Developing and Implementing a Marketing Plan

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Crop and Livestock Marketing is a Challenge!

- Based upon today's information, we are trying to predict the future.
- No one can consistently predict the future! (farmers, processors, importers, …)
  - Weather and politics are two, of the many, factors that must be predicted.
  - COVID-19
  - We are all "playing the odds".
- Give yourself a break!!
  - Time and effort can improve the odds of making better marketing decisions.

Common Problems for Farm/Ranch Marketing

- Many farmers/ranchers use the SWAG method of marketing
- “Constraints” are used to make sales
  - Storage constraints
  - Cash flow requirements
  - Income tax considerations
- Trying to “hit the high” in the market rather than making “targeted” sales

Mechanics of a Marketing Plan

- Set price objectives.
- Set timing objectives.
- Choose the correct marketing tool.
- Monitor market conditions.
- Update or modify when needed.
- **Implement!! (Pull the trigger)**

Setting Price Objectives:

At what price will you sell?

Setting Price Objectives:

At what price will you sell?
When will you sell?

Setting Price Objectives:

At what price will you sell?
When will you sell?
When will your neighbor sell?

Setting Price Objectives

- Know your cost of production!
- Fundamental Analysis
  - Evaluate Supply and Demand Conditions
    - USDA-WASDE Reports (World Agricultural Supply and Demand Estimates)
    - Use reports from private analytical firms
    - Hire a marketing consultant
- Technical Analysis
  - Charting techniques
    - Basic analysis free on webpages
    - Hire a marketing consultant

Fundamental Analysis

U.S. Soybean Supply & Demand Table

U.S. Soybean	2018/2019 (Est.)	2019/2020 (Apr.)	2020/2021 (**)
Planted A.	89.2 Mill. A.	**76.1 Mill. A.**	**83.5 Mill. A.**
Harvested A.	87.6 Mill. A.	**75.0 Mill. A.**	**82.7 Mill. A.**
Yield/Harvest A.	50.6 bu.	**47.4 bu.**	**49.8 bu.**
Beginning Stocks	438 Mill. Bu.	**909 Mill. Bu.**	**480 Mill. Bu.**
Production	4,428 Mill. Bu.	**3,558 Mill. Bu.**	**4,119 Mill. Bu.**
Imports	14 Mill. Bu.	**15 Mill. Bu.**	**15 Mill. Bu.**
Total Supply	***4,880 Mill. Bu.***	***4,482 Mill. Bu.***	***4,614 Mill. Bu.***
Crushings	2,092 Mill. Bu.	**2,125 Mill. Bu.**	**2,130 Mill. Bu.**
Exports	1,748 Mill. Bu.	**1,775 Mill. Bu.**	**2,050 Mill. Bu.**
Seed	88 Mill. Bu.	**97 Mill. Bu.**	**96 Mill. Bu.**
Residual	43 Mill. Bu.	**5 Mill. Bu.**	**38 Mill. Bu.**
Total Use	***3,971 Mill. Bu.***	***4,002 Mill. Bu.***	***4,314 Mill. Bu.***
Ending Stocks	**909 Mill. Bu.**	**480 Mill. Bu.**	**300 Mill. Bu.**

USDA WASDE – Apr. 9, 2020; USDA Outlook Forum; USDA Prospective Plantings

U.S. Corn Supply & Demand Table

U.S. Corn	2018/2019 (Est.)	2019/2020 (Apr)	2020/2021 (**)
Planted A.	88.9 Mill. A.	**89.7 Mill. A.**	**97.0 Mill. A.**
Harvested A.	81.3 Mill. A.	**81.5 Mill. A.**	**89.4 Mill. A.**
Yield/Harvest A.	176.4 bu.	**168.0 bu.**	**178.5 bu.**
Beginning Stocks	2,140 Mill. Bu.	**2,221 Mill. Bu.**	**2,092 Mill. Bu.**
Production	14,340 Mill. Bu.	**13,692 Mill. Bu.**	**15,951 Mill. Bu.**
Imports	28 Mill. Bu.	**45 Mill. Bu.**	**25 Mill. Bu.**
Total Supply	***16,509 Mill. Bu.***	***15,957 Mill. Bu.***	***18,068 Mill. Bu.***
Feed & Residual	5,432 Mill. Bu.	**5,675 Mill. Bu.**	**5,800 Mill. Bu.**
Food, Seed, Ind.	6,791 Mill. Bu.	**6,465 Mill. Bu.**	**6,840 Mill. Bu.**
Ethanol	5,376 Mill. Bu.	**5,050 Mill. Bu.**	**5,450 Mill. Bu.**
Exports	2,065 Mill. Bu.	**1,725 Mill. Bu.**	**2,100 Mill. Bu.**
Total Use	***14,288 Mill. Bu.***	***13.865 Mill. Bu.***	***14,740 Mill. Bu.***
Ending Stocks	**2,221 Mill. Bu.**	**2,092 Mill. Bu.**	**3,328 Mill. Bu.**

USDA WASDE – Apr. 9, 2020; USDA Outlook Forum; USDA Prospective Plantings

U.S. All Wheat Supply & Demand Table

U.S. All Wheat	2018/2019 (Est.)	2019/2020 (Apr.)	2020/2021 (**)
Planted A.	47.8 Mill. A.	45.2 Mill. A.	44.7 Mill. A.
Harvested A.	39.6 Mill. A.	37.2 Mill. A.	37.8 Mill. A.
Yield/Harvest A.	47.6 bu.	51.7 bu.	48.2 bu.
Begin Stocks	1,099 Mill. Bu.	1,080 Mill. Bu.	970 Mill. Bu.
Production	1,885 Mill. Bu.	1,920 Mill. Bu.	1,824 Mill. Bu.
Imports	135 Mill. Bu.	105 Mill. Bu.	140 Mill. Bu.
Total Supply	***3,119 Mill. Bu.***	***3,105 Mill. Bu.***	***2,934 Mill. Bu.***
Food	955 Mill. Bu.	955 Mill. Bu.	959 Mill. Bu.
Seed	59 Mill. Bu.	60 Mill. Bu.	60 Mill. Bu.
Feed & Residual	90 Mill. Bu.	135 Mill. Bu.	120 Mill. Bu.
Exports	936 Mill. Bu.	985 Mill. Bu.	1,000 Mill. Bu.
Total Use	***2,039 Mill. Bu.***	***2,135 Mill. Bu.***	***2,139 Mill. Bu.***
Ending Stocks	**1,080 Mill. Bu.**	**970 Mill. Bu.**	**795 Mill. Bu.**

USDA WASDE – Apr. 9, 2020; USDA Outlook Forum; USDA Prospective Plantings

Key USDA Reports

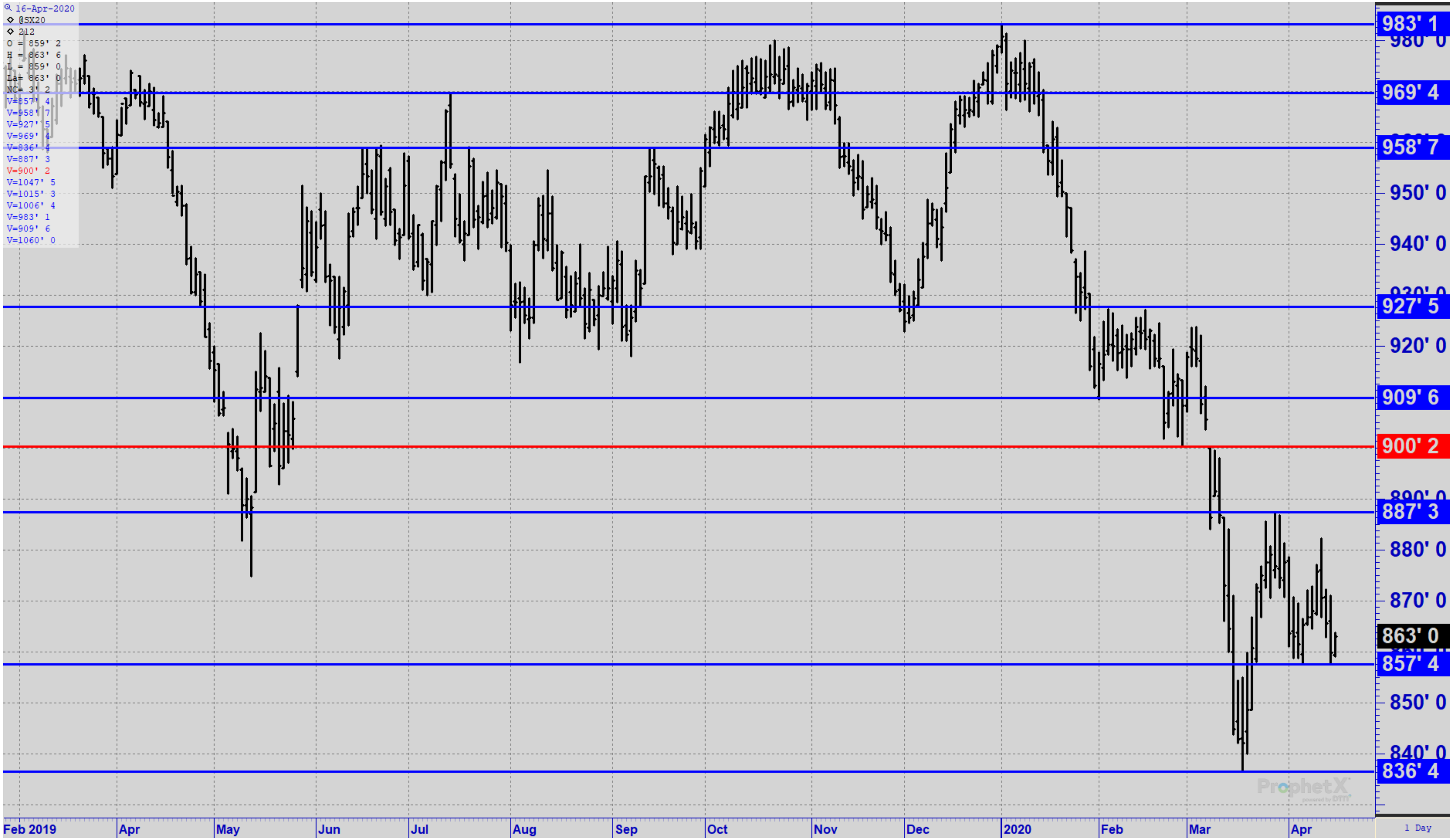
- **WASDE** – World Agricultural Supply and Demand Estimates
- **Outlook Reports** – Wheat, Feed, Oil Crops and Sugar
- **Crop Production** – Estimates of acreage and average yields for each major producing state.
- **Crop Progress Reports** (weekly during growing season)
- **Quarterly Grain Stocks Reports**

Other Key Fundamentals

- **Transportation Costs**
  - Rail Rates
  - Ocean Rates
- **Trade Policies**
  - Bi-lateral
  - Multi-lateral
- **Exchange Rates**
  - Value of U.S. Dollar
  - Currency of competitors and customers

