Seasonal Percent of Normal Precipitation

Sep 1 - Sep 20, 2010

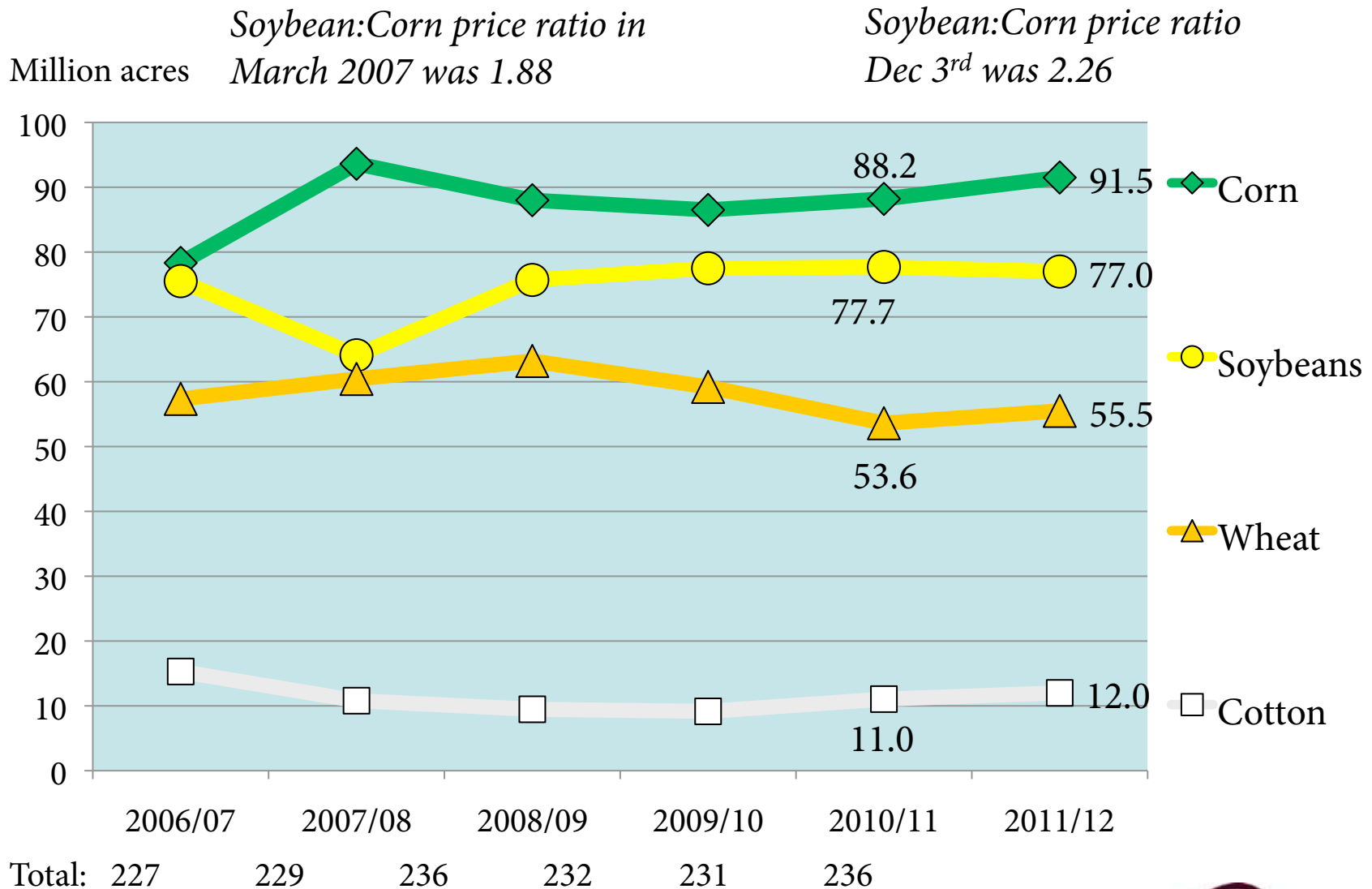
Sep 1 – Nov 30, 2010



Crop Explorer, USDA

<http://www.pecad.fas.usda.gov/cropexplorer/index.cfm>

# Planted Acreage of U.S. Crops

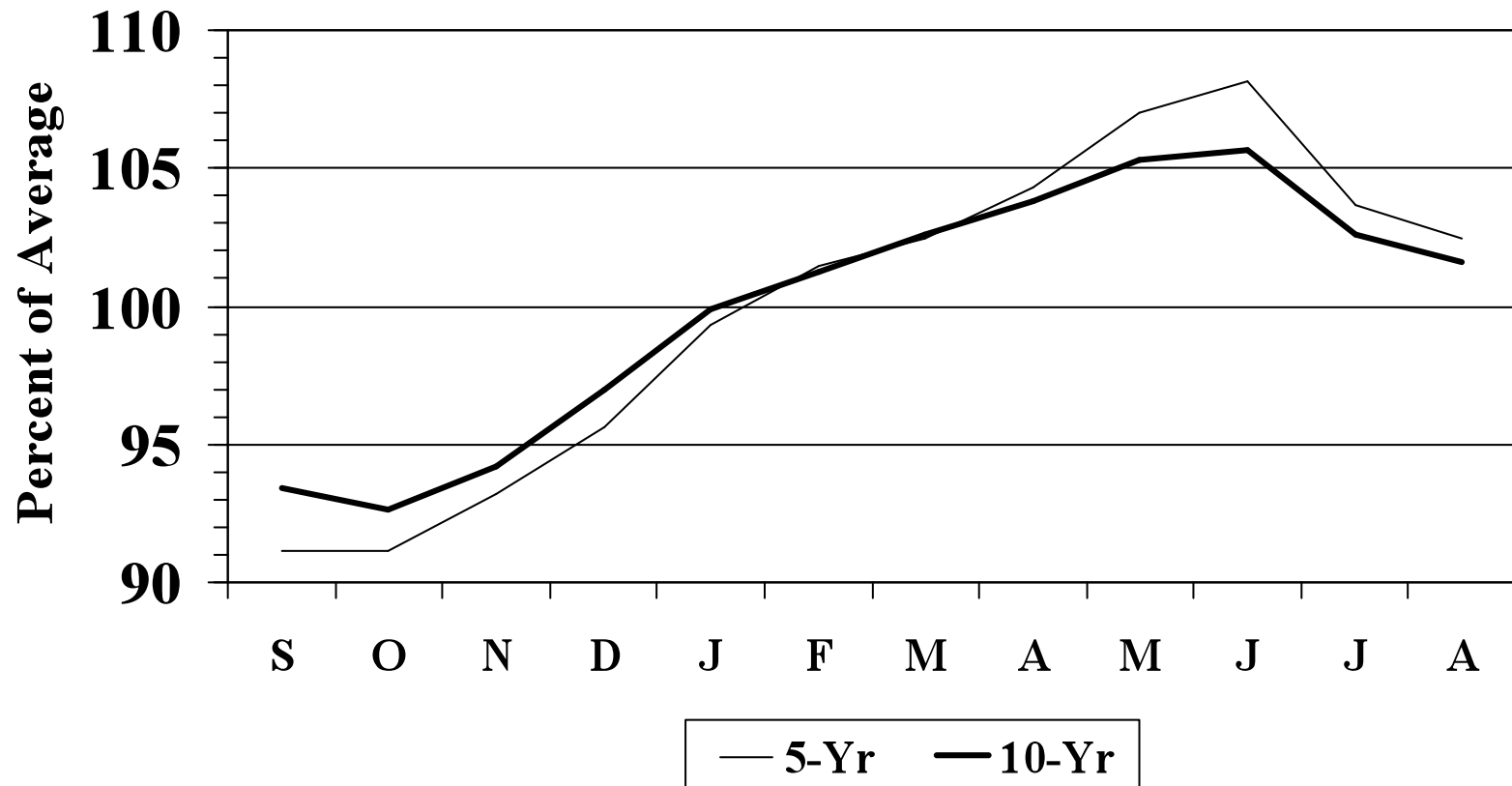


Source: USDA

# Seasonal Price Index for U.S. Corn

September 2000 – August 2010

Marketing Year



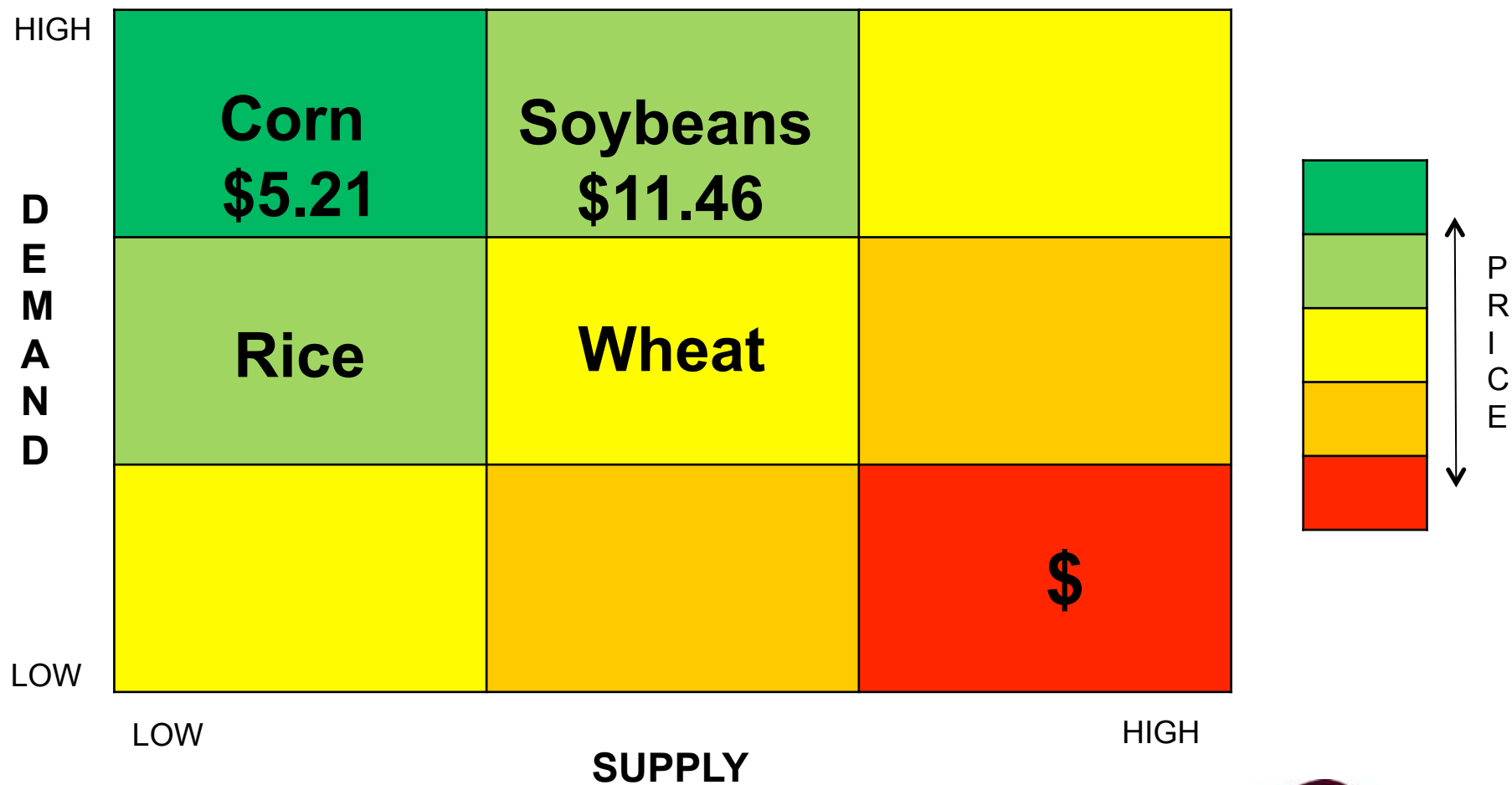
# U.S. Corn

## S&D

November 9, 2010

	09/10	10/11e	11/12p
Planted Acreage (Mil. Acs.)	86.5	88.2	91.5
Harvested Acreage (Mil. Acs.)	79.6	81.3	84.2
Yield (Bushels)	164.7	154.3	160.0
Supply	- - - Million Bushels - - -		
Beginning Stocks	1,673	1,708	827
Production	13,110	12,540	13,468
Imports	8	10	10
Total Supply	14,791	14,257	14,305
Disappearance			
Feed and Residual	5,167	5,300	5,200
Food, Seed & Industrial	5,930	6,180	6,180
