

Business Management In Agriculture

A Marketing Strategy For Grain

A joint project of the Cooperative
Extension Service, Farm Credit and
Chicago Mercantile Exchange

A marketing strategy for grain

- calculating production costs
- evaluating price objectives
- consequences
- six-step strategy
- determining price objectives
- net price level and price risk
- reevaluation

Successful Farmers will have:

- Marketing expertise
- Integrated production/marketing plan
- Production/marketing strategy

Pricing Plan Components

Farm Financial Information		Market Information		Personal Information
Farm Goals		Supply & Demand		Risk Attitude
Financial History		Stage of Cycle		Risk Ability
Cash Flow Needs		Price Predictions		Speculative Urge
Product Price Needs		Price Probability		

Steps in a Production Marketing Plan

1. Production Plan
2. Managing Production Risk
3. Managing Price/Financial Risk
4. Marketing Alternatives Available
5. Sources of Market Information
6. Marketing Strategy

Production Marketing Plan, 1985

Commodity - Corn

Date - Jan 16, 1985

3-5 yr. Planning Price - \$2.80 - 3.00 - *River*

Annual Planning Price - \$2.55 - 2.60 - *River*

1. Production Plan

A.	5 yr. Avg. Yld.	100 bu/ac
B.	10 yr. High	120 bu/ac.
C.	10 yr. Low	65 bu/ac.
D.	Acres this yr.	150 ac.
E.	Expected Crop	15,000 bu.
F.	Storage	8,000 bu.
G.	A.S.C.S. Yield	95 bu/ac.
H.	Gov. Base Acres	150 ac.
I.	Gov. Price Guar.	2.79/bu.

2. Managing Production Risk

- | | | |
|----|---------------|-------------------|
| A. | Hail Ins. | Yes \$300/ac. |
| B. | Irrigation | No |
| C. | M/P Crop Ins. | No |
| D. | Other | Super Fert. Prog. |

3. Managing Price Risk

- A. Survival Price 2.71/bu.
- B. Gov. Program? Yes
- C. Max. Quan. Price 6000 bu.
- D. Max. Quan. to Price by:
 - June 1 8000 bu.
 - July 1 9000 bu.
 - Aug 1 10,000 bu.
 - Sept 1 12,000 bu.
 - Oct 1 13,000 bu.

Corn Production Budget, 1985, 100 bu/ac.

	Example \$/ac.
A. Fuel - All Season	\$15.00
B. Seed	17.00
C. Fert. & Chemicals	56.00
D. Drying and Transport	30.00
E. Equipment Repairs	13.00
F. Hail Insurance	5.00
G. Custom Hire	X
H. Allocated Overheads	14.00
I. Op. Capital - Interest	11.00
J. Mach. Loan Principal & Interest	X
K. Equipment Depreciation	30.00
L. Labor	20.00
M. Land Rent	60.00
N. Land Ownership Costs:	
O. - Real Estate Tax	X
P. - Principal & Interest	X
SUBTOTAL	271.00
Q. Management	22.00
R. Family Living Draw	X
TOTAL COST	293.00
\$293.00/100 = \$2.93/bu.	

Product Price Objectives

Total cost - \$293.00

Cost less mgmt. ret. - \$271.00

Yield goal - 100 bu/ac.