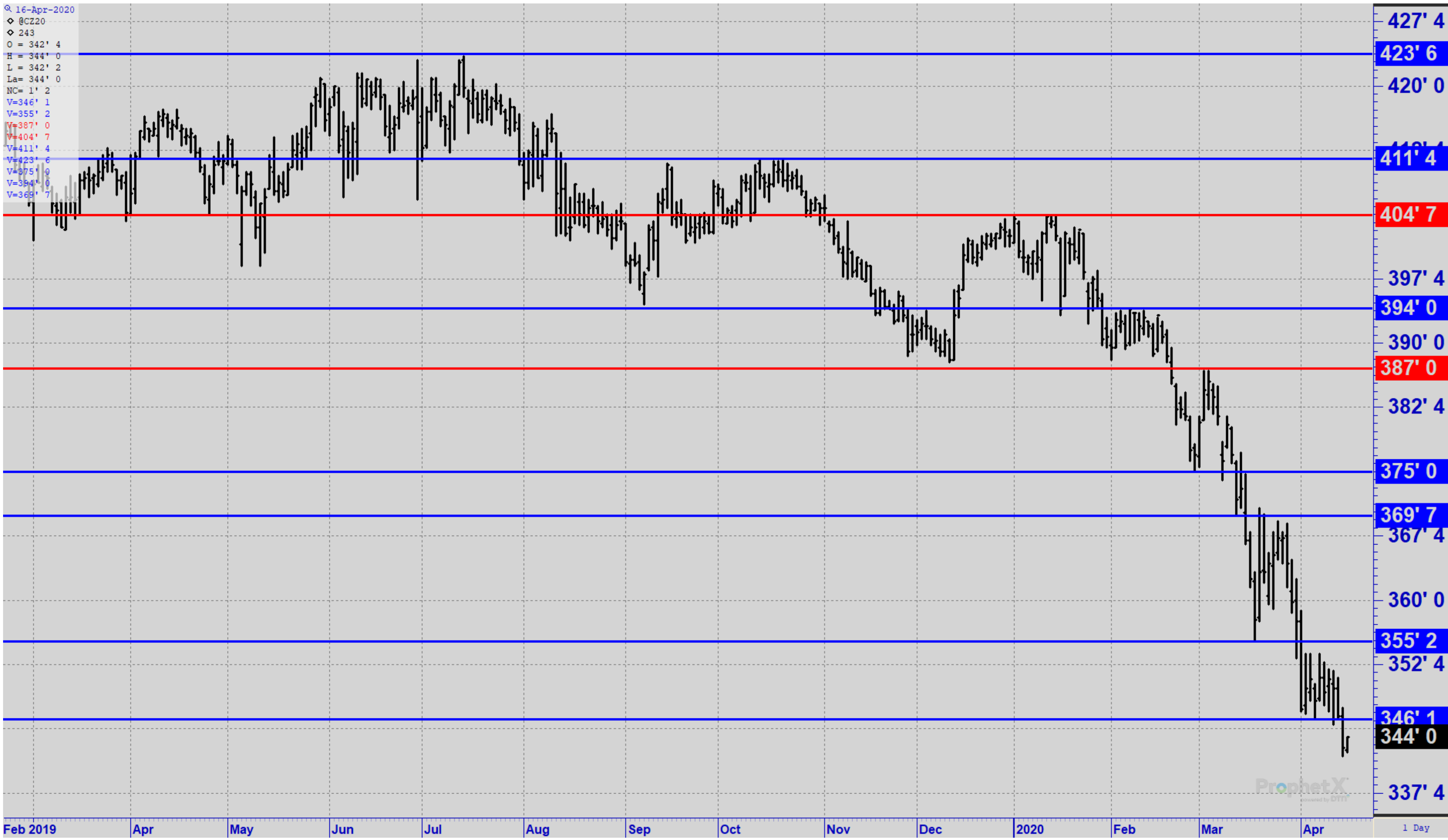
Technical Analysis

Nov. CBOT Soybean Pricing Points



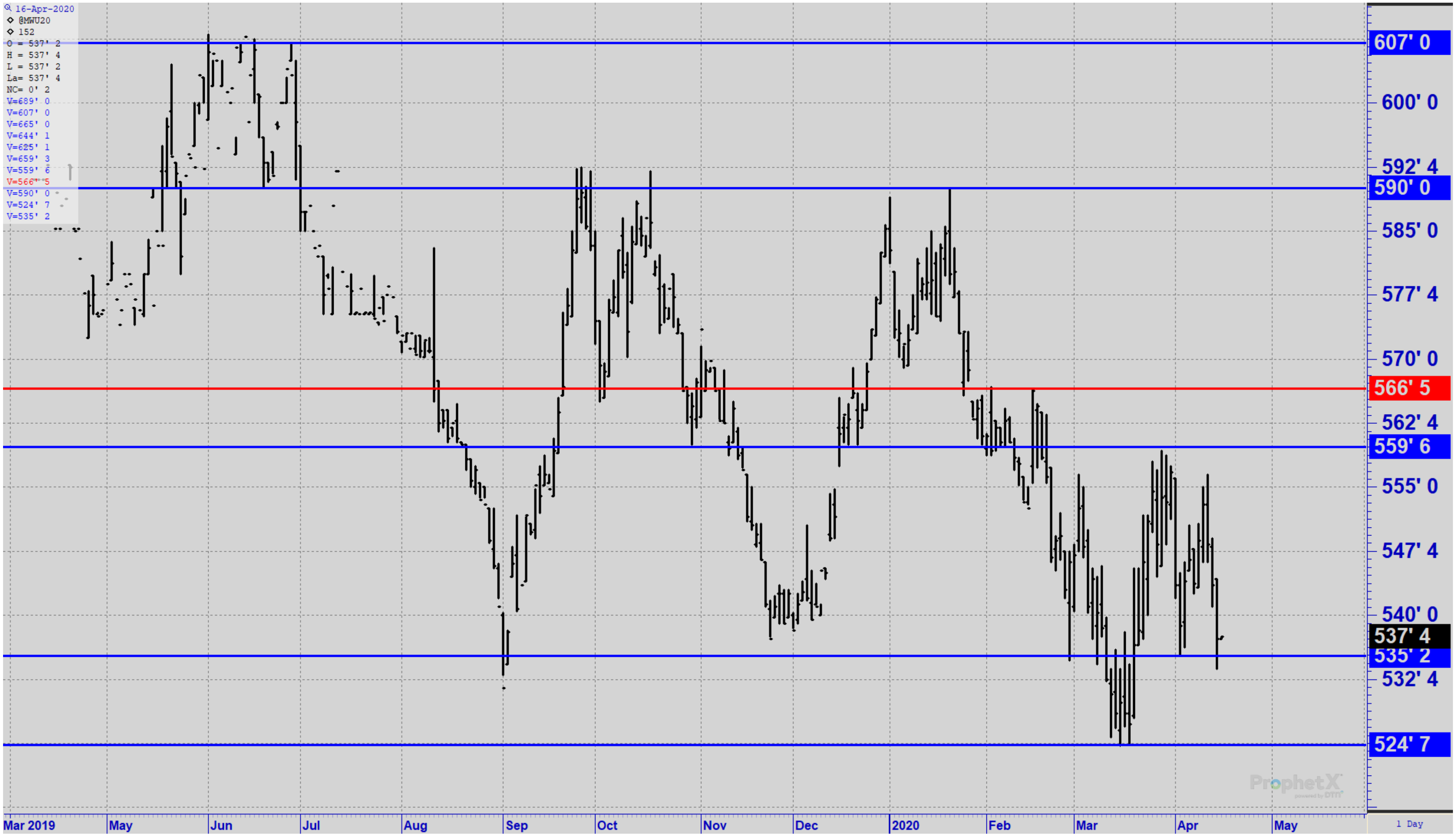
DTN Prophet X – 04-15-20 pm

Dec. CBOT Corn Pricing Points



DTN Prophet X – 04-15-20 pm

Sep. MGEX Wheat Pricing Points



DTN Prophet X – 04-15-20 pm

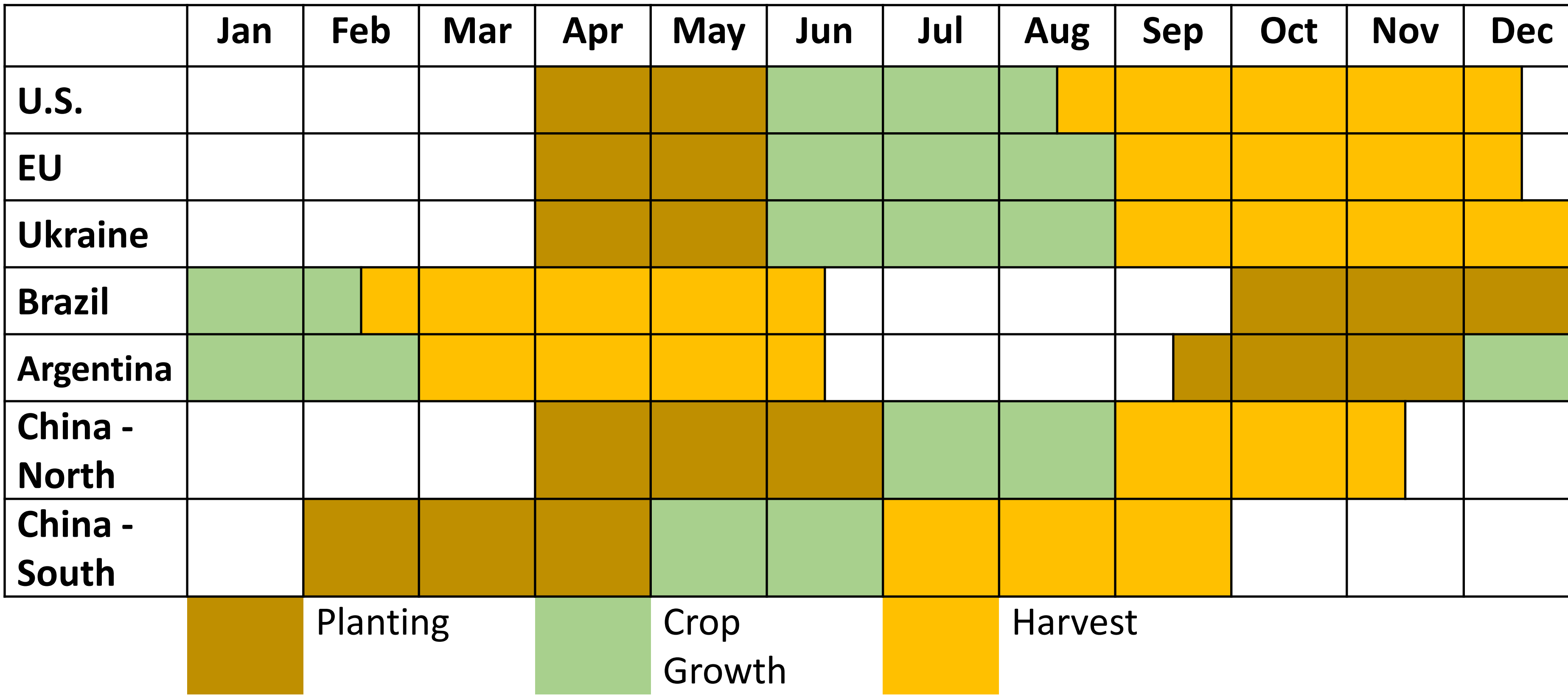
Set Timing Objectives

Set Timing Objectives

- Cash flow needs
  - Cash Rent, Machinery Payments, Operating LOC, Land Payments
- Key USDA Reports
  - Search “USDA Report Calendar” and select “Calendar View”
- Key production time periods
  - U.S. production
  - Competitor’s production