Exports	1,987	1,950	2,000
Total Use	13,040	13,430	13,380
Ending Stocks	1,708	827	925
Carryover/Use (%)	13.1	6.2	6.9
Average Farm Price (\$/Bu.)	3.55	5.20	4.96
Closing Price, Dec Futures	3.92	5.59	5.21

# 2011 Commodity Price Grid



## How high? How long?



**“...as a *general rule*, the shorter the period we are considering, the greater...the influence of demand on value; and the longer the period, the more important will be the cost of production on value.”**

**--*Principles of Economics*,  
Sir Alfred Marshall (1890)**

**After the price run up in 2008, world wheat production increased 11% the next year**

# PRICING STRATEGIES

- No one strategy always gets the highest price.
- Markets are dynamic and act differently from year-to-year as changes in supply/demand interact.
- By considering several strategies, you can lengthen your marketing horizon.

» . . . Feb/Mar/Apr/May/June/July/Aug/Sept/Oct . . . →

Pre-Harvest   Harvest   Post-Harvest



# Pricing Tools/Alternatives

- Cash market at harvest
- Speculative storage
- Forward Contract
- Hedge-to-arrive contract
- Basis contract
- Minimum price contract
- Hedging with futures
  - Pre-harvest hedge
  - Post-harvest storage hedge
- Hedging with options
  - Pre-harvest hedge
  - Post-harvest hedge
- Farm program
  - LDP
  - CCP
- Cooperative/Group marketing

# MARKETING PLAN

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- 1) **Financial Condition and Goals:**
- 2) **Price Goals (Break-even/Family Living Profit and Growth needs)**
- 3) **Market Outlook**

*(fundamental, technical, seasonal)*



- 4) **Production Risk Tools (available/willing to use)**
- 5) **Pricing Tools (available/willing to use)**
- 6) **Price and Time Objectives**
- 7) **Strategies**



Separate what you think from what you want.

# Feed Grain Marketing Plan for 2011/2012

	Pre-Plant	Planting to Harvest	Harvest/Post Harvest
Reports to Watch			
Marketable Production			
Contract Seasonality			
Price/Time Targets			
Marketing Tools to be Used			
Marketing Strategies			
What Did I Do and Why?			

# Alternative Approaches

1. Sell 100% of production at harvest (Oct 15)
2. Sell a little each month of the year (10% for 10 months beginning on Jan 15)
3. Market according to a target price (Total Costs plus 10%)
4. Sell based on seasonal price tendencies by the calendar (Mar 1, Jun 15, Aug 1, Oct 15)
5. Sell based on seasonal price tendencies using Moving Averages to time sales

# Marketing Results

1000 acres of corn at 180 bushels per acre:

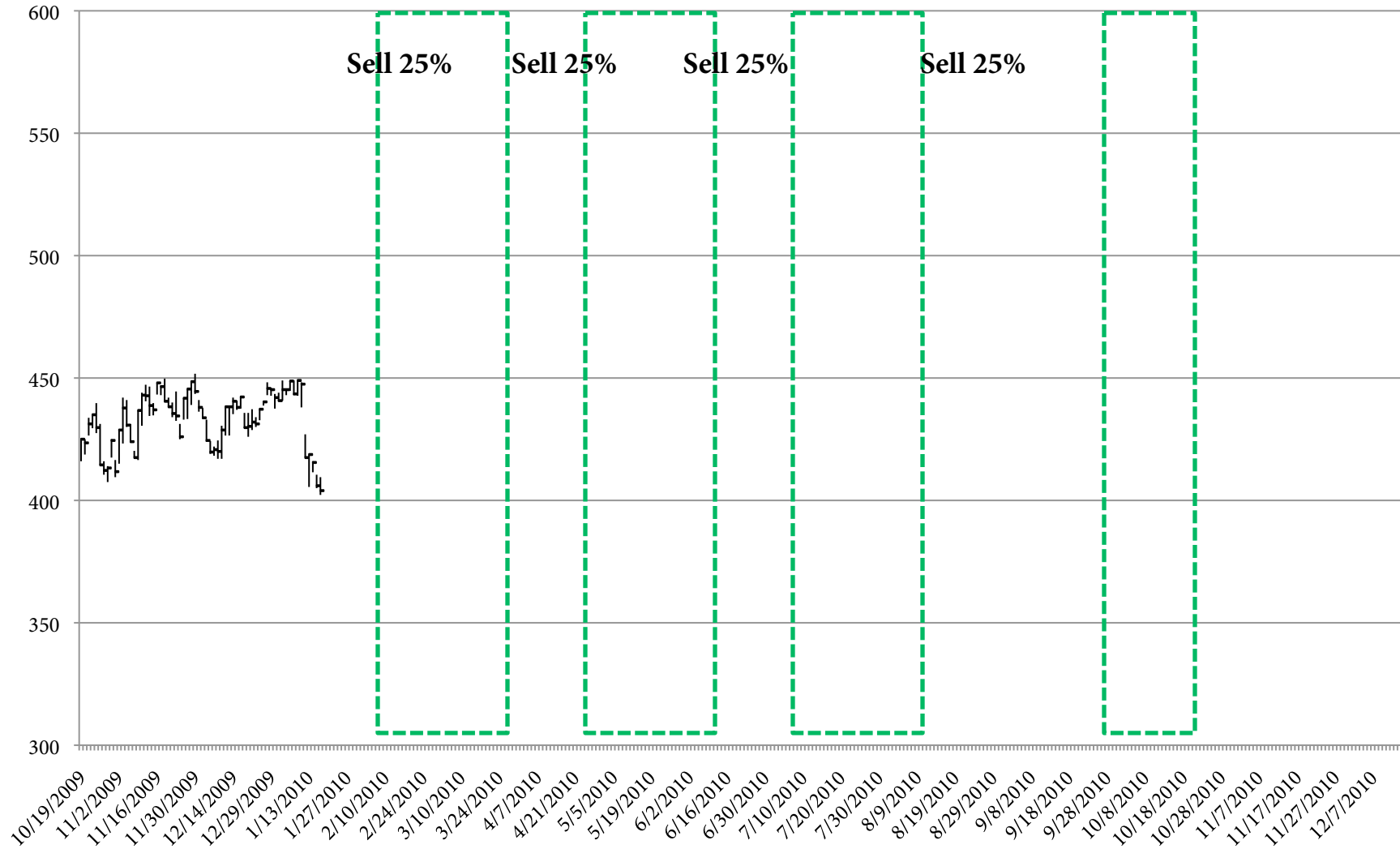
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Avg</u>
1. Harvest	<b>2.04</b>	<b>3.17</b>	<b>3.62</b>	<b>3.88</b>	<b>3.73</b>	<b>5.55</b>	<b>3.67</b>
2. Average	<b>2.31</b>	<b>2.64</b>	<b>3.89</b>	<b>5.80</b>	<b>3.88</b>	<b>4.23</b>	<b>3.79</b>
3. Target	<b>2.04</b>	<b>3.17</b>	<b>3.62</b>	<b>4.57</b>	<b>4.25</b>	<b>3.78</b>	<b>3.57</b>
4. Seasonal	<b>2.33</b>	<b>2.74</b>	<b>3.84</b>	<b>5.78</b>	<b>3.98</b>	<b>4.34</b>	<b>3.84</b>
5. Seasonal plus MA	<b>2.31</b>	<b>2.73</b>	<b>3.72</b>	<b>6.10</b>	<b>3.87</b>	<b>4.70</b>	<b>3.91</b>