- A. Acceptable Price
- B. Favorable Price
- C. Survival Price

Product Price Objectives

A. Acceptable Price

$$293.00/100 \text{ bu.} = \mathbf{\$2.93 \text{ bu.}}$$

B. Favorable Price

C. Survival Price

Product Price Objectives

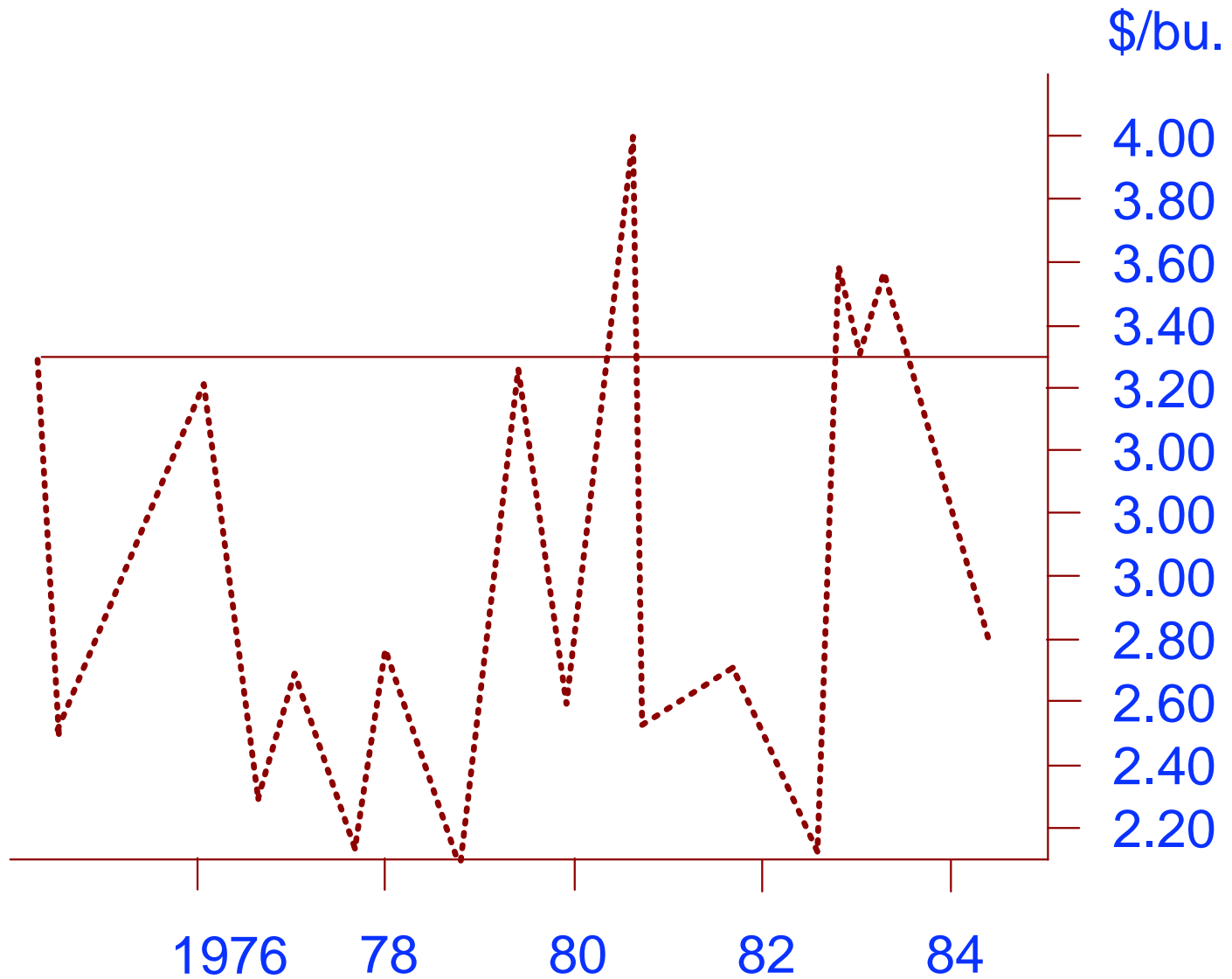
A. Acceptable Price

B. Favorable Price

$$2.93/\text{bu.} + (11-15\%) = \mathbf{\$3.25 - 3.37/\text{bu.}}$$

C. Survival Price

Corn



Product Price Objectives

A. Acceptable Price

B. Favorable Price

C. Survival Price

$271.00/100 \text{ bu.} = \$2.71/\text{bu.}$

4. Market Alternatives

- A. Cash Market as needed
- B. Cash Forward Contracts
- C. Store 8000 bu.
- D. Futures Market?

5. Market Information

- A. Newspapers & Radio
- B. Grain Merchandisers
- C. Neighbors
- D. Price Outlook Mtgs.
- E. Mkt. Advisory Letter

6. Marketing Plan 1/16/85

- A. Gov. Programs Yes
- B. Farm Storage ret. 15-20 cents
- C. Cash out 85 corn by 5/1
- D. Pricing Plan 1/16/85

Quan. (bu.)	% Crop	Date	Price	Del.
5-6000	34-40%	May 1, 85	2.55-2.60	Harv.
4-5000	28-35%	Aug 1, 85	2.70-2.80	Spr. 86
3-4000	21-28%	Mar 1, 86	2.70-2.80	Spr. 86

Comments:

Standing order 3000 bu. at 2.55 harvest.

- Price outlook for '85 crop corn is weak.
- Gov. program offsets downside price risk.
- Would like to know more about ag options.