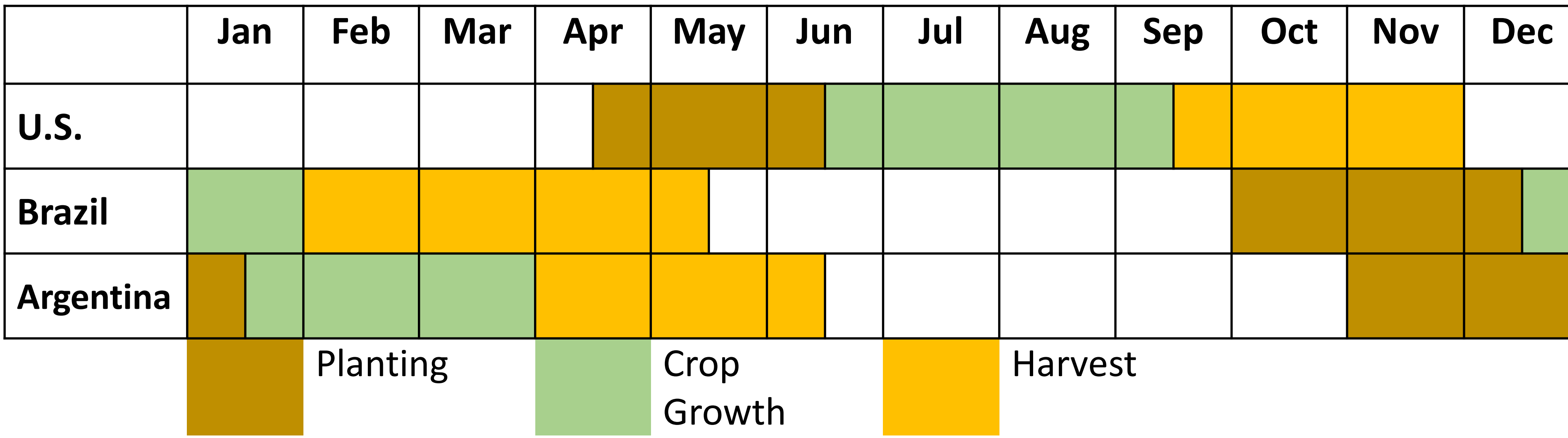
Set Timing Objectives

Crop Production Cycle Chart - Corn



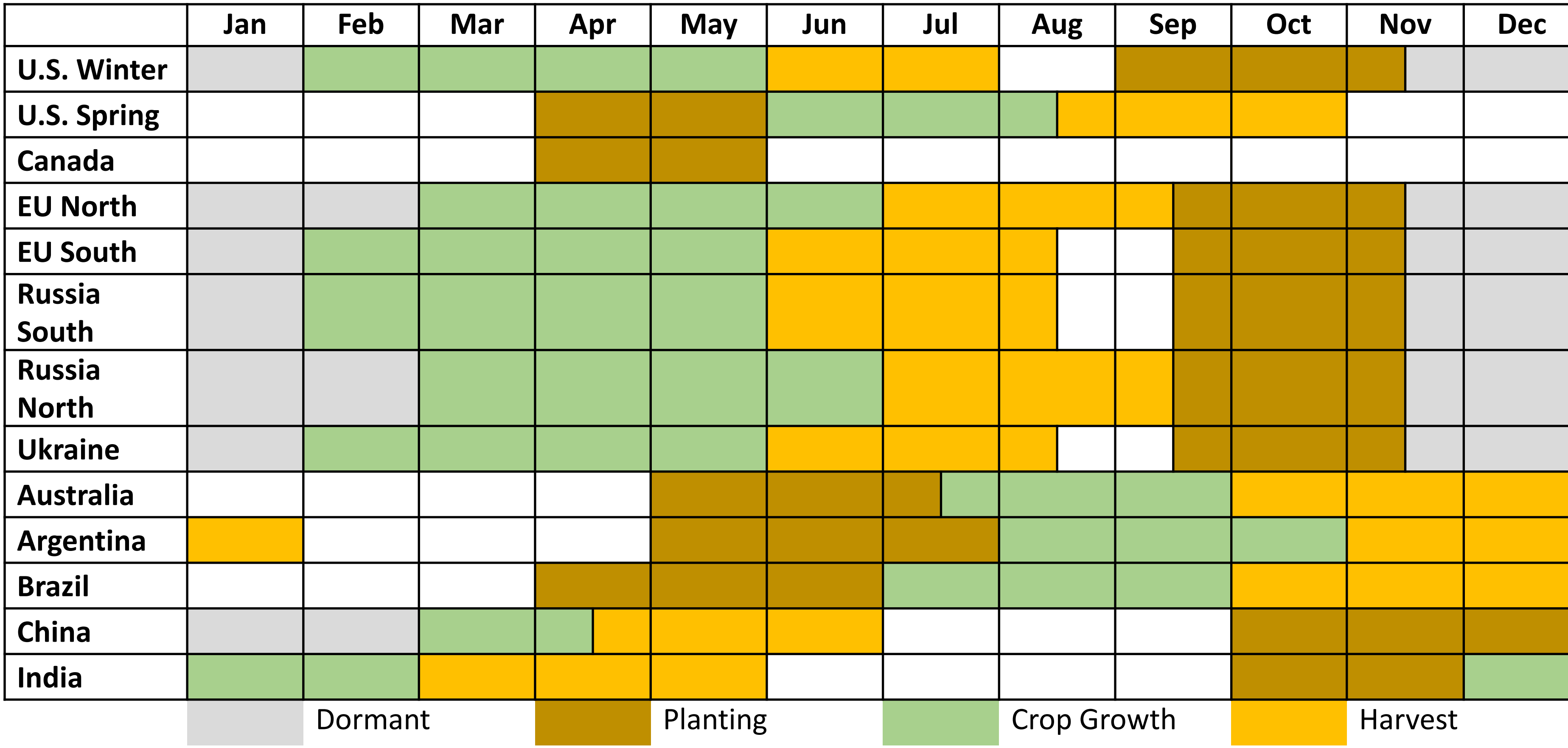
Set Timing Objectives

Crop Production Cycle Chart - Soybean



Set Timing Objectives

Crop Production Cycle Chart - Wheat



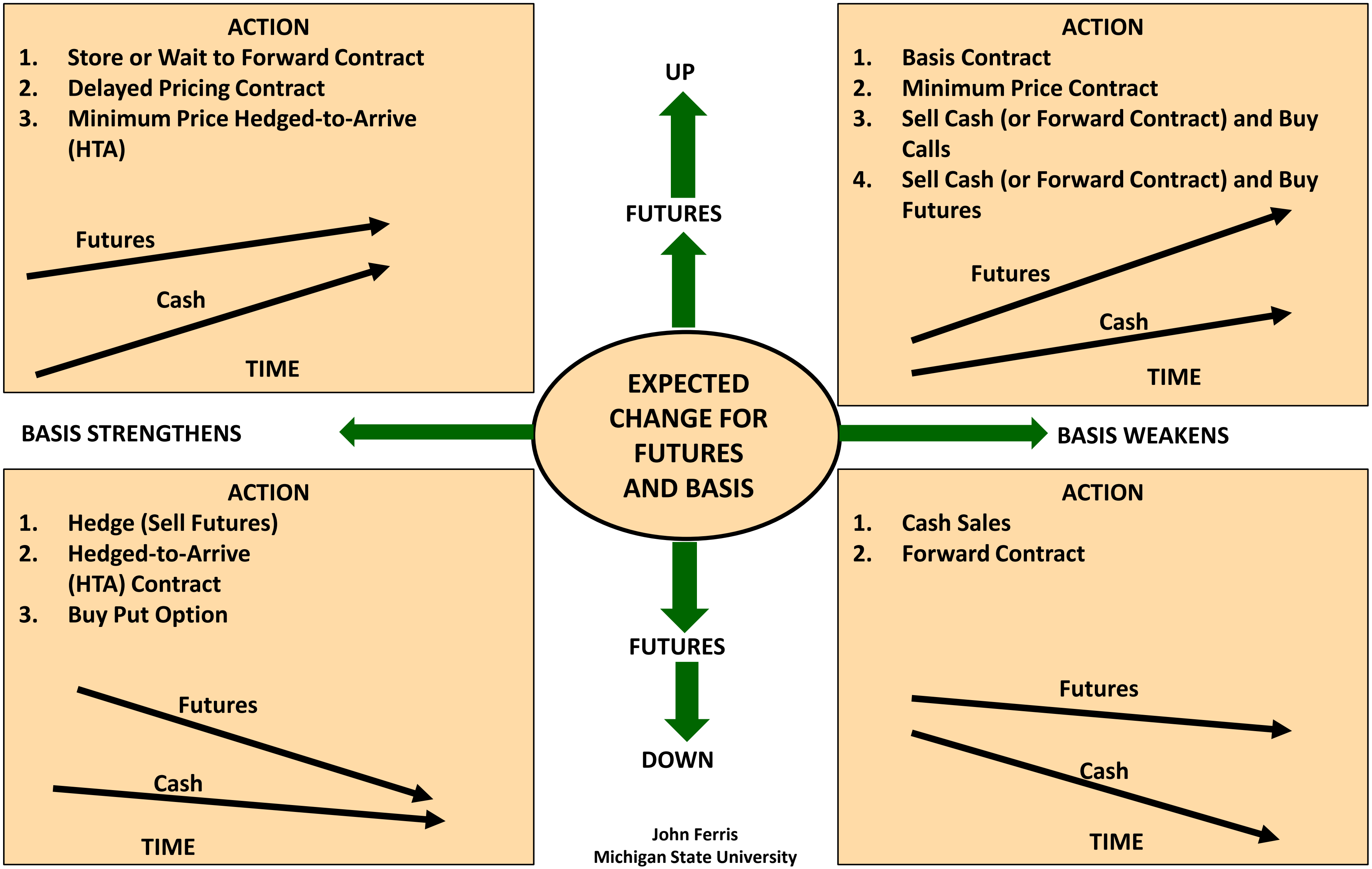
Mechanics of a Marketing Plan

- Set price objectives.
- Set timing objectives.
- Choose the correct marketing tool.
- Monitor market conditions.
- Update or modify when needed.
- **Implement!! (Pull the trigger)**

Questions?