Average over Harvest: \$0.13 or \$136,800

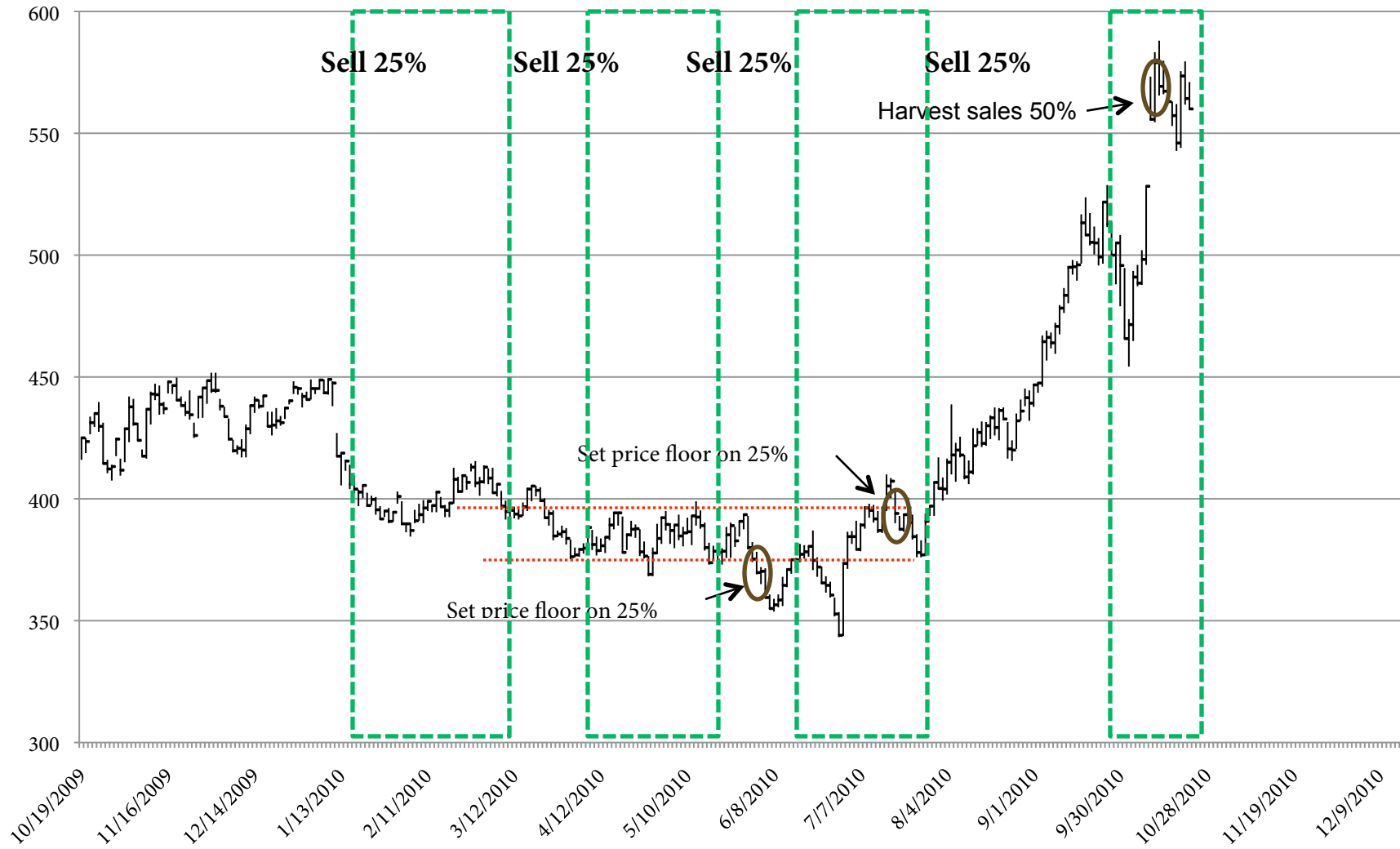
Seasonal over Harvest: \$0.17 or \$183,600

