

Writing a Commodity Marketing Plan

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A marketing plan is ...

A document listing your intentions for managing risk and capturing the price levels you want in the commodity markets.

Write a plan because ...

It is a key component of farm business planning.

It is a roadmap past the farm gate.

Writing it requires thinking (and time).

Writing may expose shortcomings.

The plan will be ready when you need it.

It provides discipline and calms emotions.

It lets you check for consistency (with insurance, for example).

A thorough plan answers “what if?” scenarios.

A good plan is ...

Simple.

Kept to a single page (your records can be longer).

For only one major enterprise at a time (start over for other enterprises).

Not something that can be thrown together overnight (marketing takes work).

Shared with key personnel and partners.

Only good if it is followed.



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The marketing plan in six steps ...

Start with a descriptive title for the enterprise—new crop corn, calf crop, wheat in storage, for example. Next, enter the date you prepare the plan so you can see what progress you've made when you evaluate the plan. Then follow the steps below.

1. Production Level and Risk

Write down how much you reasonably expect to market. That may mean bushels in storage, expected bushels from a growing crop, or pounds after a reasonable death loss for livestock enterprises. Is storage an alternative for crops? Is retained ownership possible for livestock? If crop insurance is relevant, include the product type and coverage level.

2. Financial Situation

Note any major financial implications for the plan. Review financial statements (balance sheet, income statement, cash flow). Know your risk-bearing capacity (any constraints from debt and personal preference for taking risks). Note any major financial and business goals.

3. Price Targets

Translate financial goals into prices. Be realistic; “beans in the teens” and triple-digit fed-cattle prices are rare. Do you want to get the average price, beat the loan rate, or beat the season average price? The break-even price (to cover variable and fixed costs) from your enterprise budget serves as a benchmark.

You might consider listing targets for “needs” that cover costs, “wants” to obtain fair returns, and “hopes” to give returns ample enough for growth. As a contingency plan, you may want targets in place should prices move lower.

4. Fundamental Outlook

Take stock of what prices the market offers. If possible, identify some of the “knowns” in the market. What does a forward bid say about basis? How do crop prices compare to loan rates? Are there consistent seasonal patterns for the market? What is the volatility level and trend?

Focusing on fundamentals (supply and demand) will likely be more insightful than looking at technical signals because of the time span of the plan.

5. Tools and Strategies

Start with a set of feasible tools (those you are willing and able to use) such as futures contracts, cash sales, forward contracts. Note what (if anything) that you will do on the day you write the plan. What targets are in place if/when prices go higher and if/when prices go lower? You might construct the steps from the bottom up or top down. You might, for example, use the loan rate as a floor, buy additional protection (using put options) for a range of higher moves, then finally sell futures once prices get high enough.

State when you will sell, how much you will sell, and by what method you will sell. Be very specific: sell futures at \$____; buy ____ strike put options for \$____; obtain a floor of ____ for \$____.

After you make these decisions, you might want to turn the implementation over to someone else. Stay disciplined. Finally, set a revisit date and put it on the calendar.

6. Evaluation

Maintain a history of performance. Were the decisions rational? Do any areas need improvement? Remember marketing takes work! Why didn't something work? Did the tools or strategies work the way you thought they would or should?

Marketing Plan

Enterprise _____ Date _____

1. Production Level and Risk

2. Financial Situation

3. Price Targets

4. Fundamental Outlook

5. Tools and Strategies

6. Evaluation

Additional Thoughts

1. Do you have any contract obligations? Have you overlooked such things as feed needs and processing plant commitments?
2. Is another plan relevant to manage input prices?
3. Is the plan for a specialty enterprise? Anything from club calves to certified seed may need additional work.
4. Are you doing selective hedging for livestock enterprises?
5. Do all the involved parties know the plan? It may help to share some parts with your risk management team.
6. Is your own basis more relevant than an average basis?
7. Do you have ways to unravel any strategies? It helps to give some thought to when you will lift any hedges, sell back puts, etc.
8. Are you speculating? With the whole plan laid out, you can double check things that may cause trouble down the road.

Risk Management Team

Your plan will probably involve other people. Your elevator manager may be handling any forward contracts. Your lender may provide a margin account. A broker is necessary to trade contracts on the exchanges. Insurance agents sell crop insurance and may offer other marketing services.

Any member of your risk management team, whether formal or informal, should have a solid understanding of the tools and strategies you and he/she are going to use. If not, then you need to shop around and get a knowledgeable team assembled.

Lenders and brokers are especially adept at making sure your plan is consistent with your goals. Other advice can be obtained from an Extension educator specializing in farm management or marketing.

Other Resources

Completing a plan will be easier if you use current futures prices, options quotes, and forward prices. Price projections and knowledge of price volatility will help you choose among different tools at different times. You may also want or need insurance quotes and price and basis history. Finally, you will need a separate set of records to track your strategies.