CHOOSING THE CORRECT MARKETING TOOL

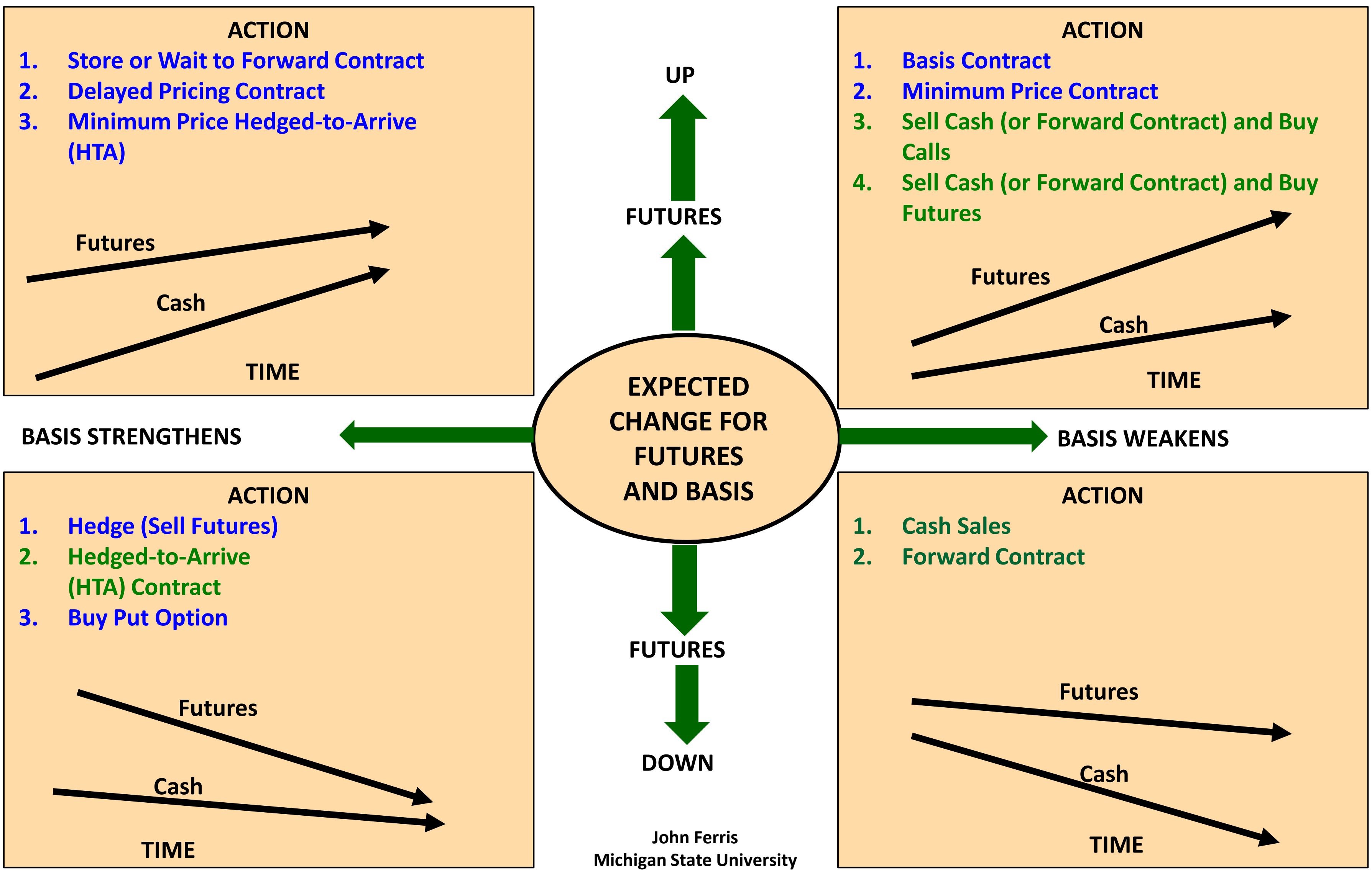
Strategies for Product Sellers



Why do I like this Matrix?

- Includes “cash only”, futures/options, and alternative contracting strategies.
- Helps explain why some marketing tools work well one year, and poorly the next year.
- Helps explain why basis changes can help enhance effective sales price.
- Helps highlight the differences in risk exposure.

Strategies for Product Sellers



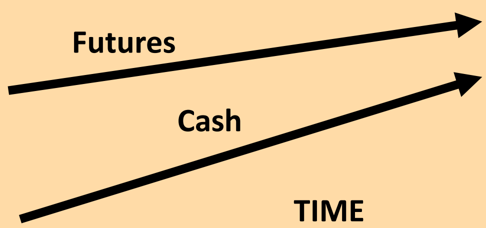
BLUE = Cash sale or cash contract **GREEN** = Use futures or options market

Requirement

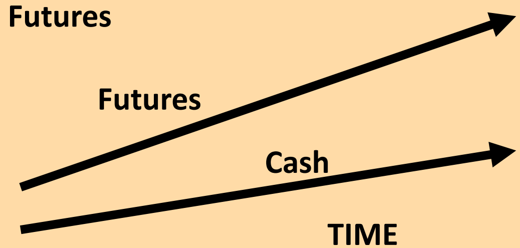
- To use this matrix properly, you must:
  - Form an opinion about the future direction (trend) in the futures market.
  - Form an opinion about the future direction (trend) in the basis.

Strategies for Product Sellers

ACTION
1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA)



ACTION
1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures



UP

FUTURES

EXPECTED CHANGE FOR FUTURES AND BASIS

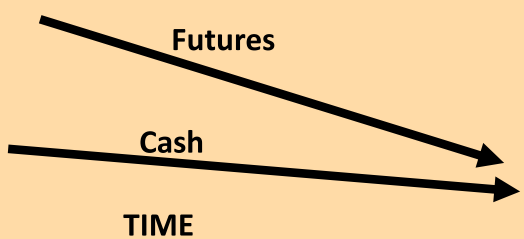
BASIS STRENGTHENS

BASIS WEAKENS

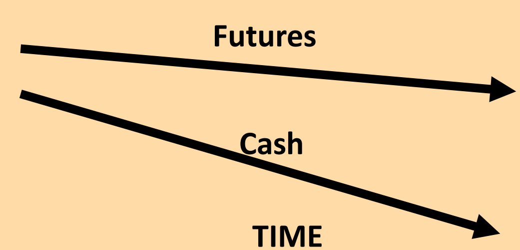
FUTURES

DOWN

ACTION
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option



ACTION
1. Cash Sales
2. Forward Contract



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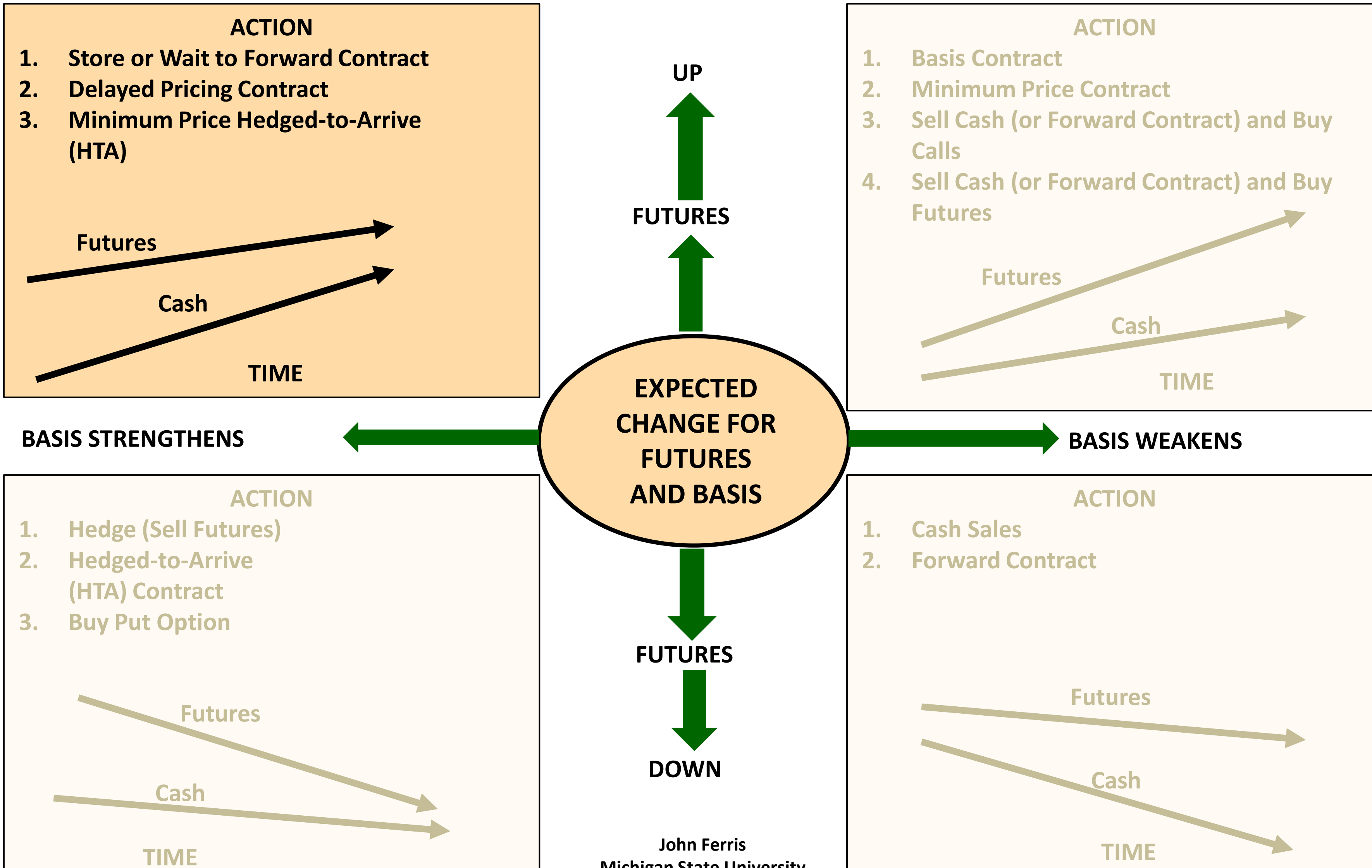
Michigan State University

