

# Marketing Plans

## Development & Maintenance

Kevin McNew  
MSU-Bozeman

### A Marketing Plan Should...

- Remove emotion from the marketing decision and incorporate financial goals
- Be consistent with your approach to marketing.
  - Futures/options
  - Technical/Fundamental Analysis
- **Be revised semi-regularly to incorporate new market conditions and the results of past marketing actions.**

### Outline

- **Developing a Plan**
  - Financial Objectives
  - Setting Triggers (Price and Time)
  - Method of Analysis (Fundamentals, Technicals)
  - Marketing Tools
- **Maintaining a Plan**
  - Implementing the Plan
  - Revising the Plan

### Steps to Making a Marketing Plan

1. Establish Annual Price Objectives
  - Target Price
  - Minimum Price
2. Develop Marketing Actions
  - Trigger Prices
  - Trigger Time
  - Default Actions
3. Revise Marketing Actions
  - Evaluate current positions
  - Assess market potential
  - Formulate new Marketing Actions.

### Setting Financial (Price) Objectives

- Identify risk bearing ability
  - Farm and family financial situation
- Cost of production
  - Variable (cash) expenses
  - Total costs (plus management)
- Establish “Target” and “Minimum” prices
  - **Target** – a realistic, but slightly optimistic price objective for selling your crop.
  - **Minimum** – a price which will keep your operation solvent for the next year (minimum comfort price).

### Setting a Target Price

- Target Price – what price do you think you can realistically **average** for your crop in the coming year.
  - Market Fundamentals
  - Ag Advisory Outlook
  - USDA Forecasts
- An **average** price means...
  - Selling above the Target
  - Selling below the Target

### Setting Target and Minimum Prices

- Choose a unique measure of price
  - Harvest-time cash price
  - Sep (Harvest) Futures Price
  - Adjust post-harvest prices for storage costs.

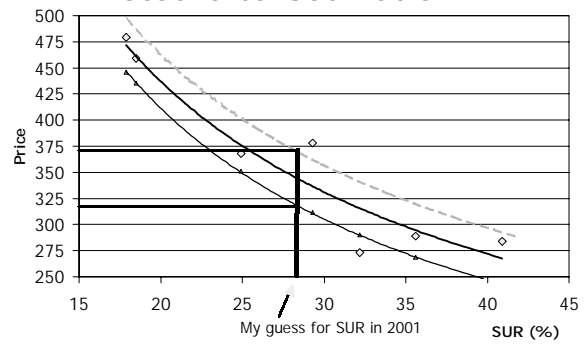
### Target Price: The Fundamental Approach

- Supply and Demand Table Approach
- USDA begins releasing “new-crop” estimates in May for 2001-02.
- Market advisors provide projections ahead of then.
- Develop your own “guestimates”

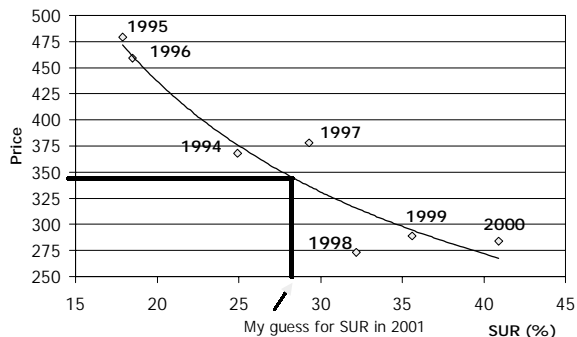
## U.S. Wheat Supply and Demand

	2000-01(Feb)	2001-02(My Guess)
Beg. Stocks (mb)	950	850
Planted Acres (mil)	62.5	61.0
Harv. Acres (mil)	53.0	52.0
Yield (bu/acre)	41.9	42.5
<b>Total Supply (mb)</b>	<b>3,268</b>	<b>3,155</b>
Food (mb)	1,029	1,035
Feed (mb)	300	250
Exports (mb)	1,100	1,175
<b>Total Use (mb)</b>	<b>2,429</b>	<b>2,460</b>
Ending Stocks (mb)	839	695
<b>Stocks-to-Use Ratio</b>	<b>34.5%</b>	<b>28.3%</b>