Moving Average over Harvest: \$0.24 or \$259,200

# December Corn 2010 Marketing Plan

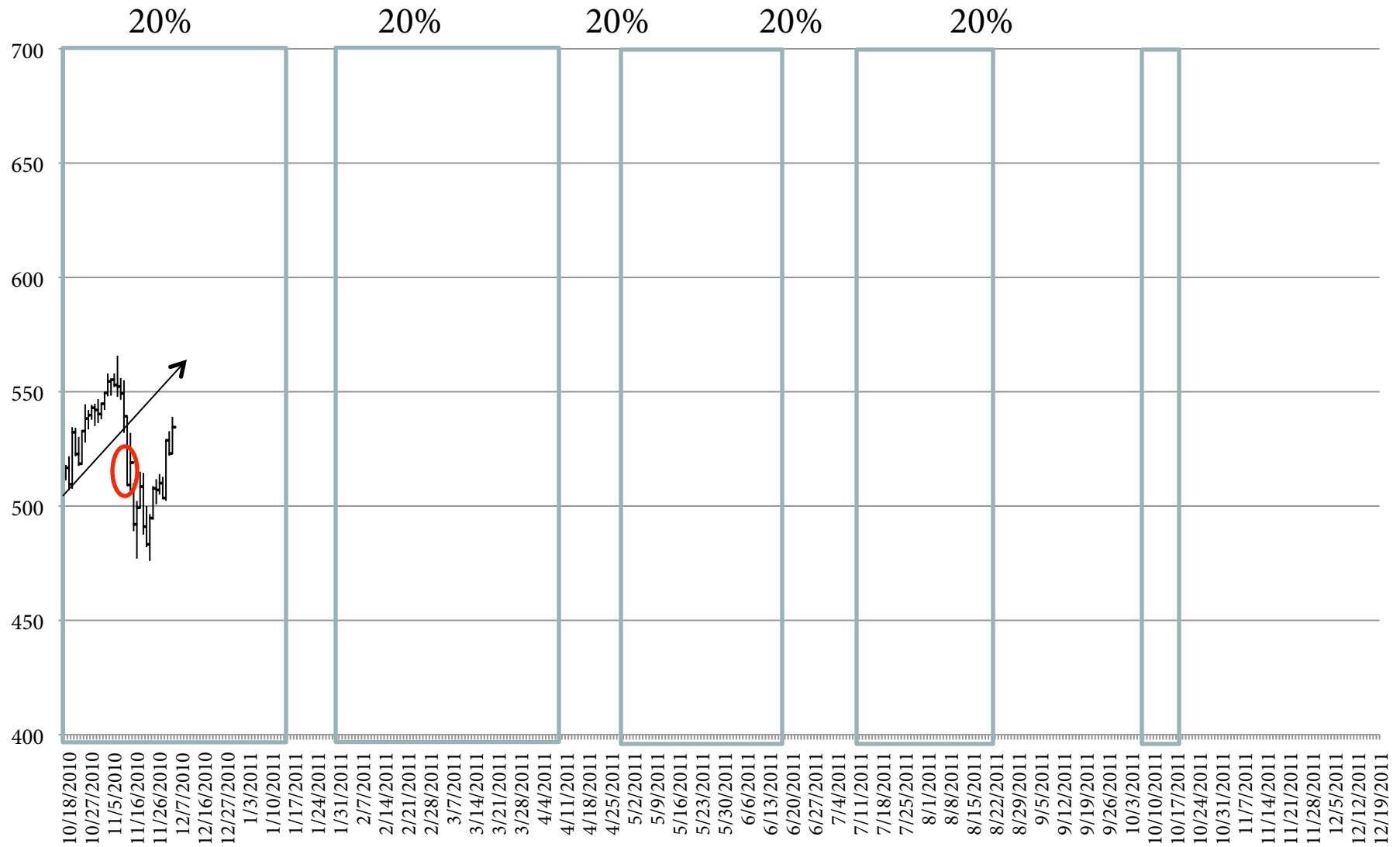


# December Corn 2010 Marketing Plan



Average Price = \$5.03

# December 2011 Marketing Plan





# Best Management Practices of Outstanding Ag. Marketers

- Watch the market, but don't obsess over it. Use price or time targets to trigger actions.
- Flexible in their selection of marketing strategies. The same strategy does not work best every year.
- Don't pick one point in time to do all their sales; use scaled (percentage) marketing