Strategies for Product Sellers



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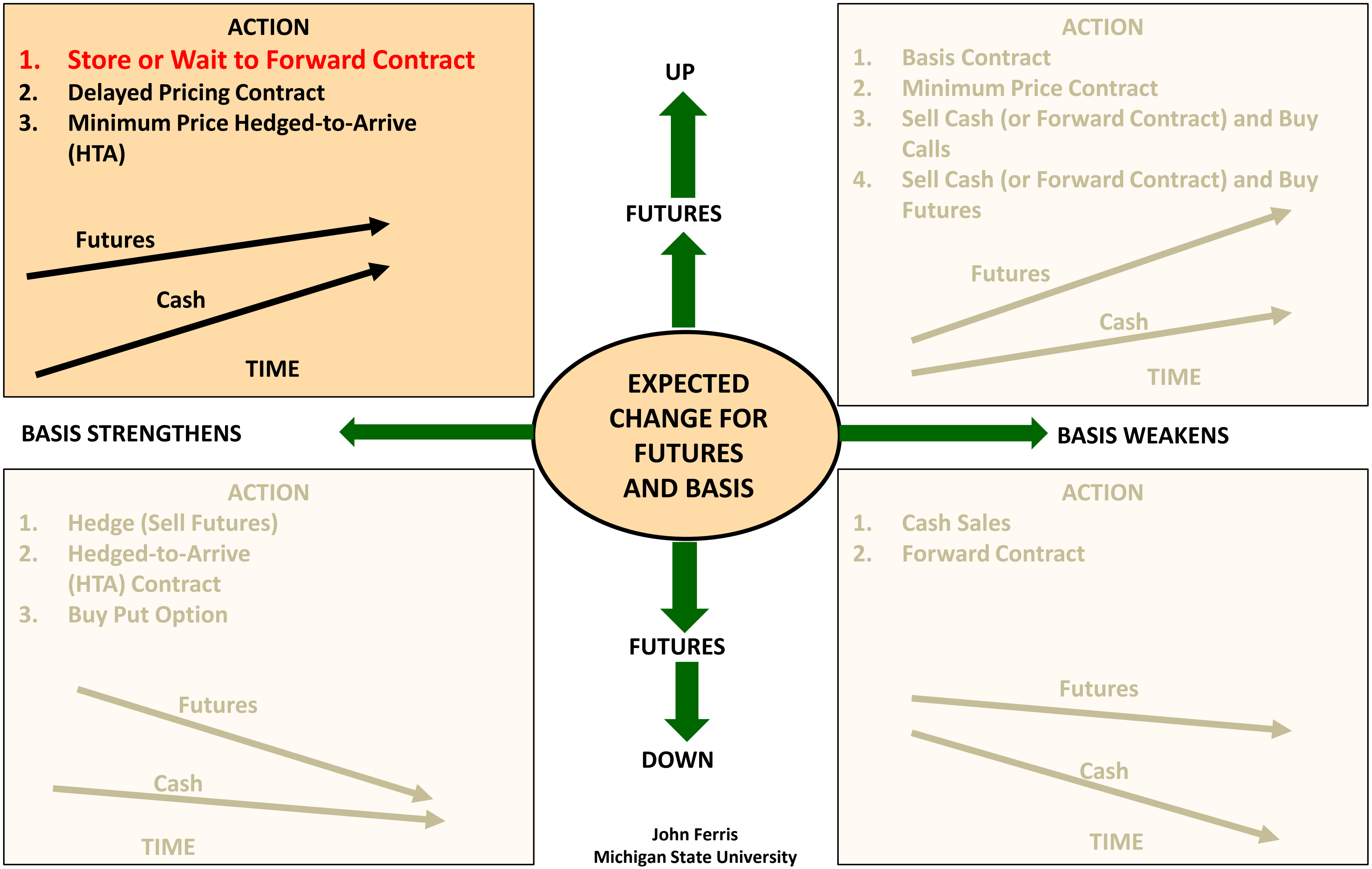
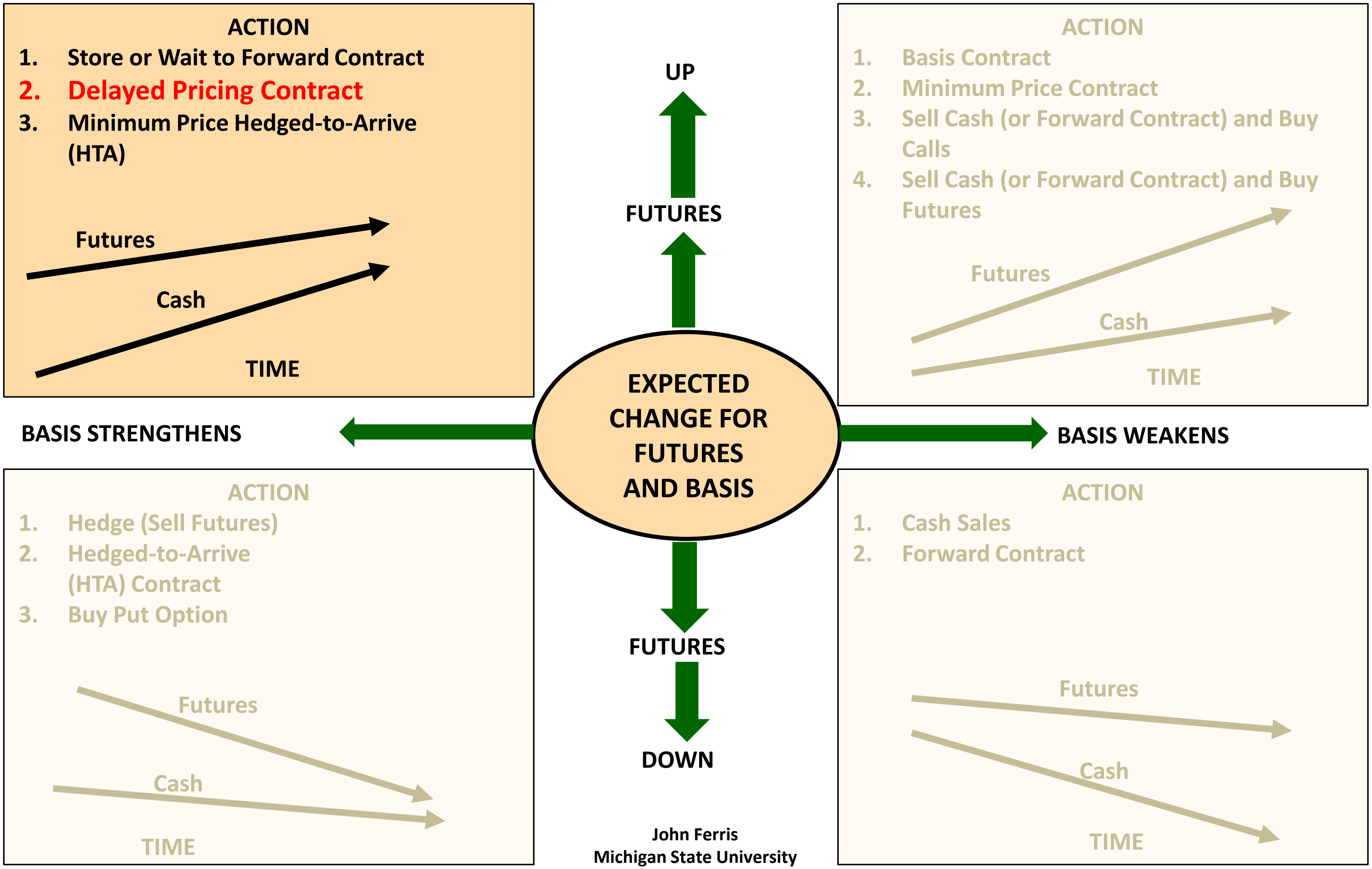


Strategies for Product Sellers



What is a *Delayed Pricing Contract*?

- Farmer delivers grain today, but cash price is not established until a future date.
- Title for grain is transferred to the buyer, and buyer commonly resells grain before final cash price is established.

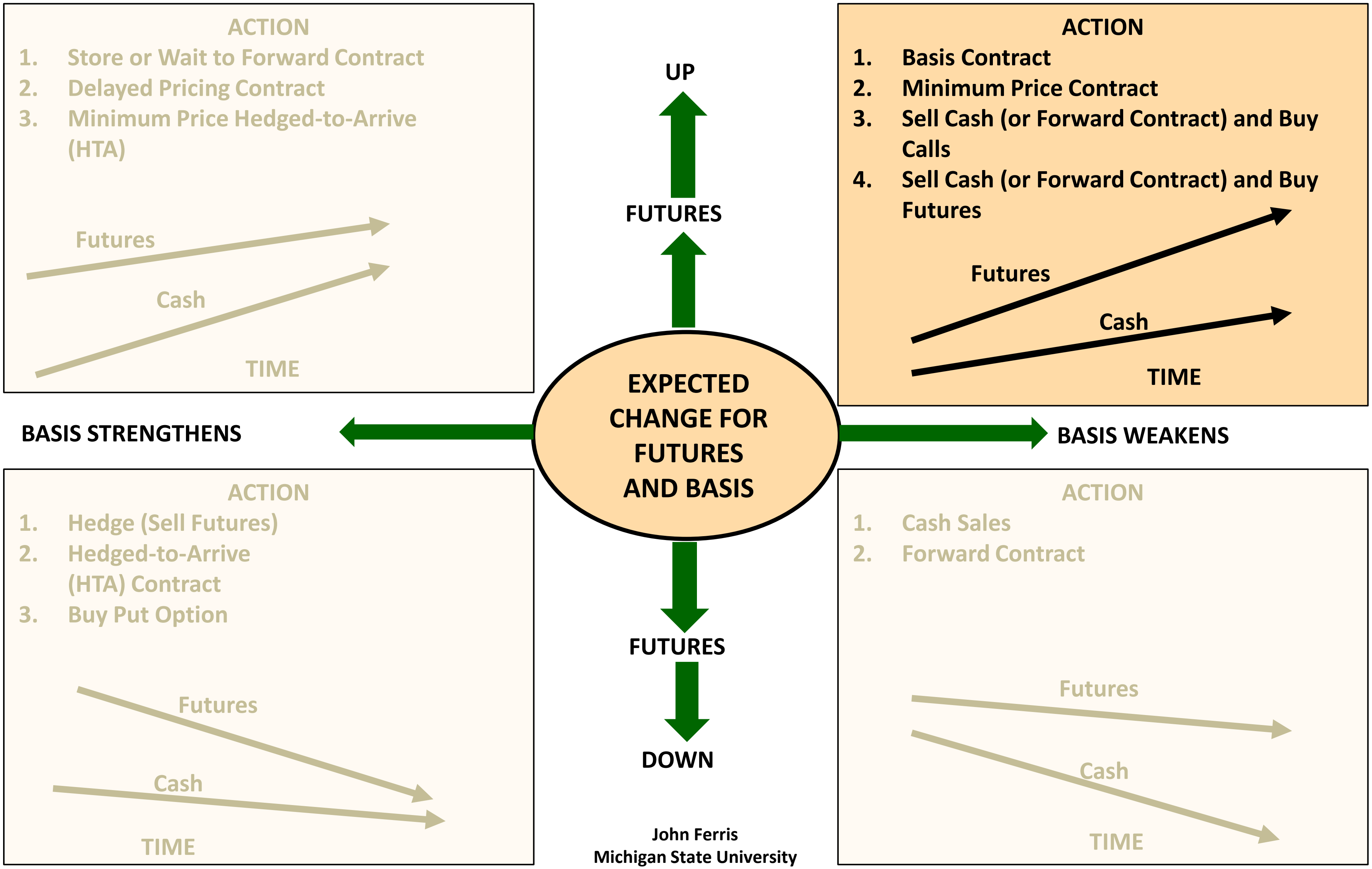
What is a ***Delayed Pricing Contract*?**

- The futures price is not established.
- The basis is not established.
- The grain buyer often charges a fee to write a Delayed Pricing Contract, which covers a portion of the buyer’s basis risk.

What is a *Delayed Pricing Contract*?

- Seller is unsecured creditor, but grain dealers bonding applies for first 30 days of contract.
- The grain dealers bond may or may not apply after 30 days. N.D. Credit-Sale Contract Indemnity fund covers 80% of value for contracts over 30 days.

Strategies for Product Sellers



Strategies for Product Sellers

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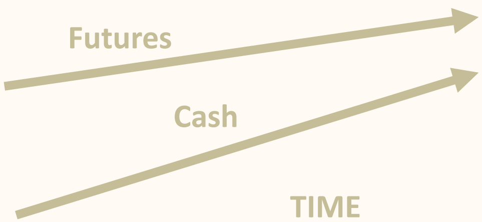
3. Minimum Price Hedged-to-Arrive (HTA)

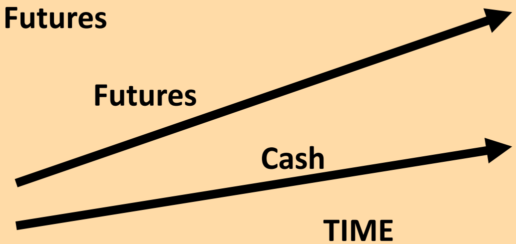


UP

FUTURES

ACTION

1. **Basis Contract**
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures



BASIS STRENGTHENS

EXPECTED CHANGE FOR FUTURES AND BASIS

BASIS WEAKENS

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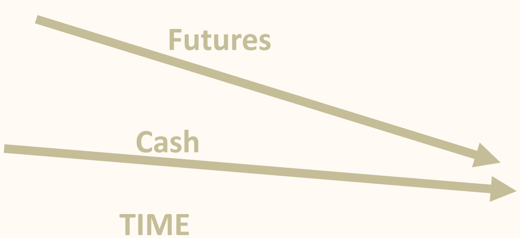
3. Buy Put Option