## KW Sept Futures Price and Stocks-to-Use Ratio



## KW Sept Futures Price and Stocks-to-Use Ratio



## Setting My Target Price for 2001

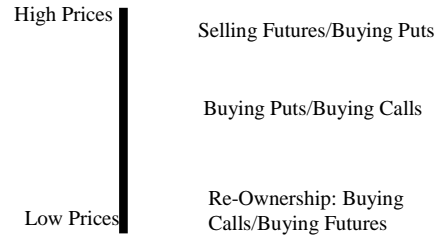
- Fundamentals Suggest 345 (basis KC Sept).
- Other Factors to Consider:
  - Last year's price was 10 cents above trend.
  - Allendale 365; Doane 360
  - Weather (poor winter conditions)
  - Declining World Wheat Stocks
  - Higher spring wheat acres
- **My Target Price: 360**

### Minimum Price for 2001

- Average price for crop that will not put my operation in financial stress.
  - Operating Cost of Production
  - Net-worth
  - Willingness to Accept Risk
  - Living Expenses
  - Other sources (LDP, AMTA Payments)
- **My Minimum Price: 310**

### Setting Triggers

- **Price** – “At what price will you take a marketing action?”



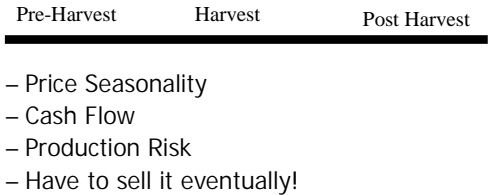
### Marketing Actions

- A precise statement of what marketing action will be taken if a **trigger** is hit.

<u>Marketing Actions</u>	<u>Triggers</u>
Cash Sales	Cash Price
Forward Contract	Futures Price
Futures Contract	Basis
Option Contract	Time
Basis Contract	

### Setting Triggers

- **Time** – “How does time influence your possible marketing actions?”



### Building the Plan

1. Evaluate current positions
  - Too Short, Too Long?
  - Average Price sold – *will it get you close to your target or are you in danger of falling below minimum?*
2. Evaluate market activity
  - Market trend
  - Major support and resistance points.
  - Fundamental picture
  - Seasonal factors
3. Develop marketing actions for next 3 months.
4. Will my actions achieve the Target or keep me above the Minimum?

### Building the 2001 Plan: Step 2-Market Activity

Feb 2001

**Trend Direction:** Down to Sideways  
**Price Support:** 338  
**Price Resistance:** 365  
**Fundamentals:** 345 (325-375)  
**Seasonal:** Strong in Feb, May.

### Building the 2001 Plan: Step 1-Evaluate Current Positions

Feb 2001

No new-crop wheat priced

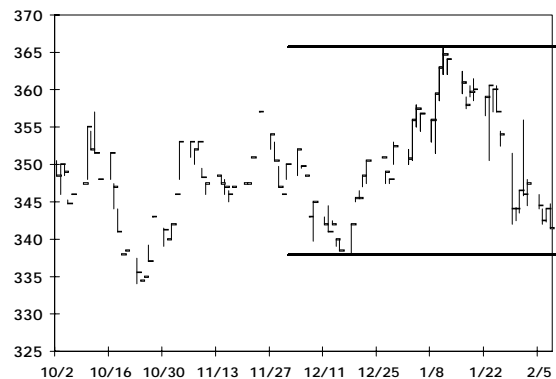
**Target Price:** 360 (basis KC Sept)

**Minimum Price:** 310

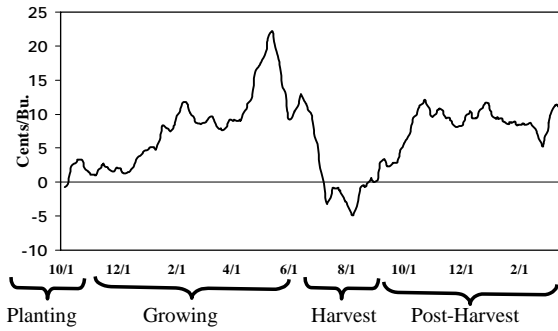
**Sep Futures:** 342

**Price Floor (put):** 320

### Sep 2001 KC Wheat Futures



### KC Wheat 15-Year Seasonal Price Change (Aug 31 = 0)



### Building the 2001 Plan: Step 4-Assess Market Actions

If prices rally in the next 3 months...