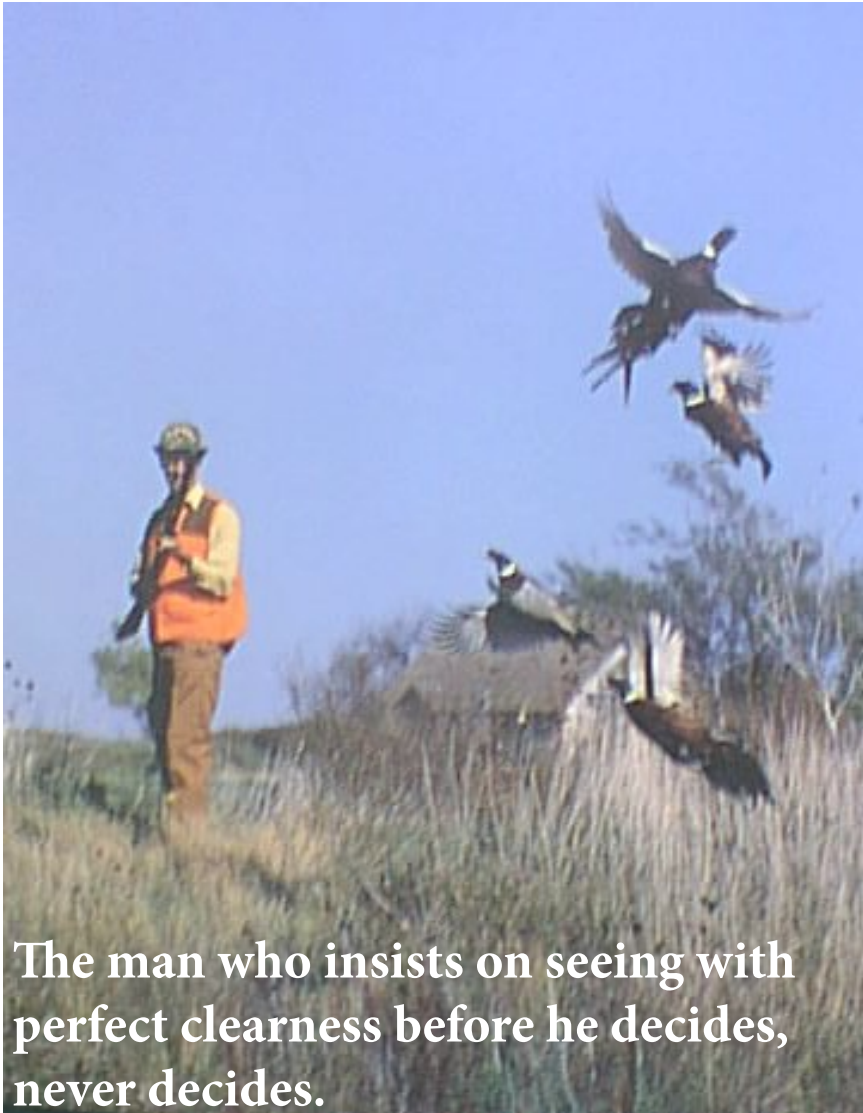
# Best Management Practices of Outstanding Ag. Marketers

- Know their cost of production
- Marketing is an integrated component of the overall business plan (along with production expertise, input price management, crop insurance, farm bill, etc.)
- View price volatility as an opportunity for both selling product and buying inputs

# Futures or Options?

- Use options in markets likely to be characterized by large and sustained price moves
- Use options when there will be problems in arranging financing for a margin line
- Use options when the ability to manage a selective hedging program is questionable

# Marketing Philosophies



The man who insists on seeing with perfect clearness before he decides, never decides.

Henri-Frédéric Amiel

- Ready, Aim,  
Aim, Aim, Aim,  
Aim, .....
- Ready, Fire,  
Aim!

# Manage the Margin

- Focus on what you know--not what you don't know
  - Break even price
  - Seasonal price tendencies
  - If you wait until you have all the information you need before you decide, you will never decide
- Have a plan
- Lock in profitable margins when they are available--*and don't look back*

<http://agecoext.tamu.edu/index.html>

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