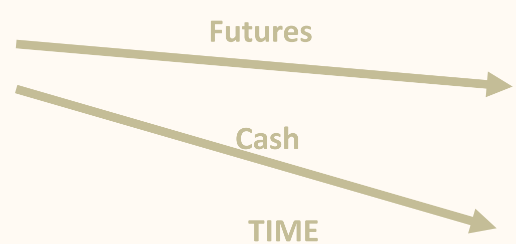


FUTURES

DOWN

ACTION

1. Cash Sales
2. Forward Contract



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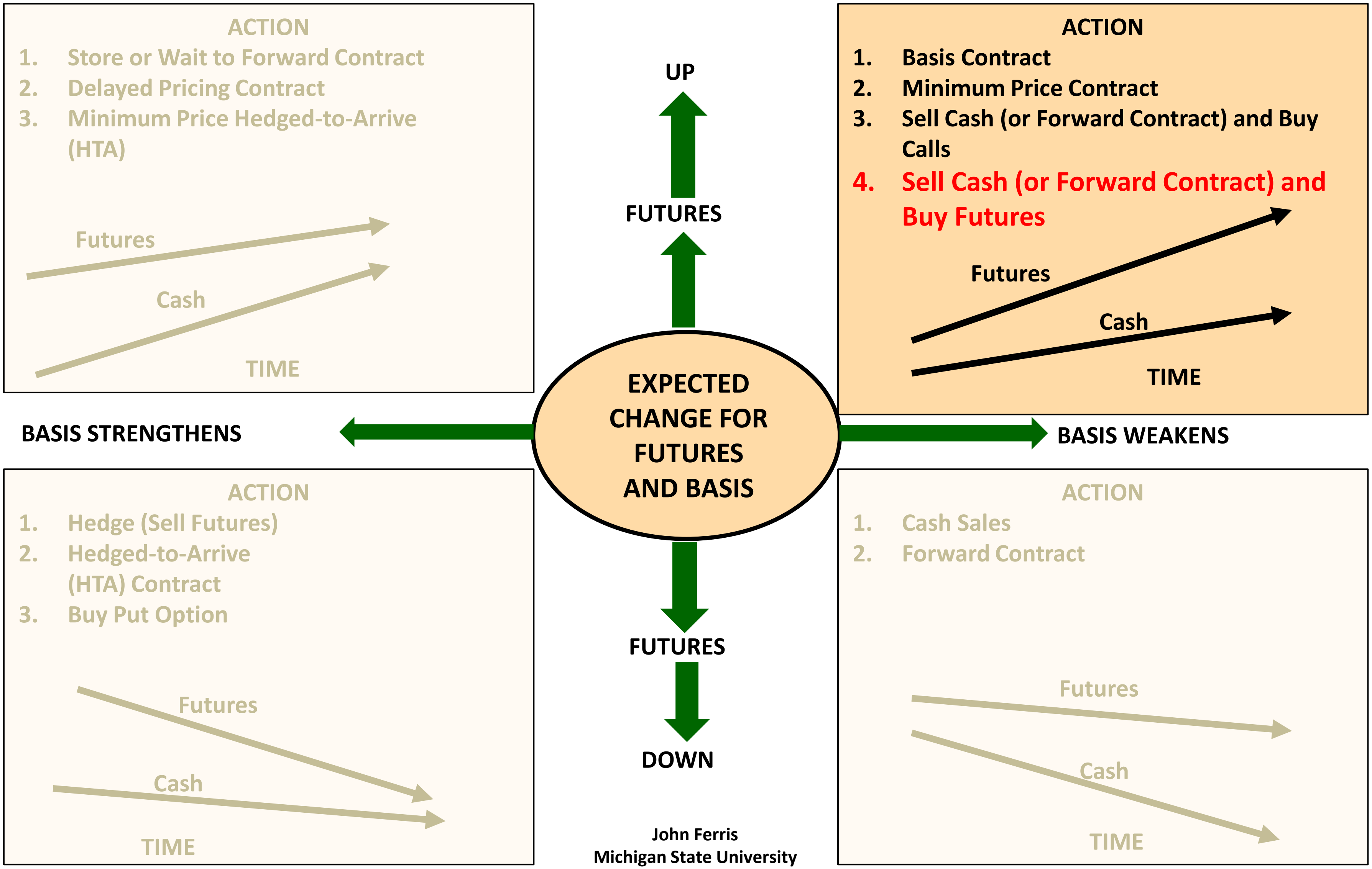
What is a *Basis Contract*?

- This is a contract between a grain buyer and farmer where the basis is specified in the contract, but the futures price has NOT been established.
- The farmer can choose the futures price at a later date (time of final sale).
- The ***basis*** in the contract may not be the basis today!

Strategies for Product Sellers



Sell Cash - Buy Futures

- Why does this strategy work?
- Is this more risky than storing cash grain and waiting for a price increase?
- Is this more risky than a ***Basis Fixed Contract*** strategy?

Strategies for Product Sellers

UP

FUTURES

EXPECTED CHANGE FOR FUTURES AND BASIS

BASIS STRENGTHENS

BASIS WEAKENS

FUTURES

DOWN

ACTION (Futures up, basis strengthens)

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2. Delayed Pricing Contract
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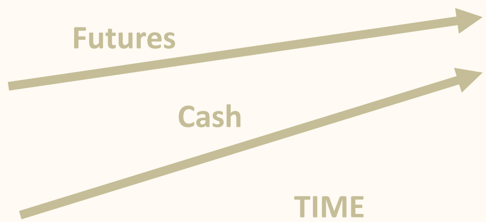

ACTION (Futures up, basis weakens)

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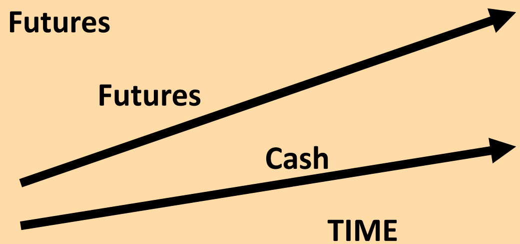

ACTION (Futures down, basis strengthens)

1. Hedge (Sell Futures)
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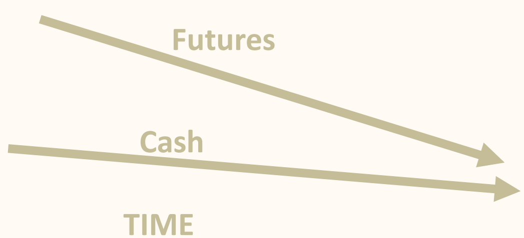
3. Buy Put Option



ACTION (Futures down, basis weakens)

1. Cash Sales
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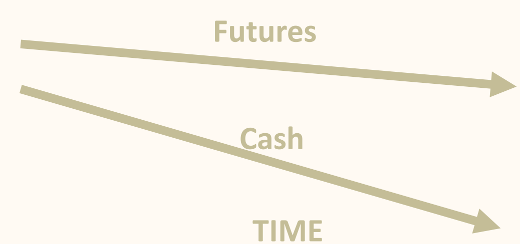

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Memory Trick #1
For Option Buyer!

- “**Call UP** the broker to check on prices”
  - The ***buyer*** of a Call Option gains when the futures price increases. (call = right to buy futures contract at strike price)

- “**Put Down** the phone when you are done”
  - The ***buyer*** of a Put Option gains when the futures price decreases. (put = right to sell futures contract at strike price)

Memory Trick #2

- Two types of options:
  - **Call** option ⟹ right to **BUY**
    - The letter “C” is next to the letter “B” in the alphabet
  - **Put** option ⟹ right to **SELL**
    - The letter “P” is next to the letter “S” in the alphabet

Suggestions for using Options

- Options work “best” when there is a large price movement (in the correct direction) in a short period of time.
  - Underlying futures market moves in the correct direction.
  - Volatility increases due to large price movement
  - Time value decreases very little because it is a short period of time
  - Interest rate does not have time to change.
- Option premiums will never change at the same rate as the underlying futures market price (delta).
  - Exception is just before option expiration.

Strategies for Product Sellers

EXPECTED CHANGE FOR FUTURES AND BASIS

UP — **FUTURES**

DOWN — **FUTURES**

BASIS STRENGTHENS | **BASIS WEAKENS**

Futures up, basis strengthens

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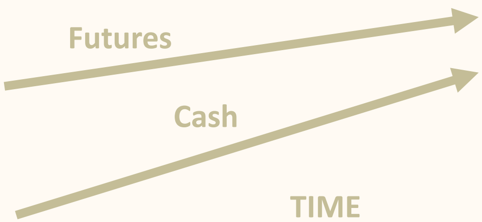

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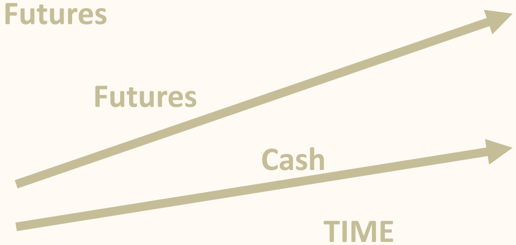

Futures down, basis strengthens

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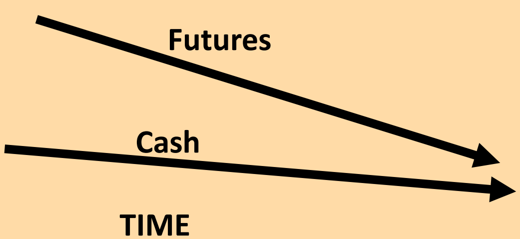
3. **Buy Put Option**



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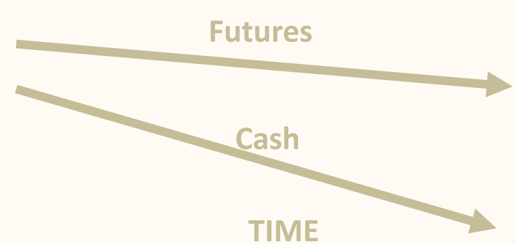

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Strategies for Product Sellers

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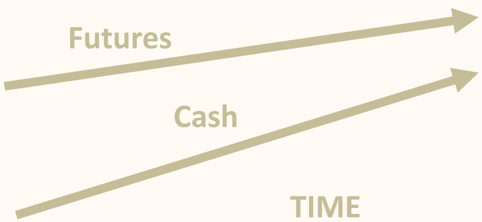

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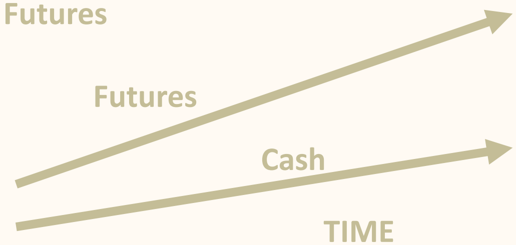

UP

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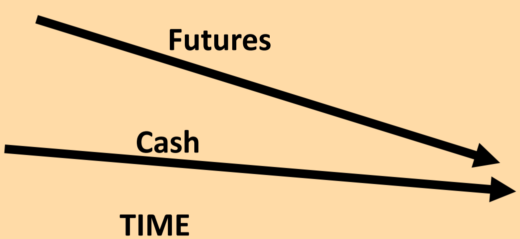

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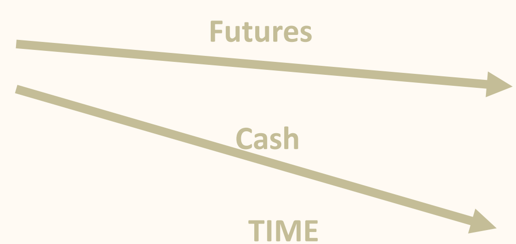