- 10% at 355
  - 15% at 370
  - 10% at 385
  - 5% at 400
  - 40% at 374
- => Need to price remaining 60% at 350 or better to reach target.

### Building the 2001 Plan: Step 3-Market Actions

Time	Marketing Action	Default Action
Feb-01	(A) Forward price 10% at 355 (basis KC Sep) (B) 5% more for 370.	No Action
Mar-01	(C) Forward price 10% at 370 (basis KC Sep) (D) 5% more for 385.	If no actions on (A)-(D), forward price 10% at 320 or better.
Apr-01	(E) Forward price 10% at 385 (basis KC Sep) (F) 5% more for 400.	Be at least 25% priced. Use ATM puts for a floor of 310 or better.

### Building the 2001 Plan: Step 4-Assess Market Actions

If prices fall or trade sideways in the next 3 months...

- 10% at 320
  - 15% at 310 (floor)
  - 25% at 314
- => Need to price remaining 75% at 309 or better to stay above minimum.

**Building the 2001 Plan:  
Step 4-Assess Market Actions**

**Evaluate Ability to Achieve TARGET and Stay above MINIMUM...**

IF prices rally, have a good chance of meeting target

IF prices decline, will likely fall below minimum.

=> **Add more downside price protection.**

**Building the 2001 Plan:  
Step 4-Assess Market Actions**

**If prices fall or trade sideways in the next 3 months...**

15% at 345

10% at 320

15% at 310 (floor)

40% at 326

=> Need to price remaining 60% at 299 or better to stay above minimum (310).

**Building the 2001 Plan:  
Step 3-Market Actions**

<b>Time</b>	<b>Marketing Action</b>	<b>Default Action</b>
Feb-01	(A) Forward price 15% at 345 (basis KC Sep) (B) 10% more for 355.	No actions.
Mar-01	(C) Forward price 10% at 370 (basis KC Sep) (D) 5% more for 385.	If no actions on (B)-(D), forward price 10% at 320 or better.
Apr-01	(E) Forward price 10% at 385 (basis KC Sep) (F) 5% more for 400.	Be at least 40% priced. Use ATM options for a floor of 310 or better.

**Marketing Plan Revisions: Old-Crop (2000)**

- Sold 65% of old-crop wheat at average price of 305 basis Sep-00 KC futures.
- Stored 35% of crop since Sep 1 at cost of 5c/bu/month (30 cents to get it to Feb 1).
- Need to sell remainder of the crop by May 1 for cash.

**Revising the 2000 Plan:  
Step 1-Evaluate Current Positions**

Feb 2001

**65% sold at 305** (basis KC Sep)

**35% stored, unpriced**

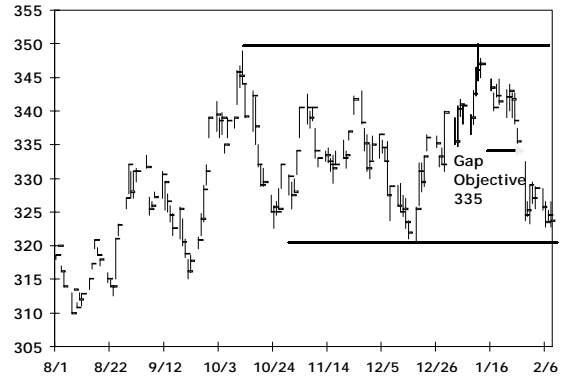
**Target Price:** 310 (basis KC Sept)