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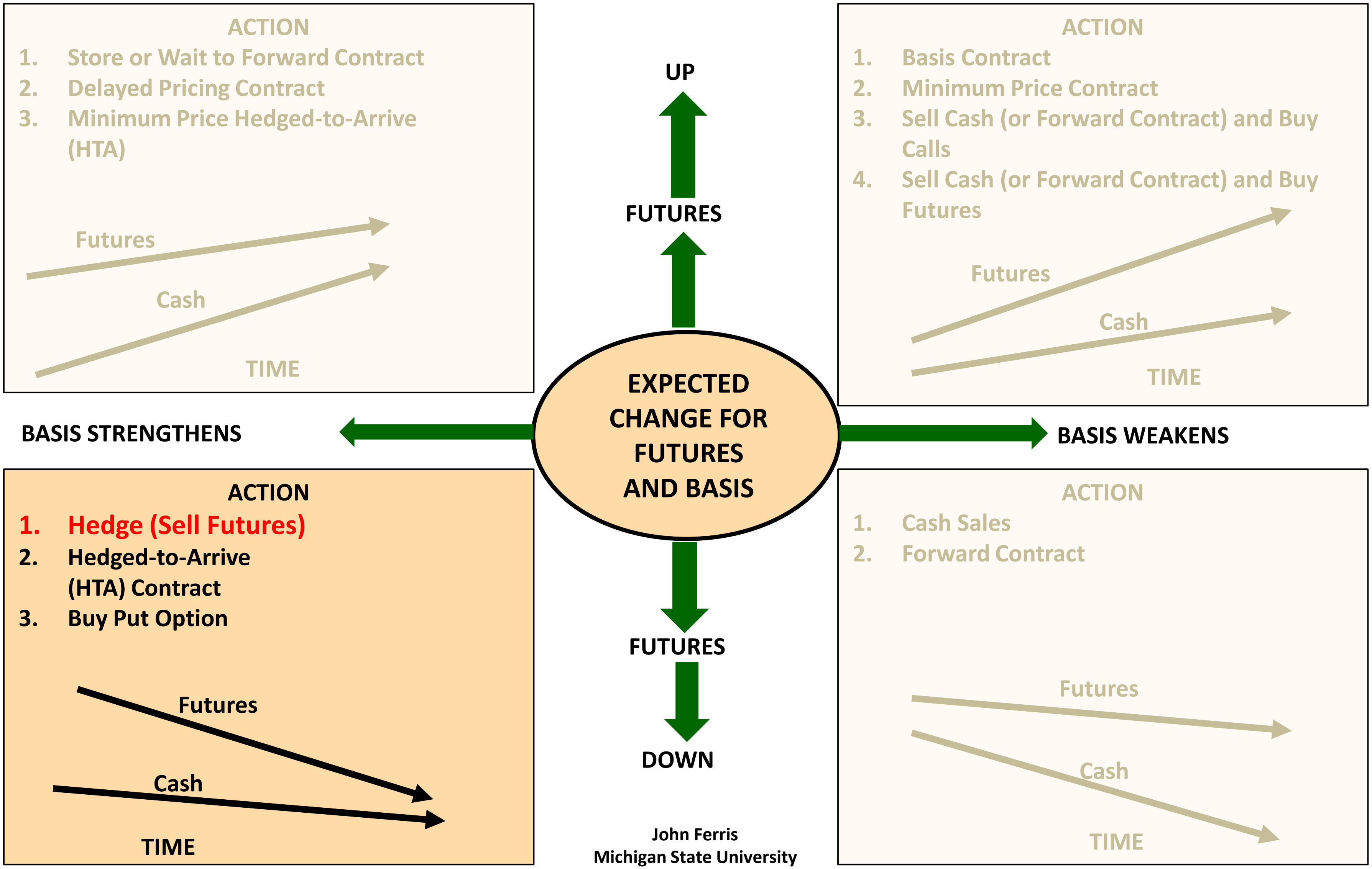
What is a *Hedge-to-Arrive Contract*?

- This is a also called a *Futures Fixed Contract.*
- The grain buyer purchases a futures contract to set the futures price, but the basis has NOT been determined.
- The basis is usually set at the time of final sale.
- The buyer typically charges a fee (per bushel) to cover brokerage costs and potential margin calls.

Strategies for Product Sellers



Definition of *Hedging*

- Establishing an opposite position in the futures market from that held in the cash, or physical, market.
- The objective is to “shift” price risk and “lock in” as desired price.
- Hedging is most effective when the cash and futures markets are **highly correlated**.

Definition of *Speculating*

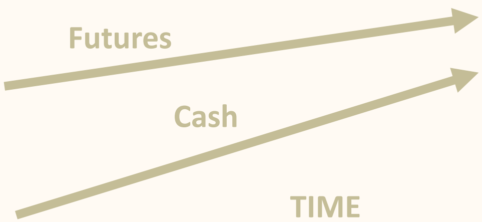
- Establishing a position in the futures **OR** the cash market expecting to profit from a favorable price movement.
- The objective is to enhance price, but this requires accepting the risk of an adverse price movement.

Reminder!

- Using support and resistance lines (technical analysis) can help set price objectives.
- In today's trading world, you are not fast enough to "chase the market."
- You can place an order to sell at a specified price and "let the market come to you."
  - Hedging or options strategies (must work with a broker)
  - Hedge-to-Arrive (Futures Fixed) or cash sales (work with a cash market buyer).

Strategies for Product Sellers

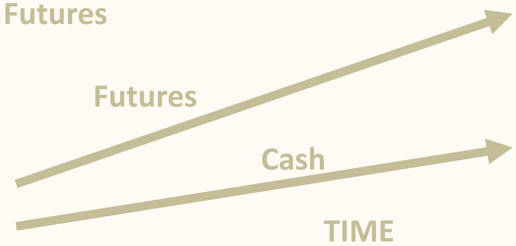
ACTION
1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA)



UP

FUTURES

ACTION
1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures

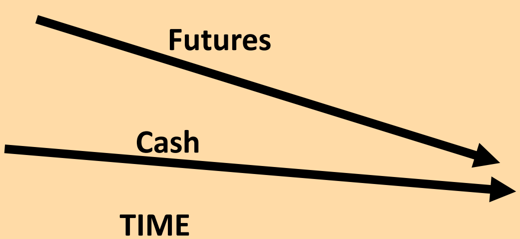


BASIS STRENGTHENS

EXPECTED CHANGE FOR FUTURES AND BASIS

BASIS WEAKENS

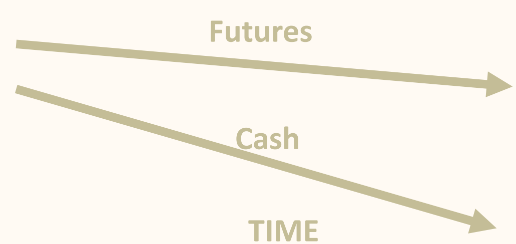
ACTION
1. **Hedge (Sell Futures)**
2. **Hedged-to-Arrive (HTA) Contract**
3. **Buy Put Option**



FUTURES

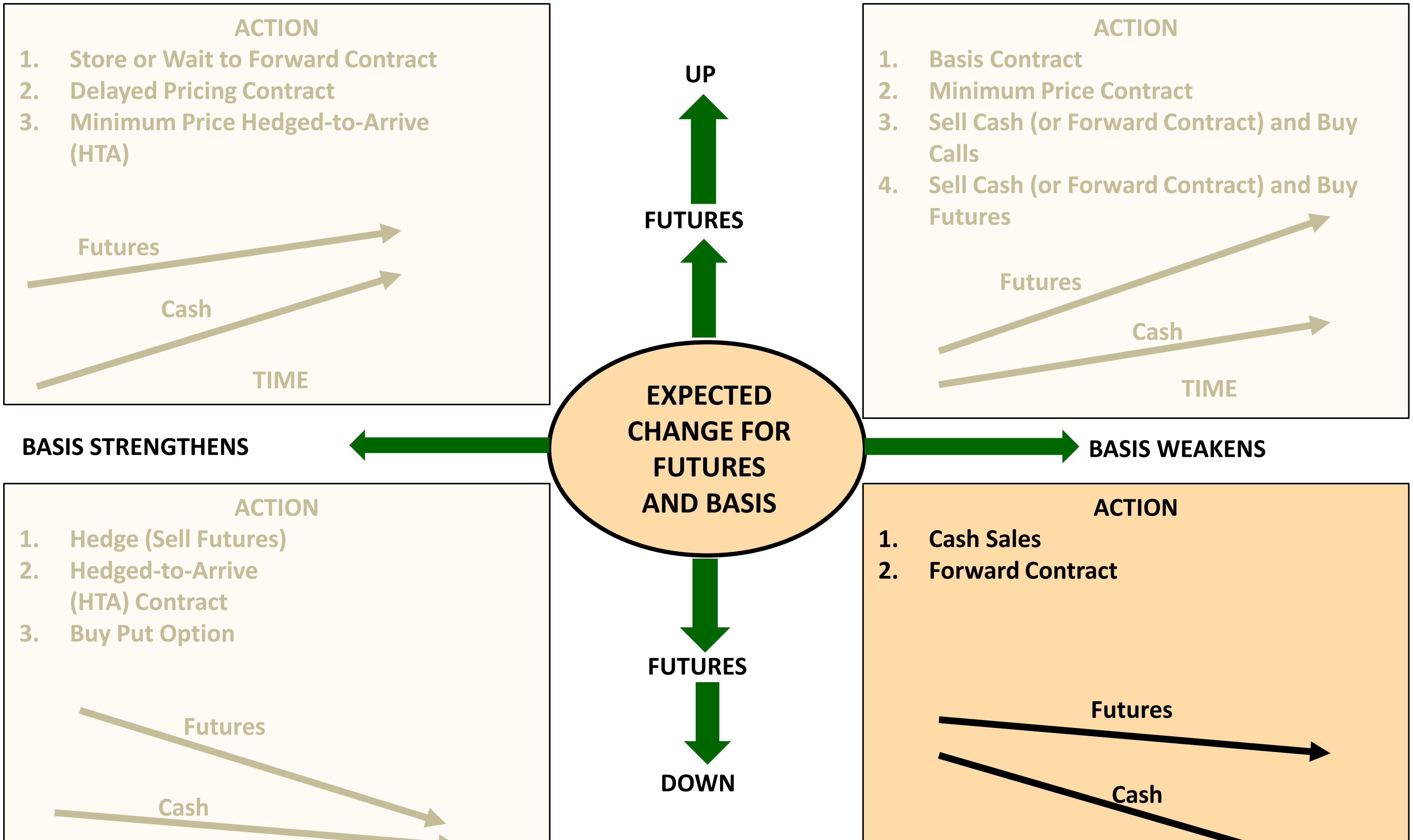
DOWN

ACTION
1. Cash Sales
2. Forward Contract



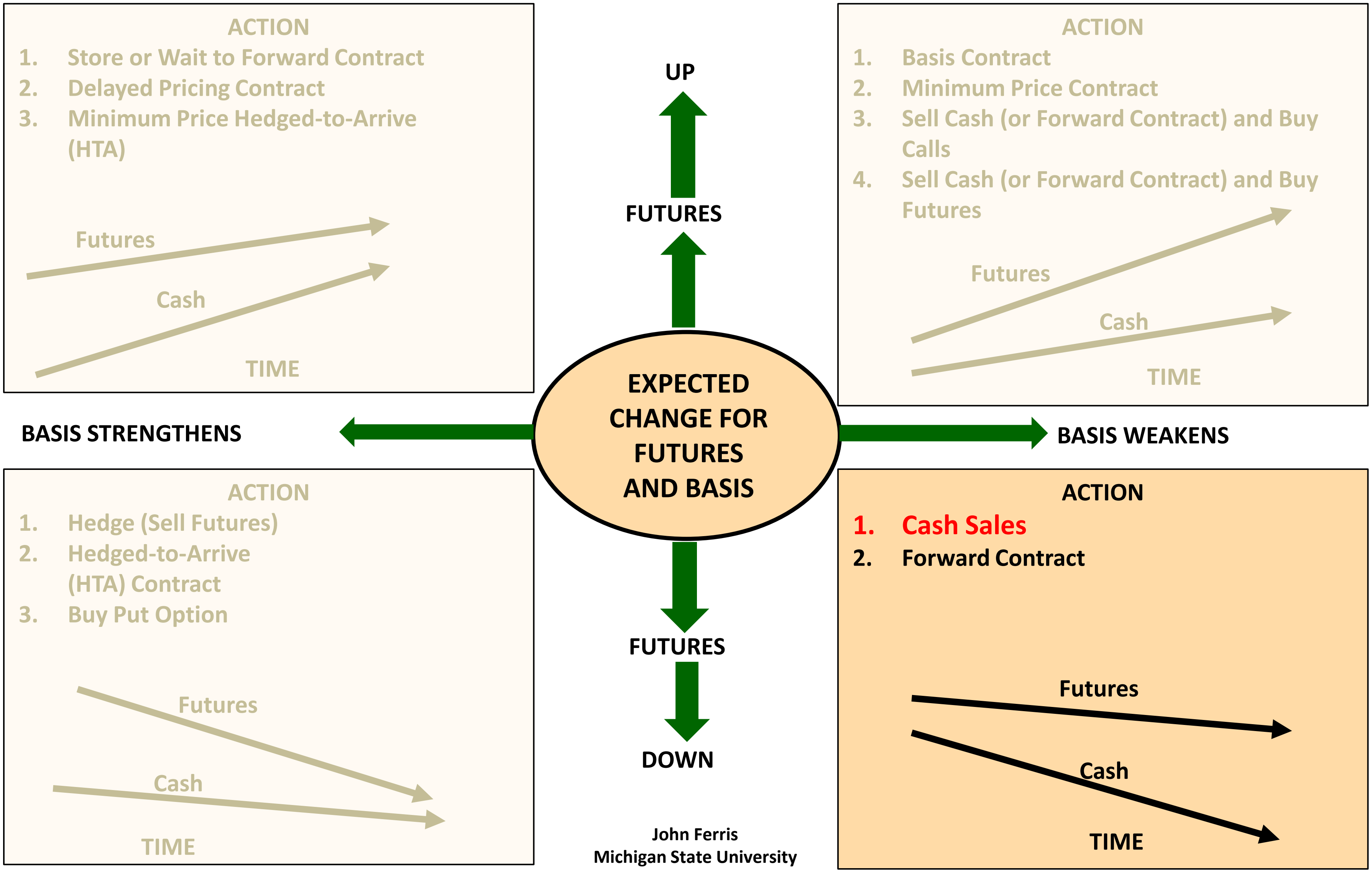
John Ferris
Michigan State University

Strategies for Product Sellers

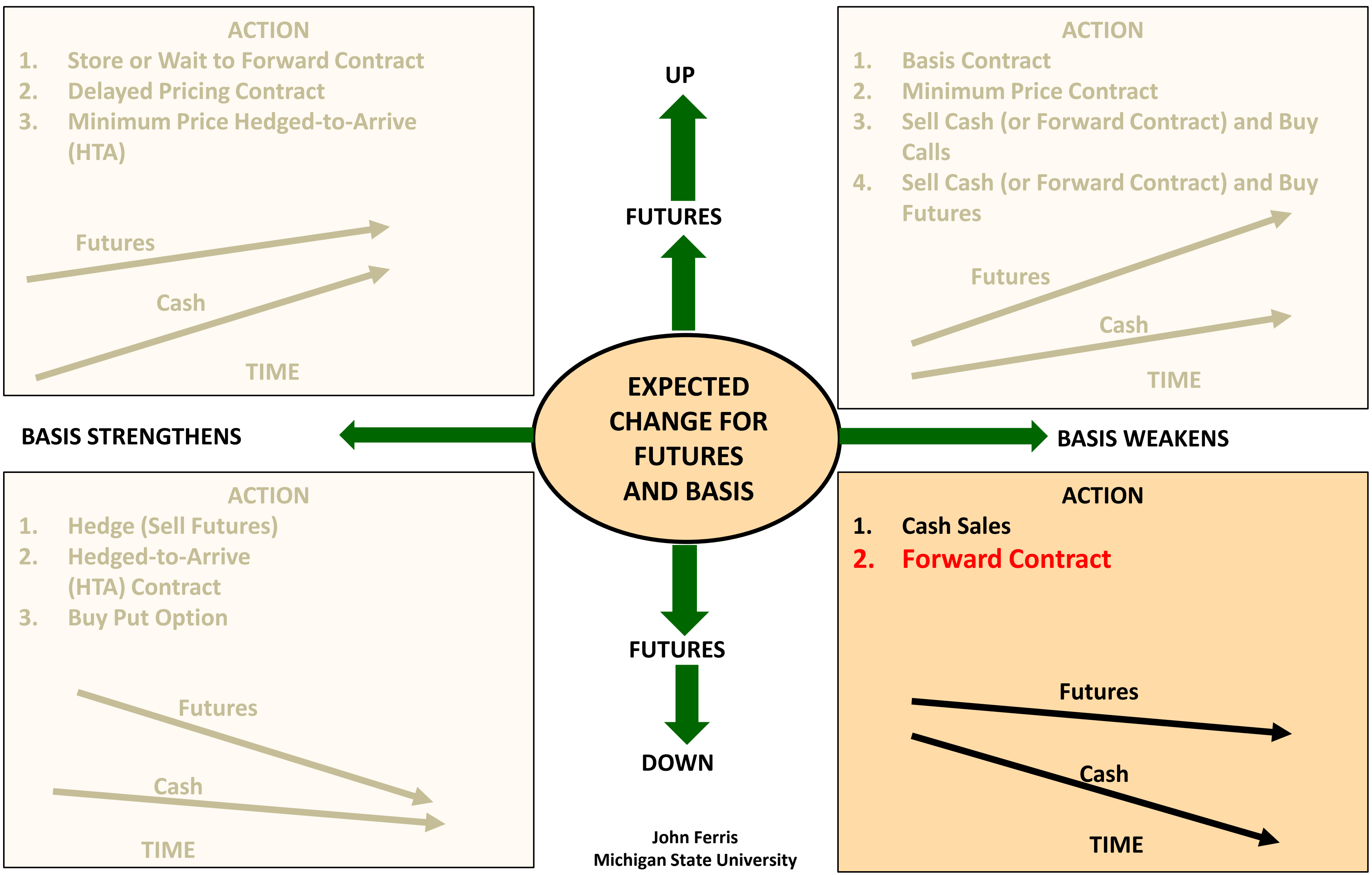


John Ferris
Michigan State University

Strategies for Product Sellers

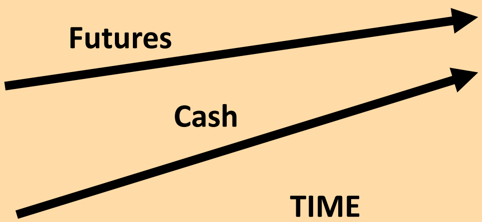


Strategies for Product Sellers



Strategies for Product Sellers

ACTION
1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA)



UP

FUTURES

EXPECTED CHANGE FOR FUTURES AND BASIS

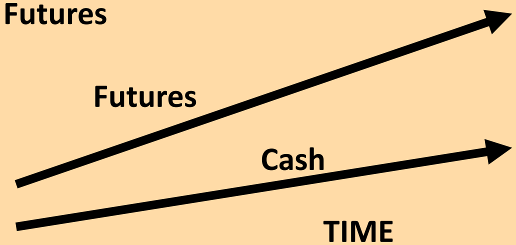
BASIS STRENGTHENS

BASIS WEAKENS

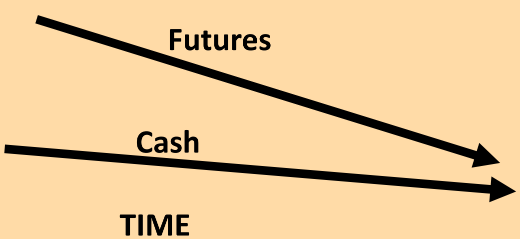
FUTURES

DOWN

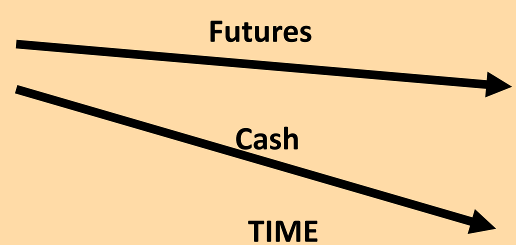
ACTION
1. Basis Contract
2. Minimum Price Contract
3. Sell Cash (or Forward Contract) and Buy Calls
4. Sell Cash (or Forward Contract) and Buy Futures



ACTION
1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option



ACTION
1. Cash Sales
2. Forward Contract



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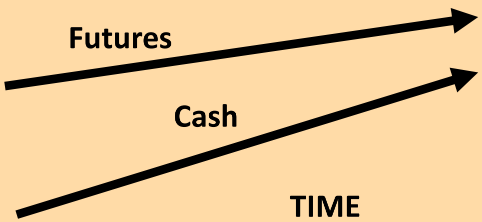
Caution!

- All of these strategies assume that you have a relatively strong opinion about what direction prices will move (both futures and cash).
- Following a strong trend line is easy; picking the turns is hard.
- A large part of marketing strategies is also risk management.

Strategies for Product Sellers

ACTION

1. Store or Wait to Forward Contract
2. Delayed Pricing Contract
3. Minimum Price Hedged-to-Arrive (HTA)



ACTION

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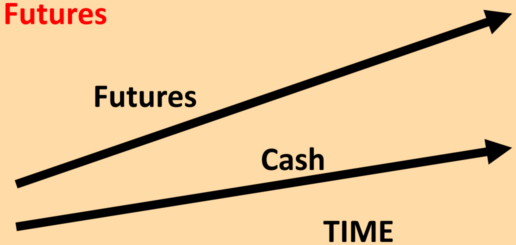
4. Sell Cash (or Forward Contract) and Buy Futures



UP

FUTURES

EXPECTED CHANGE FOR FUTURES AND BASIS

BASIS STRENGTHENS

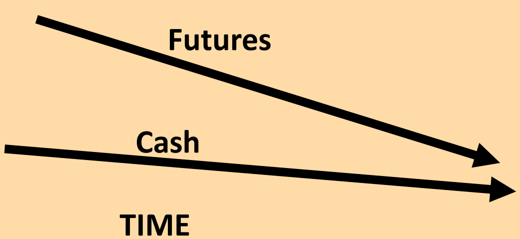
BASIS WEAKENS

FUTURES

DOWN

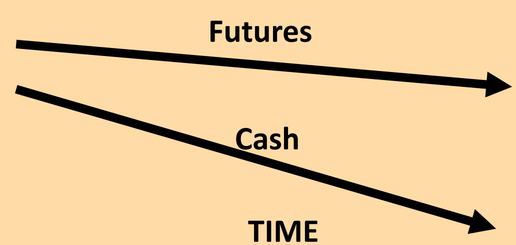
ACTION

1. Hedge (Sell Futures)
2. Hedged-to-Arrive (HTA) Contract
3. Buy Put Option



ACTION

1. Cash Sales
2. Forward Contract



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GREEN = low risk **BLUE** = moderate risk **RED** = high risk

Reminder!

- The only way to enhance price (receive a higher price than the current market) is to accept some level of risk!
  - The higher the potential reward; the higher the risk level (potential loss).

Questions?