**Minimum Price:** 280

**May Futures:** 323 (283 basis KC Sep)

**Price Floor (put):** 312 (272 basis KC Sep)

**May 2001 KC Wheat Futures**



**Building the 2001 Plan:  
Step 2-Market Activity**

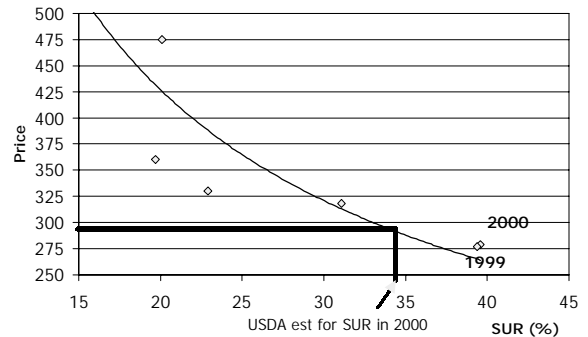
Feb 2001

**Trend Direction:** Down to Sideways

**Price Support:** 320

**Price Resistance:** 350

**KW May Futures Price and  
Stocks-to-Use Ratio**



**Building the 2001 Plan:  
Step 2-Market Activity**

Feb 2001

**Trend Direction:** Down to Sideways  
**Price Support:** 320  
**Price Resistance:** 350  
**Chart Gap:** 335  
**Fundamentals:** 290  
**Seasonal:** Flat in Feb, Mar, Apr.

**Revising the 2000 Plan:  
Step 4-Assess Market Actions**

**If prices rally in the next 3 months...**

10% at 295  
 25% at 305  
25% Loss of 7 cents on puts  
 35% at 297  
 => Sold 100% of my crop at 302

**Revising the 2000 Plan:  
Step 3-Market Actions**

Time	Marketing Action	Default Action
Feb-01- May-01	(A) Buy puts on 25% for a floor of 312 (272 basis Sep KC).  (B) Forward price (cash sales) 10% at 335 (295 basis KC Sep)  (C) Forward price (cash sale) 25% at 345 (305 basis KC Sep); sell puts.	If no actions on (B)-(C), forward price (cash sales) 10% at a break below 315 (275 basis Sep).

**Revising the 2000 Plan:  
Step 4-Assess Market Actions**

**If prices fall or trade sideways in the next 3 months...**

25% at 272 (floor)  
10% at 275  
 35% at 314  
 => 100% of crop sold at 294.

**Revising the 2000 Plan:  
Step 4-Assess Market Actions**

**Evaluate Ability to Achieve TARGET  
and Stay above MINIMUM...**

IF prices rally, have little chance of meeting target of 310  
 IF prices decline, will likely stay above the minimum  
 => **Add more upside price potential.**

**Revising the 2000 Plan:  
Step 4-Assess Market Actions**

**If prices rally in the next 3 months...**

35% at 283  
35% Profit of 21 cents on Call Spread  
 35% at 304  
 => Sold 100% of my crop at 304

**Revising the 2000 Plan:  
Step 3-Market Actions**

Time	Marketing Action	Default Action
Feb-01- May-01	(A) Forward Price 35% for 323 (283 basis Sep KC).  (B) On 35%, buy 320C/Sell 350C for net-premium of 9 (max profit of 21)	

**Revising the 2000 Plan:  
Step 4-Assess Market Actions**

**If prices fall or trade sideways in the next 3 months...**

35% at 283  
35% Loss of 9 cents on Call Spread  
 35% at 274  
 =>100% of crop sold at 293.  
  
 =>This strategy gained 2 cents of upside potential while giving up 1 cent on the downside.

## What Makes a Marketing Plan Work?!

### 1. Know your Market Positions

- Track all of your market positions – where do you stand on % sold and average price?

## What Makes a Marketing Plan Work?!

### 3. Be Realistic

- Set price targets that are realistic.
- Don't raise price targets (extra cents won't matter much).
- Use multiple sources of analysis for setting price targets (technicals, fundamentals, advisors).

## What Makes a Marketing Plan Work?!

### 2. Make the Plan Manageable

- Don't expect to set all of your marketing actions for a crop year at once.
- Focus on only those tools you feel comfortable using.
- Keep it on a computer for easy revisions.

## What Makes a Marketing Plan Work?!

### 4. Quantify the Future

- How will your marketing plan perform under various market scenarios.
- How likely is it that prices will increase, decrease or stay flat?
- Are you accounting for storage costs in marketing decisions?